



Basic & New

**NIPPON PAINT HOLDINGS**

# Integrated Report

# 2019

Year Ended December 31, 2018

# Management Philosophy



The leading brand bringing colors & joy to everyday life through innovative coating solutions

\* This "Mission" of our Group also represents the reason why we exist in society and will never change over time. The expression may vary with the times but the core is always same.



To be the industry leader driven by passionate people using our strong business foundations to create value & inspire all stakeholders

\* This "Vision" shows the direction of the Group and is linked with the immediate targets as well as the state we would like to be in 2030 as specified in the management plan.

## CONTENTS

P01	Management Philosophy
P03	Business Domains
P05	History of Nippon Paint Holdings Group
P07	Value Creation Process
P09	Top Message
P11	Financial Highlights
P13	Business Plan and Progress
P17	ESG Management
P19	Eco-friendly products
P21	Responsible Care
P27	Maintenance and Improvement of Product Quality
P28	Responsible procurement of raw materials
P29	Initiatives to Reform the Culture
P31	Initiatives to Disseminate the Management Philosophy
P33	Establishment of a Vibrant Work Environment / Occupational Health and Safety
P37	Contributions to Local Communities and International Society
P39	Corporate Governance
P47	Compliance / Risk Management
P49	Global Business Development / Corporate Profile / Stock Information

## About this report

### Editorial Policy

This report aims to properly inform shareholders, investors, and other stakeholders of the management philosophy of the Nippon Paint Holdings Group, as well as its business strategy and initiatives to improve our corporate value, and show the way to become the leading company committed to continuously creating new values, which is the state that we would like to be in the future.

The editing refers to the GRI Sustainability Reporting Guideline (Standards).

### The period covered and scope of the report

This report covers the fiscal year ending December 31, 2018 (January 1 to December 31, 2018). However, some information from before and after the period is also included in the report as necessary.

Unless specifically mentioned, the scope for compiling data is Nippon Paint Holdings and its 134 consolidated subsidiaries.

### Publishing date

Published in July 2019

\* This report is published once a year.



### Mutual prosperity

To achieve long-term growth and mutual prosperity with all of our stakeholders through unmatched performance and constant improvement

### A pioneering spirit

To sustain the pioneering spirit that led us to become a leader in the global paint industry and constantly pursue innovation and excellence

### Perseverance

To achieve our mission with unwavering perseverance, dynamism and initiative

\* This "Value" is always shared by all employees to realize the Mission and the Vision. They should keep it in mind when taking an action.



- We will endeavor to develop strong bonds of trust with our customers, work with them as partners, and inspire them with our products and services.
- We will prioritize the health and safety of group employees while pursuing a dynamic corporate culture.
- We will value individuality and diversity while pursuing ever closer teamwork.
- We will commit to tackling environmental and energy issues and will work proactively to address them.
- We will persistently engage in activities that contribute to society, fulfilling our responsibilities to local communities as a trusted corporate citizen.
- We will act honestly and in good faith as a member of society and in accordance with all national and international laws, rules, and regulations.
- We will recognize the importance of communicating with all stakeholders and will disclose corporate information in an impartial, timely, and appropriate manner in order to ensure corporate transparency and to fulfill our social responsibilities.
- We will pursue the development of major technological innovations, while also improving our technology every day.
- We will always focus on cost and efficiency, and seek to appropriately invest profits to create new value, help improve the quality of life of our employees, and provide maximize returns to shareholders.

\* Way: Action guidelines that should be followed by all employees to realize Mission and Vision

#### Company acronyms

- NPHD : Nippon Paint Holdings
- NPAU : Nippon Paint Automotive Coatings
- NPIU : Nippon Paint Industrial Coatings
- NPTU : Nippon Paint
- NPSU : Nippon Paint Surf Chemicals
- NPMC : Nippon Paint Marine Coatings
- NTJ : Nippe Trading



## Business Domains

Nippon Paint Holdings Group operates a paint business and a fine chemicals business. We are a comprehensive paint manufacturer that offers a broad variety of products and services, ranging from high-quality and high-functionality paints, including eco-friendly types, to pre-treatment agents for painting, treatment agents that provide functionality to thin films, and systems proposals to improve the efficiency of the painting process.

### Paint Business



#### Trade use paints

We provide paints widely used at various construction sites such as houses, buildings, and bridges. In addition to eco-friendly paints, our product line-up includes paints that increase functionality such as anti-corrosive paints for structures.



#### Automotive coatings

Our product lineup includes paints with high quality and performance for all steps of the car body coating process, ranging from undercoating to middle-coating and top-coating, and supply them to global car manufacturers.



#### Industrial coatings

We provide pre-coat and post-coat paints, as well as eco-friendly paints including powder paints containing no solvent, to a wide range of industries such as construction machinery, agricultural machinery, exterior building materials, office equipment, and home electronic products. We will also continue to expand our business activities in Asia.



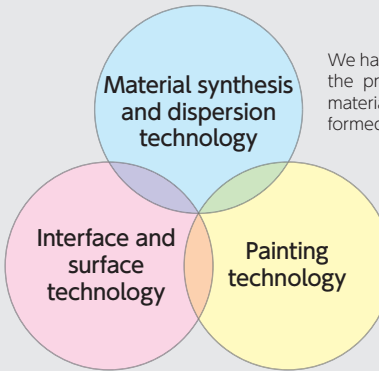
#### SSL Marine coatings

We develop and market advanced paints that achieve both environmentally friendliness and cost reduction, such as ultra-low fuel consumption antifouling paints that comply with global environmental regulations in the shipbuilding and marine industry.



## Core technologies

This technology changes and reforms material surfaces chemically or physically, which also allows different kinds of metal to be treated at the same time.



We have accumulated knowledge and techniques on the properties and chemical reactions of different materials, the process in which a coating film is formed, etc.

We have facility engineering technology for the processes from surface treatment to painting and drying, which helps customers increase productivity.

## Fine Chemicals Business



### Surface treatments

Surface treatments are required in a wide range of industrial sectors. We develop advanced products, such as surface treatments with an affinity for paints and functional thin-film paints that satisfy various customer needs.



We work to offer paint products that meet social needs and help solve problems from a global perspective. We develop advanced products such as UV-curable coating materials and ultrafine organic particles.

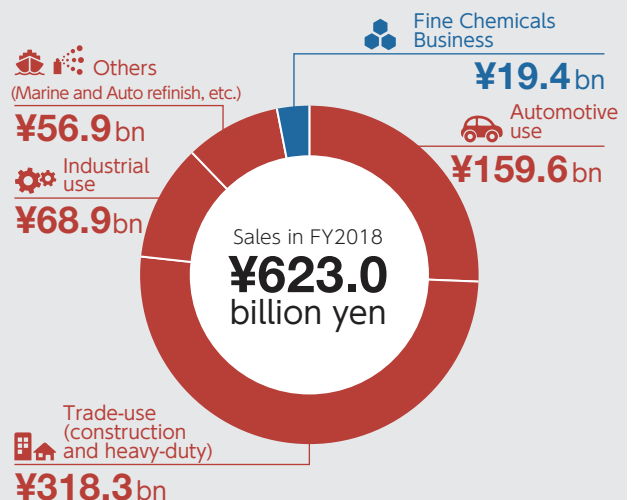


### Auto refinish paints

Applying cutting-edge technologies cultivated for coating new cars, we have developed proprietary paints appropriate for refinishing. These paints help reduce environmental impact and improve the efficiency of the refinishing process.

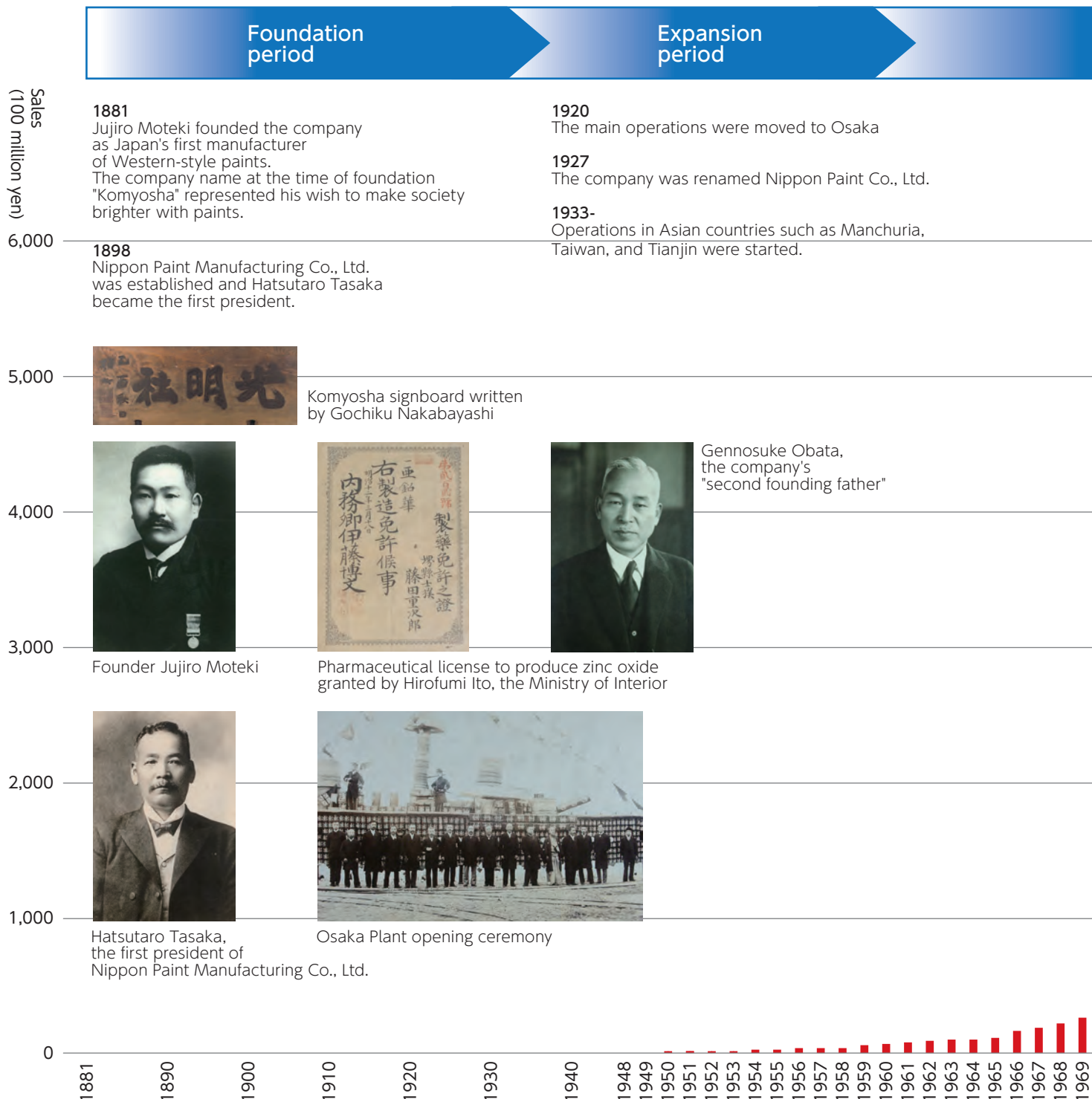


### Sales composition by business



# History of Nippon Paint Holdings Group

Nippon Paint Holdings has been the leading company in the Japanese painting industry for more than 130 years since Komyosha, the predecessor of the company, produced Japan's first Western-style paint in 1881. In 2014, we deepened our cooperation with Wuthelam, which has been our partner in Asia over 50 years, and consolidated the joint venture that has been developed in collaboration in Asia into our Group to become the largest paint manufacturer in Asia. Always paying attention to the maximization of shareholders' value, we will demonstrate the total strength of our Group as "Global One Team" to become a truly global company that can win the global competition.



# History of our Asia businesses developed with Wuthelam (NIPSEA)

Our cooperation with Wuthelam started in 1962. We jointly founded Pan Malaysia Paint Industries in Singapore to launch paint businesses in Asia. The businesses were expanded to also cover Thailand, Malaysia, the Philippines, and other countries by the 1970s and also entered the Chinese market in 1992. We call those businesses Nippon Paint South East Asia (NIPSEA). At present, the businesses are operated in 14 Asian countries and regions, which have grown to represent more than half of the total sales for our Group.



**1962 - 1967**  
Overseas operations were restarted. Operations were started in Singapore. Cooperation with Wuthelam in Asia was started. (Launch of the NIPSEA businesses) Operations were expanded into Thailand and Malaysia.

**1975 - 1977**  
Operations were expanded into the US, the UK, and the Philippines.



Nippon Paint (Singapore)



Nippon Paint (Thailand)

**1992**  
Operations were expanded into China. Advanced to Shanghai and other major cities.

**2007 - 2008**  
The cooperation with Wuthelam was deepened. Acquired consolidated subsidiaries in Thailand, Taiwan, the Philippines, and South Korea.

**2014**  
Nippon Paint was reorganized as a holding company. The cooperation with Wuthelam was further deepened. Acquired NIPSEA business excluding India and Indonesia as consolidated subsidiaries, and made a third-party allotment of 60 million shares to Wuthelam. Became the No. 1 paint manufacturer in Asia and No. 4 in the world.

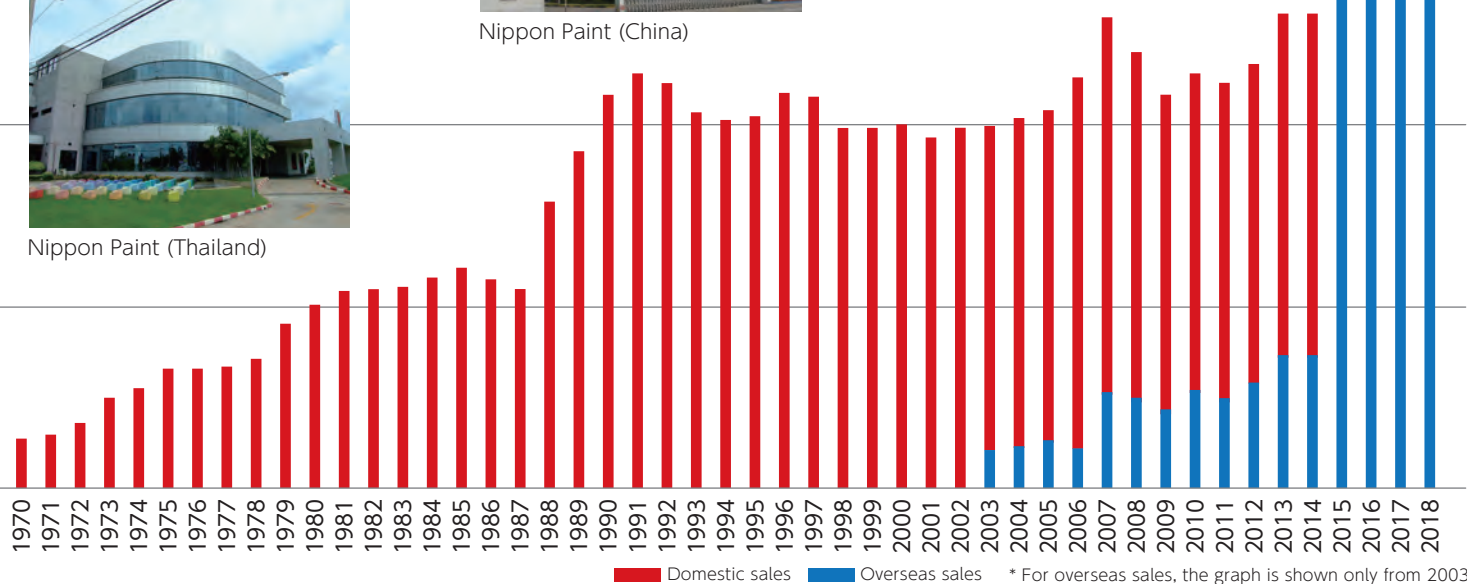


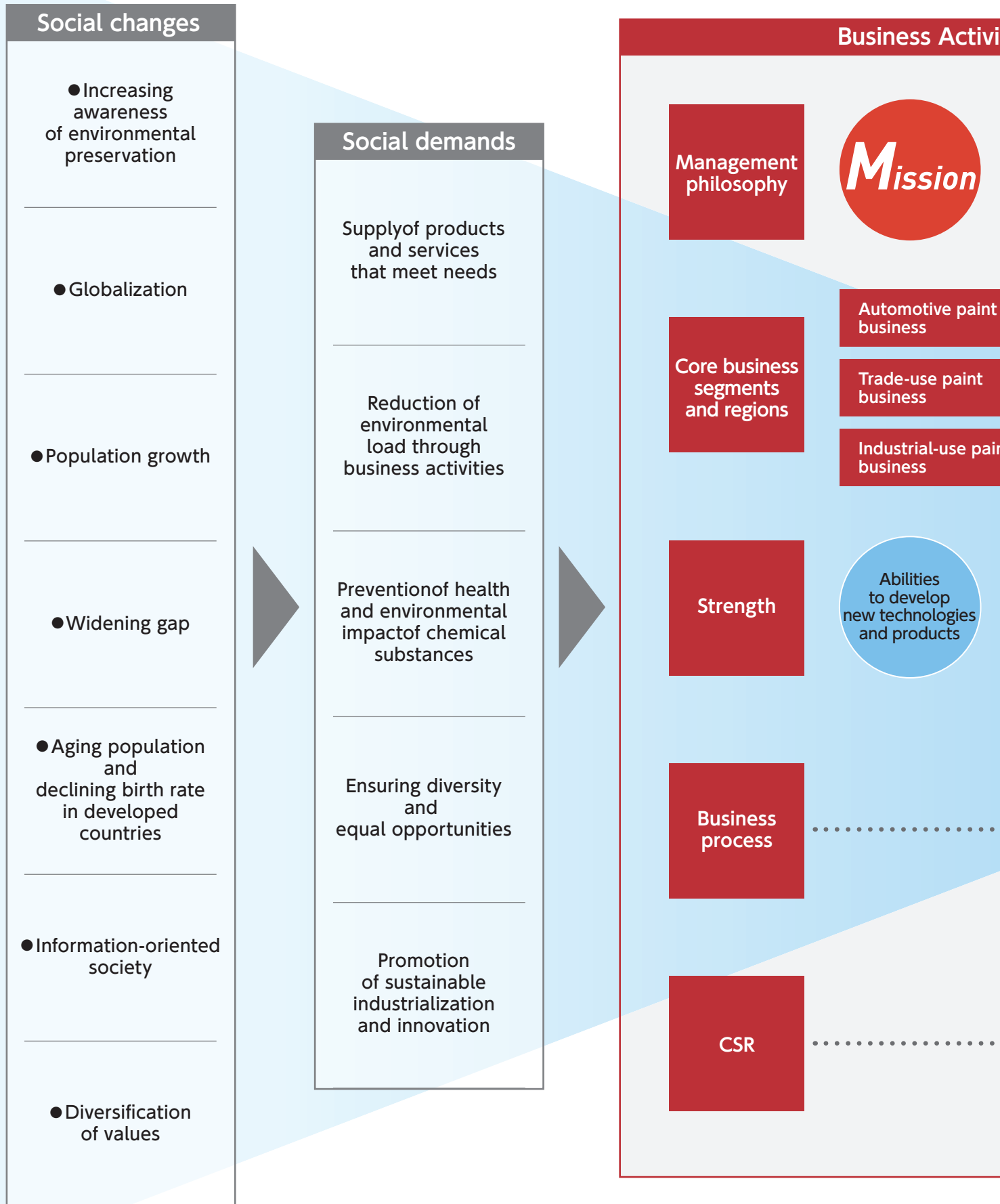
Nippon Paint (China)

**2015**  
The domestic businesses were restructured. Nippon Paint Co., Ltd. was split off into separate operating companies by business.

**2017**  
CRF in China was acquired. Dunn-Edwards in the US was acquired.

**2018**  
"The leading company committed to continuously creating new values" was set as the state that we would like to be in 2030.







## Activities of Nippon Paint Holdings Group

The leading brand bringing colors & joy to everyday life through innovative coating solutions

Asia	Japan	Americas	Europe
●	●	●	●
●	●	●	
●	●		



- Development of a production system that addresses environmental regulations
- Further realization of synergy with NIPSEA
- Strengthening of the global development of cost reduction
- Offer of new comfort by adding functions to products
- Differentiation from competitors by expanding the scope of services
- Strengthening and expansion of one-stop services

- Promotion of CSR/ESG management
- Promotion of the development and widespread use of environmentally friendly products
- Proper control of chemical substances
- Diversification of knowledge by gathering various human resources
- Deepening of global governance
- Social contribution activities

## Value creation for stakeholders

### Customers

- Development and supply of products that meet local needs
- Provision of products that reduce environmental impact

### Business partners

- Fair and equal trade based on free competition
- Establishment of relationships for friendly competition and long-term growth

### Employees

- Ensuring safety and health
- Creation of a workplace where diverse human resources work together and respect each other
- Development of a comfortable working environment

### Local communities

- Realization of safe operations with less environmental load

### Investors

- Fair and transparent information disclosure
- Sustainable shareholder returns through growth in business and efficient business operations

### The natural environment and future generations

- Conservation of the global environment and the protection of the ecosystem

# We are accelerating our activities in the business segments and ESG fields to achieve the medium-term management plan "N-20"

## Tetsushi Tado

President & CEO  
Representative Director of the Board  
Nippon Paint Holdings Co., Ltd.



### Review of the year 2018: Progress in the mid-term management plan

In fiscal 2018, we were greatly affected by changes in the external environment that exceeded the initial estimates, such as stagnant economic growth due to trade issues between major countries, as well as rising prices of raw materials.

Particularly, our trade-use paint business, which accounts for the largest portion in our business, was significantly influenced by the slowdown of the housing market in China, which is our core region, as a result of the tightening of regulations on housing investment by the government from the previous year. Our activities to procure raw materials were also affected by their continued high prices due to environmental regulations in China as well as increases in the prices of raw materials in Japan, the United States, and other regions. In consideration of those impacts, we revised down earnings forecasts in November 2018 and our performance for fiscal 2018 (the Japanese standards) eventually exceeded the revised plan in both sales and operating income.

On the other hand, with respect to "Strengthen the business in existing segments" and "Accelerate expansion of the portfolio," which are key initiatives of the medium-term management plan "N-20" that sets 2020 as the target year, our strategic measures for the businesses were successful and we made solid progress in "becoming the top leader," a policy in the N-20. Despite the

harsh external environment, we have steadily expanded our market share in our priority regions and priority businesses and I feel that we have taken another step closer to the establishment of an environment where we have a competitive edge.

While the business environment remains severe in 2019, I believe that the situation provides us with opportunities and we would like to steadily expand our market share in the priority regions and priority businesses.

### Further promotion of ESG management

In recent years, the three perspectives of Environment (E), Society (S), and Governance (G) have attracted attention as necessary elements for companies to grow sustainably over the long term. While also having those ESG perspectives, Nippon Paint Holdings Group will link the priority management issues to sustainable development goals (SDGs), incorporate them into the strategy of the medium-term management plan, N-20, and steadily implement the strategy to expand the businesses and profits.

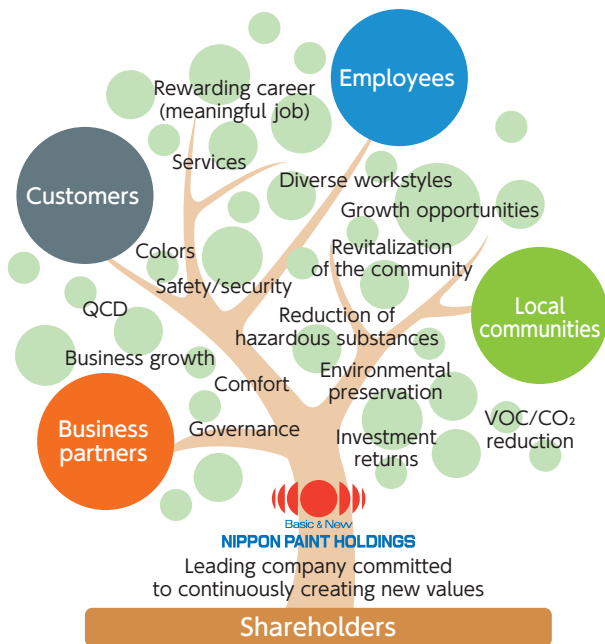
Firstly, on the "E" (environmental) aspect, since paints are used in every scene of our life, we are working to create and disseminate products and services that address environmental problems in all of the areas handled by our Group including automotive, construction, industrial, and marines coatings, as well as surface treatments. We will also help reduce the use of energy and substances of concern both in the paint production process of our Group and in the process using paints at the plants of our customers.

Next, on the "S" (social) aspect, as more than 80% of all employees in our Group are non-Japanese and the Group has diverse human resources with different nationalities, cultural and

#### Key Initiatives of the medium-term management plan "N-20"

1. Strengthen the businesses in existing segments
2. Accelerate expansion of the portfolio
3. Improve earning capacity
4. Enhance the structure of "Global One Team"

## ESG management - the practice of mutual prosperity



living habits, specialties, and experience levels, we aim to develop corporate culture where the expertise and experience of each person can be utilized for the decision making process, work approaches, etc. and everyone respects each other and can work with a sense of security.

Lastly, on the "G" (governance) aspect, we launched a management system where half of the directors are independent directors in March 2018. We are promoting initiatives to separate management supervision from business execution even more than before and transfer authority to the executives to further enhance the transparency of corporate management.

Designation and Compensation Advisory Committee was reorganized into Designation Advisory Committee and Compensation Advisory Committee in March 2018 while M&A Advisory Committee was set up in May 2018. In addition, we established Governance Advisory Committee in April 2019 to start discussions on our future system. Through the discussions, we will build a foundation for our Group to take challenges on a new stage. In 2018, we promoted the dissemination of the management philosophy composed of Mission, Vision, Value, and Way, which was re-established over the entire year of 2017, within the Group. We will continue to promote the sharing of the new management philosophy and also aim to establish a robust governance system that helps us address global competition through the setup of an RHQ system, which is currently under consideration.

The state that the Group would like to be in 2030 and the state that the Group should become in 2020 have been set based on this management philosophy. We are actively promoting the dissemination of the philosophy on a global scale because we consider that it is also of great significance for group governance and compliance.

## For the achievement of the medium-term management plan: Initiatives to reform the culture

We recognize that the reform of the culture to create a better company through concerted efforts of all employees is an urgent task to ensure that we can achieve the medium-term management plan and realize sustainable growth of the company. We consider that it is very important to become a company where all employees can work comfortably and demonstrate their respective diverse skills to the full extent possible and also to develop the strength to deal with external factors.

All employees will be actively committed to work style reforms and work efficiently so that they can create surplus time and use it for self-development and other activities to enhance their individual abilities and value. The company will also provide personnel programs that assist such efforts as well as a mechanism that supports diverse work styles. We are thus working to establish a cycle where the growth of employees leads to the growth of the company. Specific programs to support diverse work styles include a program to take holidays for one full week (one-week holiday program) and the flexible working system, which have already been operated in Japan. In 2019, we plan to introduce a system for employees to take annual paid holidays by the hour and the teleworking system, as well as a system for employees to have a certain amount of rest between working days on a trial basis.

The culture cannot be reformed only with the top-down approach. How we can involve employees, change their awareness and attitude and disseminate the culture among them is important. I will also encourage employees to reform the culture through the transmission of information and communication within the company. We will be strongly committed to efforts to become a leading company committed to continuously creating new values so that all Group employees can start the year 2030 with their heads high.

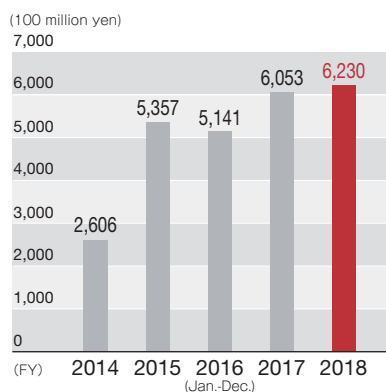
Our Group will provide new values to stakeholders through business activities and strive to make decisions with a constant awareness of the maximization of shareholders' value and implement a strategy based on them in order to achieve the maximization, which is a pillar of the medium-term management plan, N-20, and sustainable growth. Activities to reform the culture are also vital to achieving it.

I ask for your continued support for the Nippon Paint Holdings Group, which will be further increasing its presence on a global scale.

*Tetsushi Tado*  
President & CEO

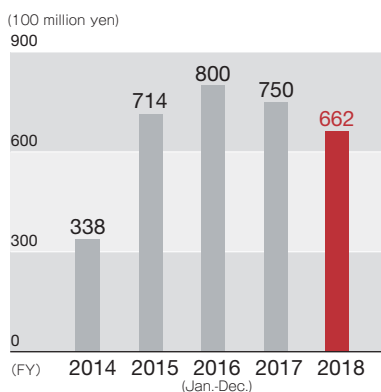
## Net sales

¥623.0bn



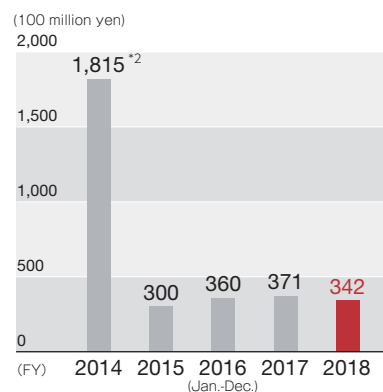
## Operating income

¥66.2bn



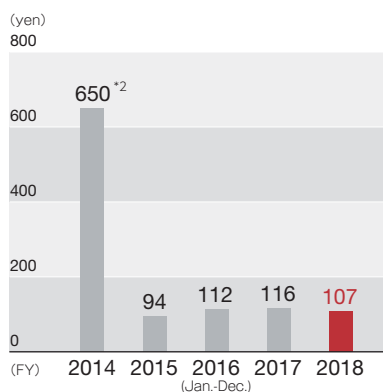
## Net income<sup>\*1</sup>

¥34.2bn



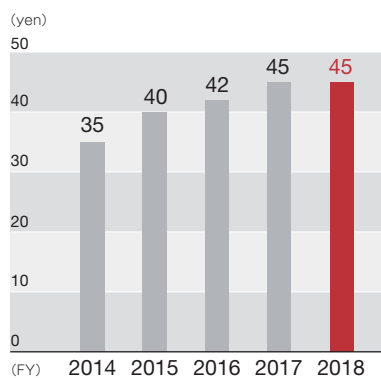
## Net income per share

¥107



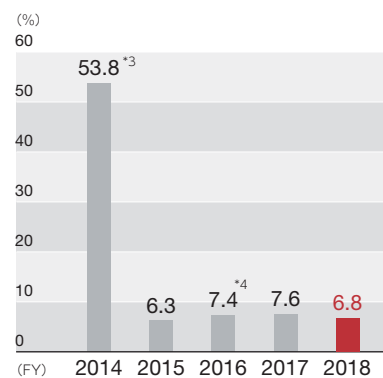
## Dividend per share

¥45



## ROE

6.8%



## Consolidated financial results by year

		2018	2017	2016(Jan.-Dec.)	2015	2014
Net sales	(100 million yen)	6,230	6,053	5,141	5,357	2,606
Operating income	(100 million yen)	662	750	800	714	338
Ordinary income	(100 million yen)	723	768	828	746	493
Net income <sup>*1</sup>	(100 million yen)	342	371	360	300	1,815 <sup>*2</sup>
ROE	(%)	6.8	7.6	7.4 <sup>*4</sup>	6.3	53.8 <sup>*3</sup>

\*1 Profit attributable to owners of parent

\*2 Due to the booking of an extraordinary profit of ¥148.8 billion (gain on step acquisitions) in the third quarter of fiscal 2014 because of the consolidation of equity method affiliates in the Asian region

\*3 ROE is 9.7% when the extraordinary profit mentioned above (\*2) is subtracted from net income.

\*4 Disclosed results (period: Apr.-Dec. for Japan; Jan.-Dec. for overseas)

For fiscal 2018, consolidated net sales were 622,987 million yen (a year-on-year increase of 2.9%). Consolidated operating income was 66,231 million yen (a year-on-year decrease of 11.6%) due to the impact of the rising prices of raw materials and other reasons while consolidated ordinary income was 72,304 million yen (a year-on-year decrease of 5.9%) with the receipt of subsidy for the removal of plants as a result of environmental regulations in China and other factors.

### Investments and other expenses by year

(Unit: 100 million yen)

	2018	2017	2016*	2015	2014
Capex	224	248	210	190	51
Depreciation	185	178	135	162	59
R&D expenses	170	148	120	152	60

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

### Consolidated cash flow by year

(Unit: 100 million yen)

	2018	2017	2016*	2015	2014
Cash flow from operating activities	592	793	779	631	344
Cash flow from investing activities	-374	-1,007	-427	-53	-870
Cash flow from financing activities	86	-114	-86	-247	853

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

Net income attributable to owners of parent was 34,195 million yen (a year-on-year decrease of 7.9%) due to the impact of a tax system revision in the United States in the previous fiscal year while we recorded proceeds from the sale of fixed assets following the closure of Neyagawa Office. Although we adopted IFRS from the financial statements for the fiscal year ended December 2018, the results mentioned in this page are based on the Japanese standards.

### Summary of the consolidated balance sheet

(Unit: 100 million yen)

	2018	2017
Current assets	4,483	4,019
Fixed assets	4,878	5,187
<b>Total assets</b>	<b>9,360</b>	<b>9,206</b>

Current liabilities	2,137	1,992
Fixed liabilities	936	920
<b>Total liabilities</b>	<b>3,073</b>	<b>2,912</b>

Shareholders' equity	5,411	5,210
Accumulated other comprehensive income	△388	△167
Share acquisition rights	2	1
Non-controlling interests	1,263	1,249
<b>Total net assets</b>	<b>6,288</b>	<b>6,294</b>
<b>Total liabilities and net asset</b>	<b>9,360</b>	<b>9,206</b>



## Business overview

In fiscal 2018, the Japanese economy continued to be on a gradual recovery trend as indicated by a turnaround in consumer spending backed by improvements in employment and income, increases in capital investment, etc. Car production volume remained unchanged from the previous fiscal year. On the other hand, there were some downward market trends such as a year-on-year decrease in the number of new housing starts partly due to the occurrence of large-scale natural disasters from June to September.

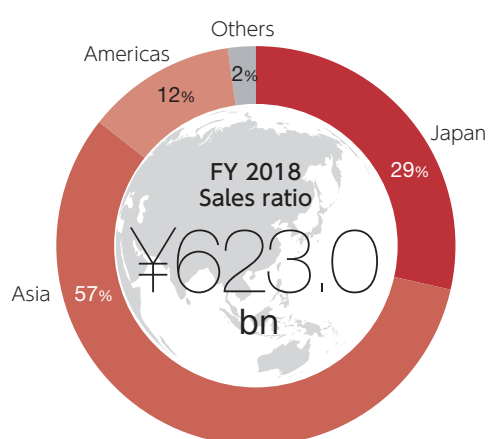
In China, which is the core region in Asia, there were some signs of an economic downturn including a year-on-year decline in car production volume owing to the impact of trade conflicts between major countries and other reasons. In addition to a slowdown in consumer spending, the new and

second-hand housing sales market remained sluggish as a result of the tightening of regulations on housing investment by the government mainly in the urban area. In Asian countries other than China, the market remained stable. Especially in Thailand, car production volume increased year-on-year with the growth of domestic demand due to the strong domestic economy.

In the Americas, car production volume in the region decreased from the previous fiscal year and demand for passenger cars declined while demand for small trucks increased. Our construction coating business in the southwestern United States was affected by the bad weather from January to February.

In Europe, car production volume in the region dropped year-on-year.

## Consolidated sales by region

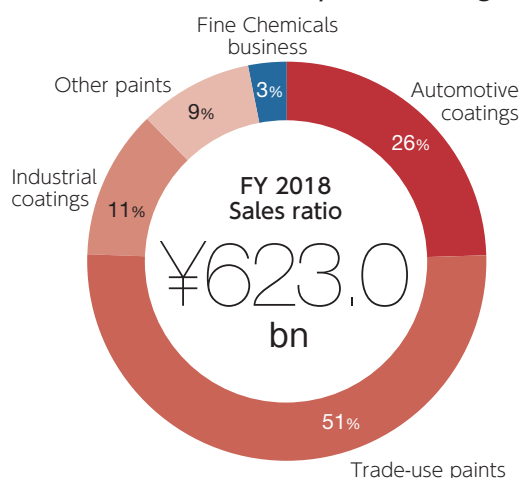


(Unit: 100 million yen)

		2018	2017	2016 (Jan.-Dec.)	2015	2014
Japan	Net Sales	1,781	1,759	1,716	1,743	1,872
	Operating income*	276	306	322	292	264
Asia	Net Sales	3,557	3,470	2,978	3,174	439
	Operating income*	361	408	433	377	45
Americas	Net Sales	752	682	322	332	258
	Operating income*	31	32	52	52	27
Others	Net Sales	139	141	126	109	37
	Operating income*	-7	2	-4	-9	1

\*Excluding dividends from overseas Group companies

## Consolidated sales by business segment



(Unit: 100 million yen)

		2018	2017	2016 (Jan.-Dec.)	2015	2014
Paint Business	Automotive coatings	1,596	1,484	1,394	1,388	934
	Trade-use paints	3,183	3,088	2,369	2,534	458
	Industrial coatings	689	730	683	683	464
	Others	569	560	515	580	595
	Sub-total	6,036	5,864	4,960	5,184	2,451
Fine Chemicals business	194	189	180	174	155	
<b>Total</b>	<b>6,230</b>	<b>6,053</b>	<b>5,141</b>	<b>5,357</b>	<b>2,606</b>	

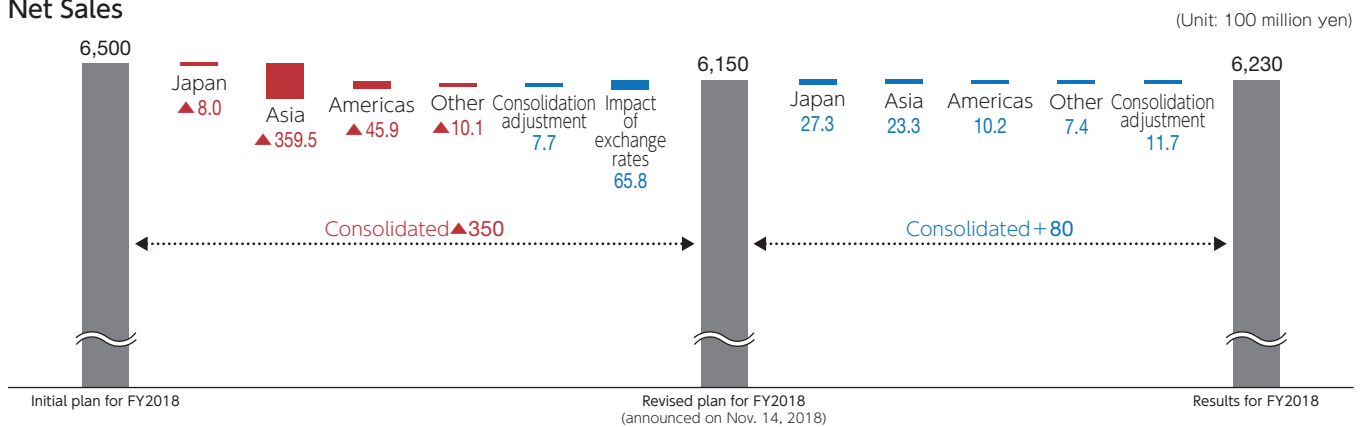
## Review of the business plan for fiscal 2018

While we originally forecast consolidated net sales of 650 billion yen and consolidated operating income of 78 billion yen in the initial plan announced on February 14, 2018, our performance was affected by more stagnant growth of the new housing market than initially expected after the second quarter due to tightened regulations, especially the restriction on home purchases for investment purposes in China. We revised the earnings forecasts on November 14, 2018 because the market for the housing interior sector, which is one of our main businesses, slowed down far more than initially anticipated, the sales were expected to fail to reach the initially planned level in the regions outside China as well,

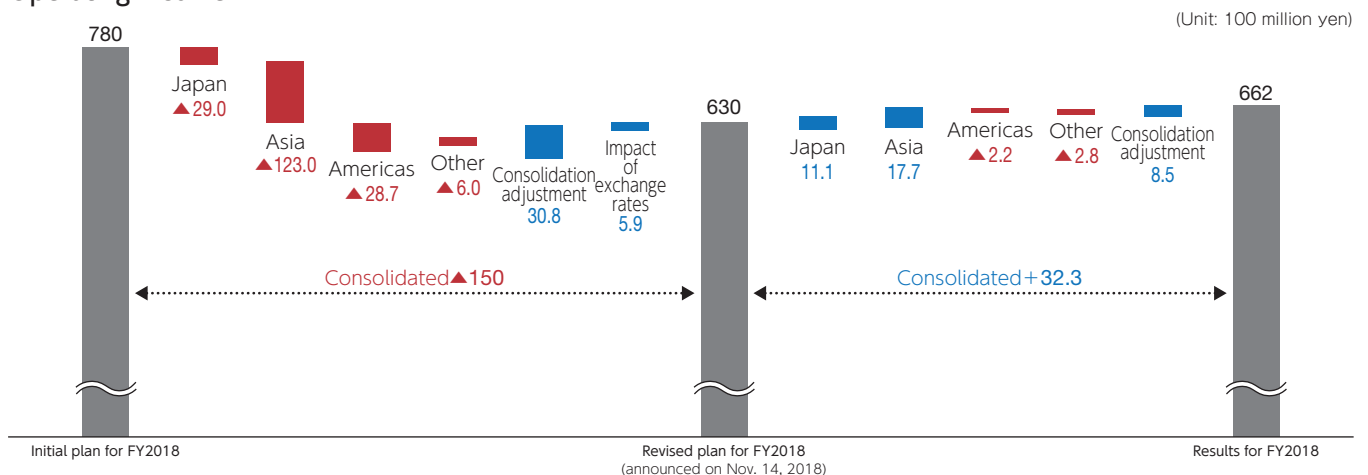
and our profits were influenced by global increases in the prices of raw materials.

Consolidated net sales were 622,987 million yen, which exceeded 615 billion yen in the revised plan, with sales increases attributed to stable weather from October to December and recovery from the natural disasters that occurred from June to September in Japan, as well as less stagnant markets than expected in Asia. Consolidated operating income was 66,231 million yen, which also exceeded 63 billion yen in the revised plan, thanks to higher sales than expected in Japan and more solid markets in Asia than anticipated.

### Net Sales



### Operating income



## Progress in the medium-term management plan

Nippon Paint Holdings Group aims to establish an overwhelming position in Asia and also accelerate global growth as a medium- and long-term management policy for the Group in the medium-term management plan "N-20" for the period from 2018 to 2020. To "become the top leader in all business domains and regions" is set as the state the Group should be in 2020. To this end, we (1) strengthen the businesses in existing segments, (2) accelerate expansion of the portfolio, (3) improve earning capacity, and (4) enhance the structure of "Global One Team" as the key initiatives in accordance with the conditions of each business domain/region. Through these initiatives, we aim to maximize the values provided to all stakeholders in all business domains and regions.

While the medium-term management plan, N-20 sets the target of achieving net sales of 750 billion yen and an operating income ratio of 14% by the Japanese standards in fiscal 2020, net sales and operating income ratio in fiscal 2018 were 623 billion yen and 10.6%, respectively.

### Group Medium/Long-term Management Policy

The state that we would like to be in 2030

**The Leading company committed to continuously create new value**



Moving towards the goal



**Future Pull**

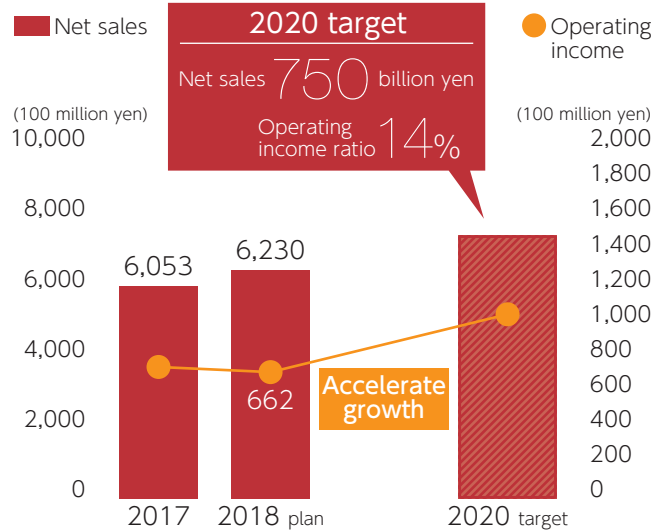
The state that we should be in 2020 according to the medium-term management plan for 2018-20

**Become the top leader in all business domains and regions**

Net sales target of 750 billion yen in 2020 (Japanese standards)

Maximization of value provided to all stakeholders  
⇒Maximization of share holders' value

### Consolidated Earnings Plan for 2018-20 (Japanese standards)



### Key Initiatives

Implement the following key initiatives 1 to 3 by operating the "Global One Team"

#### 1. Strengthen the businesses in existing segments

- Increase share
- Enhance strengths

Accelerate growth in each business segment

#### 2. Accelerate expansion of the portfolio

- Generate growth momentum
- Achieve synergistic effects early

Implement M&A and accelerate PMI

#### 3. Improve earning capacity

- Increase operating income
- Efficiently use management resources

Achieve an operating margin of 14% after growth investment

#### 4. Enhance the structure of "Global One Team"

- Reinforce regional management with "Region x Business"
- Collaborate with functional departments globally

Deploy the GNN model on a global scale







## Business plan for fiscal 2019

In fiscal 2019, it is forecast that the Japanese economy continues to be on a recovery trend and remains solid mainly in terms of domestic demand. Nippon Paint Holdings will work to increase its share in each of the businesses in Japan and also capture demand related to the Tokyo Olympic Games to be held in 2020 for the construction and industrial coating businesses.

Meanwhile, amid an uncertain outlook due to trade conflicts between major countries, the hike in the consumption tax rate scheduled in October, etc., we will strive to secure profits through cost control efforts including cost reduction and the suppression of selling and administrative expenses as well as continued modification of product sales prices within a proper range.

Especially in China, which is the core region in Asia, the sluggish growth of housing-related markets is expected to continue as the government policy to curb investment in real estate is retained. In addition, there are expected to be unclear conditions such as a decline in consumer spending attributed to the trade conflicts and the trends of raw material prices reflecting the strict environmental regulations. In the business of paints for housing

(unit: 100 million yen)

		Plan for FY2019 (IFRS)	Results for FY2018 (IFRS)
Paint Business	Automotive coatings 	1,599	1,602
	Trade-use paints 	3,264	3,225
	Industrial coatings 	767	688
	Other paints	565	568
	Total	6,195	6,083
Fine Chemicals Business 	205	194	
Total	6,400	6,277	

### < Key initiative >

#### Enhance the structure of "Global One Team"

**Tasks** Establish a more effective global governance framework of the Nippon Paint Holdings Group based on "Region x Business," involving the eight joint venture companies in Asia that were converted into consolidated subsidiaries in 2014.

**Measures** We are discussing a regional headquarters system (RHQ system) with Nippon Paint Holdings serving as the global headquarters. In 2018, we launched a project to start the operation of the Americas RHQ system. We reviewed the regulations on authority and responsibility and started to operate the Americas RHQ in 2019.   
▶ See P46 for details

interior, which is our core business in China, we will work to further increase our share not only in large cities, in which we have already established a strong position, but also in local cities, in which the market is expected to continuously grow in the future, through the expansion of the sales network and product lineup. In the automotive coating business, while the market is weak, we will strive to increase our share in the sector of paints for automobile bodies and parts for the Chinese and Japanese customers.

In the Americas, we will make efforts to increase sales in our construction coating business, which is developed mainly in the southwestern United States, through the opening of new paint retailers as well as sales increases in the stores including existing ones.

Through these measures, we expect to have net sales of 640 billion yen and operating income of 86.5 billion yen by the International Financial Reporting Standards (IFRS) as our financial results for 2019.

(unit: 100 million yen)

		Plan for FY2019 (IFRS)	Results for FY2018 (IFRS)
Japan	Net sales	1,842	1,828
	Operating income	274	296
Asia	Net sales	3,655	3,557
	Operating income	475	524
Americas	Net sales	769	752
	Operating income	58	50
Other	Net sales	134	139
	Operating income	-4	-5
Consolidation	Net sales	6,400	6,277
	Operating income	770	865

### < Key initiative >

#### Accelerate expansion of the portfolio

**Tasks** Incorporate Asia and other high-growth regions as well as the construction coating business and other high-growth businesses into the portfolio and realize synergy after the expansion.

**Measures** In 2018, chaired by the Chairperson of the Board of Directors, M&A Committee was established and started to be operated with President & CEO and two outside directors as the members. The committee examines and discusses all of the individual M&A cases in terms of the conditions, details, possibility of generating synergy, and PMI.

## Meeting Expectations for Our Company and Delivering New Values to Society - CSR Management

To supply new values through the practice of "mutual prosperity," which is mentioned in the Group's management philosophy, we have selected materialities (crucial issues) for the realization of the sustainable growth of society and set CSR targets for fiscal 2020.

### Concept of ESG management

In recent years, the three perspectives of Environment (E), Society (S), and Governance (G) have attracted attention as necessary elements for companies to grow sustainably over the long term.

Nippon Paint Holdings Group recognizes these ESG perspectives as management issues to be tackled preferentially and actively promotes measures on each aspect.

Specifically, on the "E" (environmental) aspect, as a manufacturer of paints used in all aspects of social life, we will mitigate the environmental impact of those products throughout the processes from production to painting, as well as the aspects where various painted items such as buildings and cars are actually used, and help customers solve the environmental problems they face.

Meanwhile, on the "S" (social) aspect, we focus on the fact that our Group is a global company having a wide range of human resources with different genders, nationalities, cultures, and living habits and will work to develop an organization where those human resources are mutually respected and can demonstrate their abilities.

Furthermore, on the "G" (governance) aspect, while developing the "NN model," in which we can make effective use of the uniqueness of each region of the Group companies that similarly have diverse backgrounds, we will be committed to the establishment of a robust governance system centered on the global headquarters and regional headquarters (RHQ).

Considering that these initiatives are keys to creating new values for stakeholders and winning a leading position, Nippon Paint Holdings Group identified crucial issues (materialities) for the company from each of the perspectives and then set the

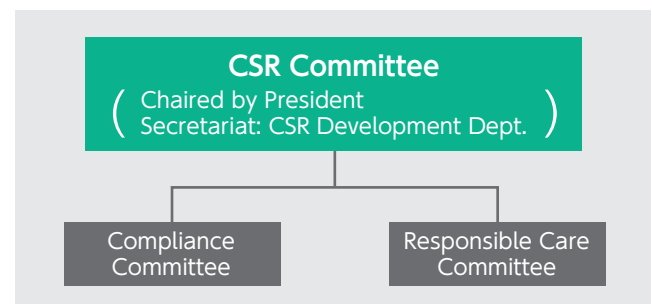
targets to be achieved by 2020 in January 2018. Our activities to achieve them are currently underway.

### Organizational structure

Our Group has set up CSR Committee, which is chaired by President, in Nippon Paint Holdings to discuss issues concerning governance and social fields. Under the committee, Responsible Care Committee (in charge of the safe environment) and Compliance Committee, which are both composed of the heads of our functional departments and the representatives of our main subsidiaries in Japan, have been founded to promote CSR activities in a cross-sectoral manner across the Group.

In fiscal 2018, we also set up Corporate Reforming Steering Committee as a measure to reform the culture and established CSR/ESG Management Promotion Working Group, Work Style Reform Promotion Working Group, and Management Philosophy Dissemination Working Group under the committee to promote new initiatives from the perspective of reforming the culture.

▶ See P29 and P30 for details

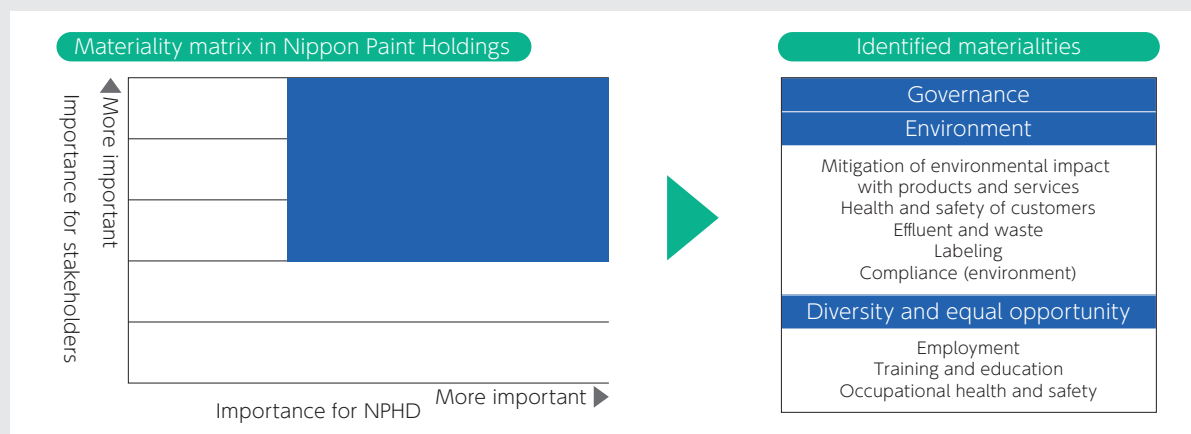
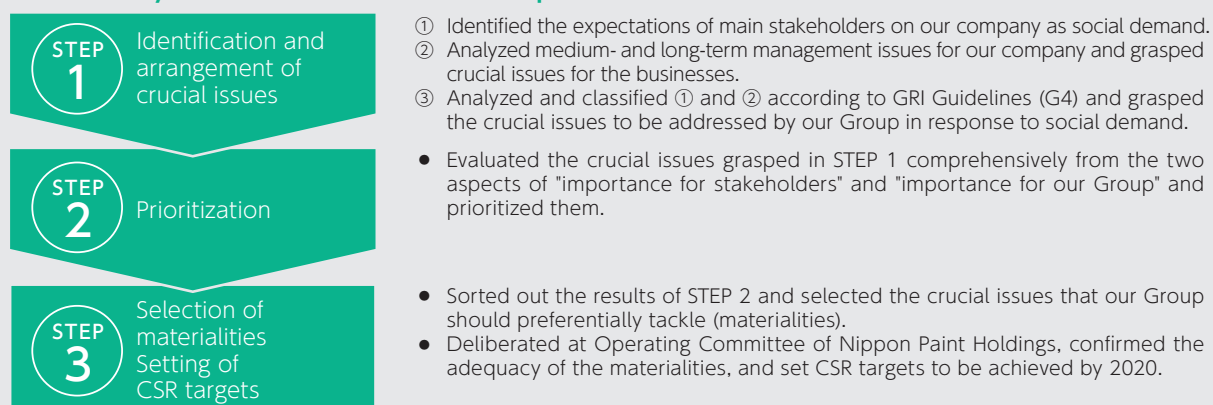


### CSR targets for our Group and progress in achieving them

The targets for fiscal 2020 specified based on the set materialities, as well as progress in achieving them in fiscal 2018, are presented below.

Aspect	State that we would like to be	Issues
Governance	Governance system capable enough to compete globally	<ul style="list-style-type: none"> <li>Share <b>the new management philosophy</b></li> <li>Establish <b>RHQ management system</b></li> </ul>
Environment	Create value by dealing with environment and expand businesses and earnings	<ul style="list-style-type: none"> <li>Create and spread <b>eco-friendly products</b></li> <li>Proper management of chemical substances</li> </ul>
Diversity	"Diversified knowledge" by gathering diverse personnel	<ul style="list-style-type: none"> <li>Collaboration <b>among diverse personnel</b></li> <li>Decision-making should be done by diverse personnel</li> <li>Safe and secured workplace</li> </ul>

## Materiality (crucial issue) selection process



Results of our efforts in 2018	Targets for fiscal 2020 (state where they are achieved)
<ul style="list-style-type: none"> <li>● (Japan) Made progress in the dissemination of the management philosophy. (Overseas) Prepared materials in English for the dissemination and started to share the philosophy.</li> <li>● Sorted out the challenges for the establishment of a CSR promotion system.</li> <li>● Got ready to establish the Americas RHQ system.</li> </ul>	<ul style="list-style-type: none"> <li>① Establish the activities to disseminate the new management philosophy</li> <li>② Consolidate the CSR promotion system</li> <li>③ Consolidate the NN model and achieve the overall harmony of global governance</li> </ul>
<ul style="list-style-type: none"> <li>● Formulated the definition of eco-friendly products (see P19).</li> <li>● Promoted and implemented the efforts in Responsible Care Committee and mostly achieved the targets.</li> </ul>	<p>On a global scale</p> <ul style="list-style-type: none"> <li>① Promote the development and dissemination of eco-friendly products</li> <li>② Properly manage and reduce the emission of chemical substances</li> </ul>
<ul style="list-style-type: none"> <li>● Implemented the teleworking system and the system for employees to take annual paid holidays by the hour on a trial basis.</li> <li>● Development training for selected female leaders and cross-industrial meeting for women</li> <li>● Launched a program to foster the next generation of managerial talents.</li> <li>● Zero serious occupational accidents</li> </ul>	<p>On a global scale</p> <ul style="list-style-type: none"> <li>① Build a uniform HR system</li> <li>② Establish diverse work styles and retain diverse and highly-skilled personnel</li> <li>③ Secure personnel that can actively work on a worldwide level</li> <li>④ Zero serious occupational accidents</li> </ul>

## Initiatives to Disseminate Eco-friendly Products

Nippon Paint Holdings Group is committed to "mitigation of environmental impact with products and services" as one of the CSR targets. In 2019, we specified the definition of eco-friendly products. In the future, we will contribute to the sustainable development of society through the realization of the "society that we would like to have in 2030."










### Contribution to the global environment through products

While the United Nations adopted sustainable development goals (SDGs) in 2015, private companies including Nippon Paint Holdings are also expected to help achieve them. Our Group is committed to "mitigation of environmental impact with products" as one of the CSR targets. In March 2019, we specified the definition of eco-friendly products.

Envisaging the "society we would like to have in 2030" (upper part of the figure), our Group has discussed what we can do as a paint manufacturer to help realize it from a future-oriented perspective. The discussions identified the five types of eco-friendly products

as mentioned in the bottom part of the figure. They are products with low environmental impact on their own and can also reduce environmental impact through various effects including energy saving in the painting process and heat insulation performance as well as the reduction of industrial waste through the extension of service life.

Our Group will contribute to the sustainable development of society through the development and dissemination of those eco-friendly products.

Sustainable society envisaged by the Nippon Paint Holdings Group = Society that we would like to have in 2030 (environmental aspects)	Related SDGs
Society that can use social infrastructure for a long time and be maintained with the consumption of fewer resources	 
Society where CO <sub>2</sub> emissions are reduced through energy saving to curb global warming	  
Society where substances of concern are not released into the environment to maintain clean water and air	 
Society where the pollution of water sources and oceans is prevented and the ecosystem is conserved	 

Realized through the development and widespread use of products

Eco-friendly products of the Nippon Paint Holdings Group (definition)	
①	Products that can <b>substantially extend the life of coating films and coated objects</b> and reduce waste generation to contribute to the effective use of resources in comparison with general products
②	Products that can <b>greatly improve energy efficiency at the time of using coated objects based on the functions of coating films</b> in comparison with the use of general products to mitigate the impact on climate change
③	Products that can <b>greatly lower the energy consumption for coating and surface treatment process</b> in comparison with general products and thereby mitigate the impact on climate change
④	Products that <b>substantially reduce the release of chemical substances into the environment in the coating and surface treatment process</b> in comparison with general products to minimize environmental destruction and health hazard to the painters
⑤	Products that greatly improve the efficiency of resource use in comparison with general products and <b>allow the application of environmentally friendly technology and industrial process</b>

## Activities of domestic operating companies for eco-friendly products in fiscal 2018

### Trade-use paints

"Water-based Perfect Sealer" for exterior walls of houses released by NPTU in 2018 can be also used for water-based coating of substrate surfaces of sophisticated siding boards, which was conventionally possible only with solvent products. In addition, "Toughguard Smart O-DE Mesh System," which was released on a trial basis in the same year, is a coating system that prevents flaking of concrete and is non-dangerous in all processes. All paints used in the processes are water-based to enhance safety, address odor, and thereby improve working conditions. The system is scheduled to be officially released by the end of 2019.

### Industrial coatings

Powder paints are paints in a powder form as the name suggests. Their features include the use of no organic solvent and easy automation of the coating process without the need to depend on experienced engineers. The paints are mainly used in the production lines of steel furniture, construction materials, home electric appliances, etc. Those features are recognized as advantages in the market because they help respond to current environmental regulations on solvents and make up for the shortage of human resources. Demand for powder paints is therefore growing and replacing that for conventional liquid paints. NPIU started to upgrade the powder paint production facilities in Chiba Plant in 2018 and is scheduled to begin their operation for the first period in October 2019. The production process will be streamlined to double the production volume without increasing the workers. As the CO<sub>2</sub> emissions per production volume can be also reduced, the production process, in addition to the powder paints themselves, will be environmentally friendly.

### Auto refinish paint

NPTU renewed "nax E-CUBE WB Water-based System," which is auto refinish paints to complete the coating process only with water-based paints, in 2018. As the paints are non-dangerous and low-odor and also as weather-resistant as solvents, they will improve the working environment of sheet metal coating and also help secure and develop young personnel and create plants that are loved by the local communities.



Next-generation water-based paints "naxE-CUBE WB"

### Automotive coatings

An effective measure to improve the fuel efficiency of cars is to reduce the weight of car bodies. The range of car body parts to which resin materials, which are lighter than iron materials, can apply is expanding. Since heat resistance of such resin materials is generally lower than that of iron, it is necessary to attach them to iron materials after coating and drying in different processes using dedicated paints that respond at a relatively low temperature. This decreases production efficiency and also has more environmental impact. Therefore, NPAU has worked to develop paints that can respond at a low temperature and also deliver necessary performance on any type of materials with an aim to paint iron materials and resin materials together. As the realization of this technology closely involves the car production process, the company cooperates with car manufacturers and also examines process-related aspects such as the recoating method.

### Marine coatings

Coatings for ship bottoms normally contain antifouling agents. The coating film surface gradually dissolves in seawater to renew itself and elute the agents intentionally to have an antifouling effect. On the other hand, the antifouling agents eluted into the sea can pose a risk to the environment. Developed by NPMC, AQUATERRAS is a new coating for ship bottoms that can have an antifouling effect with no use of antifouling agents. Unlike conventional antifouling paints, it is totally antifouling agent free and designed to be friendly to the marine environment based on the patented new hydrolysis antifouling technology developed by the company "HydrophiX®." The paint prevents fouling for a long time and greatly improves fuel efficiency.

### Surface treatment

One of the representative surface treatment techniques is zinc phosphate treatment. NPSU has applied film-forming agents with similar performance as zinc phosphate treatment and the following environmental advantages at the same time to the fields of automobiles and general industry since 2003.

- Reduction of the emission of substances of concern: contain no heavy metal (zinc, nickel, manganese) ion or phosphorus.
- Reduction of industrial waste: reduce sludge to less than one-tenth in comparison with zinc phosphate treatment.
- Reduction of water use: eliminate the need for the surface adjustment process and shorten the treatment process.

Through the development and introduction of those eco-friendly products, we will actively contribute to the reduction of environmental impact.



Zinc phosphate treatment



Environmentally friendly film-forming agent

The amount of sludge is significantly reduced

# Promotion of Responsible Care Activities\*

Under a Responsible Care management system based on our Basic Policy for Responsible Care, we implement a plan-do-check-act cycle (PDCA) for continuous improvement.

### 〈Basic Policy for Responsible Care〉

Based on the principle of actively contributing to Responsible Care activities\* including environmental beautification and preservation through the creation of colors and landscape and the protection of materials and resources in the business activities, the Nippon Paint Holdings Group is committed to the activities through the coordination of all organizations in the Group, including all employees, with awareness of the respective missions and responsibilities, aiming to contribute to the establishment of relationships based on mutual trust with the global community, local communities, and customers.

To this end, all of our business activities are required to follow the rules below:

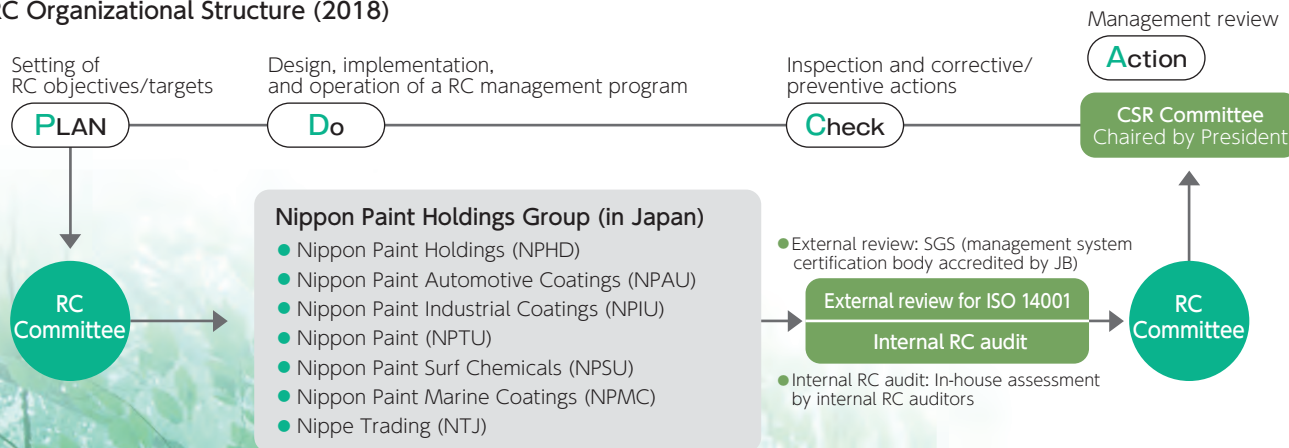
- 1) We will endeavor to preserve the global environment and protect the ecosystem while striving to conserve energy and other resources in the course of all business activities.
- 2) We will promote the development of products with less environmental impact and technologies that help the products reduce such impact and will consider the impact of our products on the environment, safety, and health at all stages of their lifecycle from development to disposal.
- 3) We will work to reduce the environmental impact of our operations and ensure security and disaster prevention while striving to ensure the health and safety of local residents and employees.

## Responsible Care Organizational Structure

Considering that the understanding and management of the environmental impact and safety of chemical substances is an important duty for paint manufacturers, we have re-established a management system to expand the scope to include occupational health and safety and chemical and product safety, in addition to the environment, and conducted Responsible Care (RC) activities

since fiscal 2010. We will encourage employees to act in an autonomous and independent manner in the activities oriented to their primary duties for efficient operation of the system while also continuously improving the system through the PDCA cycle.

### ▼ RC Organizational Structure (2018)



\*Responsible Care activities are voluntary management activities of business operators that handle chemical substances. Measures related to the environment, safety, and health, such as environmental protection, security and disaster prevention, occupational health and safety, and chemical safety, are taken for improvement at all stages of the lifecycle from development to disposal. Nippon Paint Holdings Group has implemented the activities as a member of the Japan Responsible Care Council (JRCC) since the foundation of the council in 1995 and also participates in Coatings Care activities, which are Responsible Care activities for coatings.



## Responsible care plan and results

Under the Responsible Care organizational structure of Nippon Paint Holdings, the Group companies set their own RC priority targets at the beginning of each fiscal year. In the lifecycle of the products handled by each company, which covers the stages from development to production, distribution, use, final consumption, and disposal, the targets are set based on the risks and

opportunities for the company selected from among its unique internal and external issues in the stages after its involvement, as well as the demand and expectation of stakeholders. The targets are then included in the management system for spiral-up. The targets set by the Group for fiscal 2018 and the results on them are shown below.

Priority subjects	Targets	Group-wide results and their assessment
Occupational health and safety and security and disaster prevention	Improvement in the completeness of risk assessment and the planning and certain execution of risk reduction measures based on the assessment results. The basic KPI is zero occupational accidents and physical accidents.	The companies promoted safety activities based on the plan. As a result, a total of 24 accidents occurred in the Group in fiscal 2018 (while 14 accidents, including three accidents resulting in lost time, occurred in the previous fiscal year), which consisted of three accidents resulting in lost time and 21 accidents without lost time. Relatively minor accidents increased.
Environmental conservation	Reduction of CO <sub>2</sub> emissions and energy consumption. The basic KPI is per unit reduction of 1%. Amount of landfilled industrial waste: achievement and maintenance of zero landfilled waste	Due to the operation of new equipment and an increase in the utilization rate of coating equipment in some companies, as well as a decrease in production volume, per unit CO <sub>2</sub> emissions increased. All of the companies successfully maintained almost zero landfilled waste.
Chemicals and product safety	Promotion of the development and sales of products that reduce environmental impact at the time of coating or disposal and products that can reduce environmental impact based on the film-forming performance, such as process-shortening products, environmentally friendly products, and low VOC paints	The promotion of products that reduce environmental impact at the time of coating or disposal was advanced mostly as planned. Although the introduction of products that can reduce environmental impact based on the film-forming performance into the market made steady progress, the sales volume did not reach the target.

## Environment and Work Safety Management Acquisition of ISO 14001 certification

### Acquisition of ISO 14001 certification

Nippon Paint Holdings Group received ISO 14001 multi-certification for seven domestic operating companies (see "RC Organizational Structure" in P21) and their subsidiaries. In November 2018, we received surveillance and obtained the certification.

### Overseas management

Nippon Paint Holdings provides active support to overseas Group companies for their health and safety activities. In Asia, action bodies on health and safety and environmental conservation have been set up in Group companies in China and other Asian countries together with the regional headquarters and are supported by us to enable Group companies to establish improvement activities based on mutual assessment or self-assessment. While the safety and environmental levels on the sites have been steadily improved in comparison with last year, we are working to enhance mutual communication and share information to help solve the problems to the maximum extent.

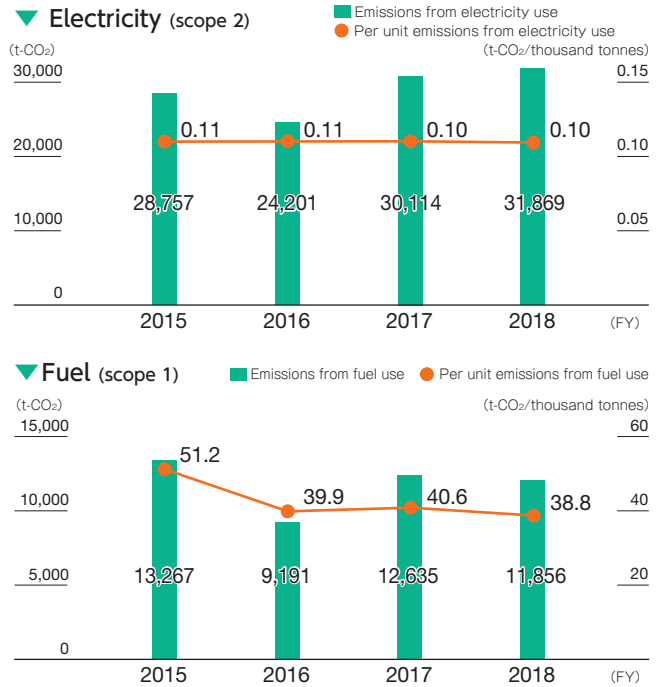
In Europe and the Americas as well, we conduct environment-related audits and provide support for corrective actions on an as-needed basis in cooperation with domestic operating companies.

### Prevention of Climate Change

Nippon Paint Holdings Group is committed to the prevention of global warming in Japan mainly through efforts to reduce energy use.

More specifically, we promote the optimal use of various equipment and devices that consume power or gas. We also review the appropriate operating conditions of compressors, boilers, chillers, and other equipment on the production sites using large equipment. In other offices, we make meticulous efforts in daily operations to help reduce energy consumption, such as strict temperature control of air conditioners and efforts to turn off the power of unused office equipment. In fiscal 2018, CO<sub>2</sub> emissions from electricity use and per unit emissions increased. We will try to reduce CO<sub>2</sub> emissions through the review of the energy saving activities and the introduction of effective measures.

Data on the emissions of greenhouse gases other than CO<sub>2</sub> are not disclosed because they are negligible.



\* Scope of data collection:  
 NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
 NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018  
 \* Data collection period:  
 April to December (nine months) only for FY2016





## Chemical industry and climate change

The Paris Agreement, which is an international framework on climate change issues for 2020 and thereafter, entered into force in November 2016. It is anticipated that industries and individual companies are required to make more efforts to meet the greenhouse gas (GHG) emission reduction commitment by the countries.

Efforts to reduce GHG emissions by using smaller amounts of energy such as electricity and gas are made continuously.

In the meantime, paints and other chemical products that are widely used in society are mainly made of carbon in fossil

resources and it is also required to reduce the use of those substances, which cause the emissions of carbon dioxide and other GHGs. In addition to the efforts to reduce the substances causing climate change, efforts to reduce GHG emissions with the involvement of the whole value chain is expected to be expanded in consideration of the potential to reduce far more GHG emissions from the use of products than from the component manufacturing stage.

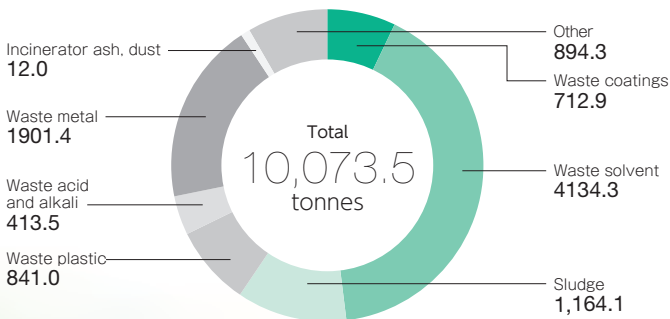
It is strongly required to take specific actions that combine those efforts.

## Reduction of Waste, Etc. and Zero Emissions

In Japan, Nippon Paint Holdings Group introduced an integrated waste management system that can also address the electronic manifest system in fiscal 2015 and makes Group-wide efforts to reduce waste, etc., such as reduction of waste generation and proper disposal of waste, etc. generated including effective use. In fiscal 2018, the amount of waste generated increased year-on-year and the recycling rate was 99.9%.

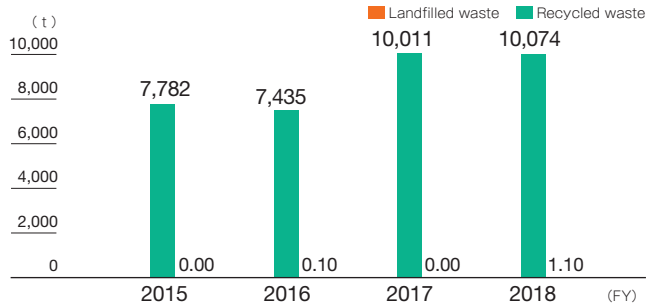
We will work to enhance waste management in order to reduce waste generation and achieve the recycling rate of 100%.

### ▼ Breakdown of waste, etc. (FY2018)



\* Including valuable materials

### ▼ The amounts of waste, etc. generated, recycled, and landfilled by year



\* Scope of data collection:  
NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018

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

\* Including valuable materials

## Comprehensive Management of Chemical Substances

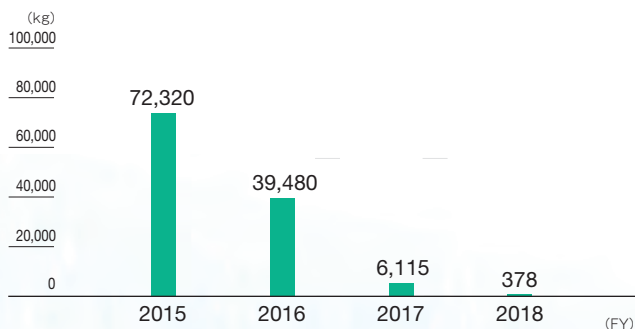
### Basic Approach

Paints contain various chemical substances originating from the raw materials and some of them can be harmful to the human body or the environment. Laws and regulations concerning chemical substances have become increasingly stringent globally in recent years. For the management of chemical substances, our Group Product Safety Committee, which is set up under the Responsible Care (RC) Committee, makes discussions with Group companies and prepares management standards to standardize the handling of chemical substances and prevent incorrect operation.

### Measures to Comply with Laws

We properly responded to legal changes made during fiscal 2018, including the revision of the Industrial Safety and Health Act, partial revision of the Cabinet Order for the Designation of Poisonous and Deleterious Substances, and revision of the Chemical Substance Control Law, and took additional measures such as modification of labeling and the issuance of Safety Data Sheets. We also take necessary measures to comply with the Poisonous and Deleterious Substances Control Law because our products include Dimethylaminopropylamine and drug products containing the substance. We have not been required to take corrective actions by the competent ministry or authority as to this issue. In preparation for a change in the notification form on low volume or low production volume new chemical substances in the Chemical Substance Control Law in fiscal 2019, we have notified it in the Group.

### Use of lead compounds by year



\* Scope of data collection:  
 NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
 NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018  
 \* Data collection period: April to December (nine months) only for FY2016

### Initiatives in FY2018

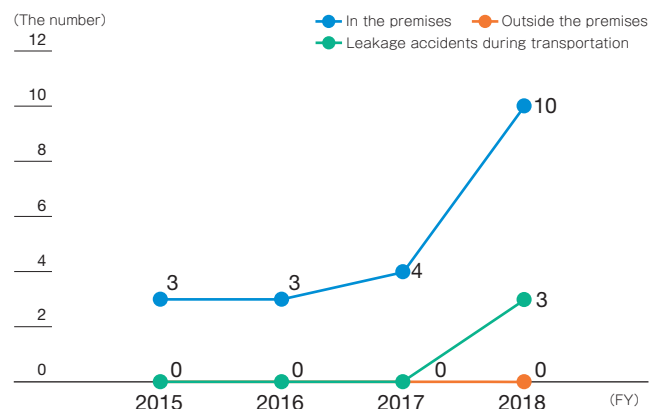
As we did in the previous fiscal year, we obtained information via various channels to ensure that we can respond to legal changes on chemical substances on a global scale and also worked to improve the mechanism.

Furthermore, in response to the international agreement to minimize the adverse impact of the manufacturing and use of chemical substances on human health and the environment by 2020, we have defined the substances the use of which is banned or restricted by domestic and international laws as "green standards: substances to be managed" and continuously check whether the raw materials purchased contain any of them or not.

### Measures to prevent the leakage of hazardous materials

We have designed measures to prevent the leakage of hazardous materials, etc. and also provide training dedicated to the prevention of the leakage of hazardous materials in an emergency drill organized in each area every year. For example, we assume a case where products are leaked on the road after an accident of a truck transporting the products on a general road and provide training for preventing the expansion of the leakage and recovering the products in order to develop abilities to respond quickly to emergency situations.

### Number of leakage accidents



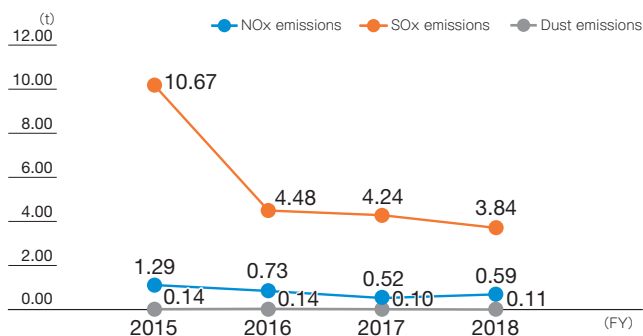
\* Scope of data collection:  
 NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
 NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018  
 \* Data collection period: April to December (nine months) only for FY2016

## Air and Water Conservation

### Prevention of Air Pollution

Nippon Paint Holdings Group complies with laws and regulations pertaining to air pollution through the setting of voluntary reference values and other measures in Japan. In FY2018 as well, none of our plants exceeded statutory limits. We reduced the generation of NOx and SOx emissions in comparison with the levels in fiscal 2016.

#### ▼ NOx, SOx, and Dust emissions by year

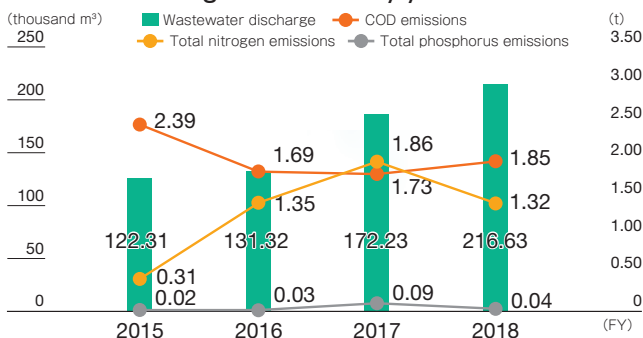


\* Scope of data collection:  
 NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
 NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018  
 \* Data collection period: April to December (nine months) only for FY2016

### Prevention of Water Pollution

Our Group complies with regulations pertaining to water pollution through the setting of voluntary reference values and other measures in Japan. Wastewater discharge increased year-on-year in fiscal 2018.

#### ▼ Wastewater discharge and COD, total phosphorus, and total nitrogen emissions by year

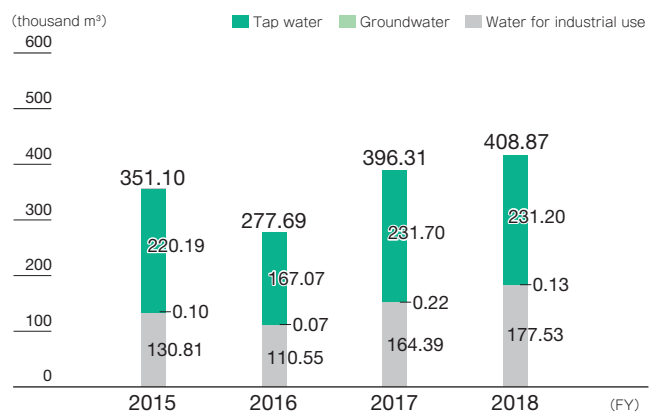


\* Scope of data collection:  
 NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
 NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018  
 \* Data collection period: April to December (nine months) only for FY2016

### Effective Use of Water Resources

Our Group strives to use water resources more efficiently through the effective use of water in the cleaning process and the recycling of cleaning water on the production sites in Japan. However, the use of industrial water increased in fiscal 2018.

#### ▼ Water use by year



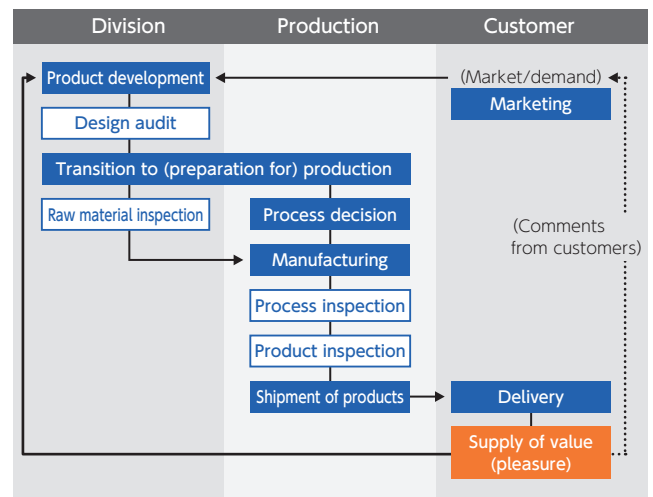
\* Scope of data collection:  
 NPAU, NPIU, NPTU, and NPSU for the data in FY2015  
 NPAU, NPIU, NPTU, NPSU, and NPMC for the data in FY2016 and FY2018  
 \* Data collection period: April to December (nine months) only for FY2016

## Aiming for the Improvement of Quality in the Group

Nippon Paint Holdings Group seeks quality assurance and productivity improvement in the actual production sites involved in manufacturing in order to enhance customer satisfaction.

### Group Quality Assurance System

Nippon Paint Holdings strives to promote quality assurance activities of the Group companies based on the policy in its internal rules to "maintain and improve the quality of products in a steady and continuous manner with an aim to enhance customer satisfaction with the products of the Group." Group companies in Japan pay attention to safety and environmentally friendliness of their products at the product design stage and take measures to secure the functions of the products. In addition to strict design audits, as well as examinations before the transition to the production stage, strict quality checks are conducted at different stages, including inspections of raw materials used, manufacturing process inspections, and final inspections of products. We also make efforts to maintain and improve the Group's quality assurance system, including process management to reduce quality variations in the manufacturing process and logistics management to deliver the products of our Group to customers safely by the deadline.



### Organization of a Global Quality Conference (GQC)

In overseas Group companies as well, Nippon Paint Holdings works to promote the quality assurance system and the improvement of quality management in cooperation with local staff as in the case of safety management. To provide a forum for reporting on team activities to improve quality assurance and productivity at actual production sites, a Global Quality Conference (GQC) was held in September 2018. About 50 interested parties attended the 13th conference held at our head office, which was also transmitted via a video conferencing system. This conference is used to share the attitude towards manufacturing in various countries, new discoveries in the production field, and efficient management methods.

### Promotion of quality assurance activities

Our Group strives to promote improvement activities of manufacturing sites that contribute to quality assurance and the safe environment in the sites. We position them as "on-site quality assurance (QA)" activities and work to reinforce the sites with focus on the five items of "5S (seiri, seiton, seiso, seiketsu, and shitsuke, or arrangement, tidiness, cleaning, cleanliness, and discipline)," "visual management," "standardization," "prevention of errors," and "quality KY (kiken yochi, or risk prediction)." In addition, the leaders of the manufacturing sites mutually check the worksites managed by the relevant departments and also have opportunities to deeply examine the issues of the manufacturing sites and discuss fundamental countermeasures. Through initiatives including them, we work to raise the levels of quality assurance and safety activities in the manufacturing sites as a whole.



# Supply Chain Management

Raw materials, equipment, items, and services supplied by suppliers are essential for the businesses of the Nippon Paint Holdings Group.

We strive to conduct fair and sincere procurement activities based on mutual trust with our suppliers.

## Approach to Procurement of Raw Materials

The businesses of the Nippon Paint Holdings Group depend on the supply of raw materials, equipment, supplies, and various other items.

A healthy cooperative relationship with suppliers is indispensable for the sustainable growth of our businesses and we will seek, maintain, and enhance open, fair, and sincere procurement activities based on mutual trust with them.

In response to the global expansion of our procurement activities, we have formulated Group Procurement Policy as common rules for the procurement departments of all Group companies and will work to disseminate them to share common values and control the procurement activities.

We would also like our suppliers to understand the policy and promote healthy transactions together.

## Initiatives in Line with the Procurement Policy

Since paints are composed of various chemical substances, information on the chemical substances used as their raw materials is important. We receive necessary material information on all raw materials we purchase, as well as the latest information on their conformance to domestic and international regulations, from the suppliers. The information is also used to ensure the safety of products for customers and proper actions for exporting. Nippon Paint Holdings also participates in an initiative of Japan Chemical Industry Association to promote the development of a mechanism to share relevant information on risk assessment of chemical substances in the supply chain and supplies information at the request of customers.

### Responsible procurement of raw materials

We survey conflict minerals, as well as raw materials involving abuse of human rights such as child labor, while also covering the upstream of the supply chain, and prohibit the use of such materials. The survey of conflict minerals is conducted once a year by investigating the suppliers of the raw materials containing target compounds (3TG) with the Conflict Mineral Report Template to respond to requests from customers and eliminate raw materials with risks.

### CSR procurement survey

The selection of suppliers is based on rational judgments in accordance with the procurement policy. As an attempt to evaluate suppliers, we adopted the CSR Procurement Self-assessment Questionnaire (SAQ) developed by the UN Global Compact

### Procurement Policy

In accordance with the management philosophy of the Nippon Paint Holdings Group, Procurement Department complies with and promotes the following policy in its procurement activities with the suppliers, which are our precious partners:

**1. Legal compliance and respect for human rights:**

Nippon Paint Holdings Group will conduct procurement in compliance with laws and international rules, with respect for human rights, and without any abuse of human rights including discrimination or unfair labor practice.

**2. Fair transaction:**

Nippon Paint Holdings Group will conduct fair and equitable procurement based on free competition and make efforts to eliminate personal interests from the selection of suppliers.

**3. Evaluation of suppliers:**

Nippon Paint Holdings Group will select suppliers in a rational manner based on business conditions, CSR, promotion of environmental conservation and resource protection, continuous commitment to the control of safety and health risks, etc. in addition to quality, price competitiveness, stable supply, technical capabilities.

**4. Establishment of a trust relationship with suppliers:**

Nippon Paint Holdings Group will place emphasis on dialogues with suppliers, work to establish a trust relationship, and promote sustainable procurement together. We will also promote the reduction of risks in procurement activities in cooperation with suppliers.

Network Japan's supply chain subcommittee meeting and asked the top 80% of our suppliers in terms of the purchase amount during 2017 to answer to the questionnaire. We received answers from 74 out of the 84 target suppliers (a coverage rate of 71%) and the average score of the answers was 90 on a 100-point scale with 100 as the highest and 45 as the lowest score. As temporary measures, we are exchanging opinions and having consultations for improvement with the four companies with a score of less than 70 while asking the companies that have not submitted the answers to submit them. We plan to improve the criteria for the response in the future.

### BCP measures

As part of BCP, we integrate raw materials, purchase multiple items, and consider alternative products while also asking suppliers to work for BCP to reduce risks together. To understand the impact on procurement in case of severe natural disasters and accidents and respond to such emergency situations, we collect information through a system to make simultaneous inquiries. In 2018, the system was used for the first response to seven natural disasters including earthquakes and typhoons, as well as one fire/explosion accident.

### Training of the employees involved in procurement work

To advance the level of the employees involved in procurement work, we provided them with training as to information management, the Subcontracting Act, insider trading, etc. based on the compliance guidebook.

## Aiming to Establish a Vibrant Culture

To promote the growth of the whole company, Nippon Paint Holdings Group aims to develop a culture that fits with the times and helps keep creating newer values than the conventional working environment. To establish a "vibrant culture where passionate and determined people gather," we will work to reform the culture.

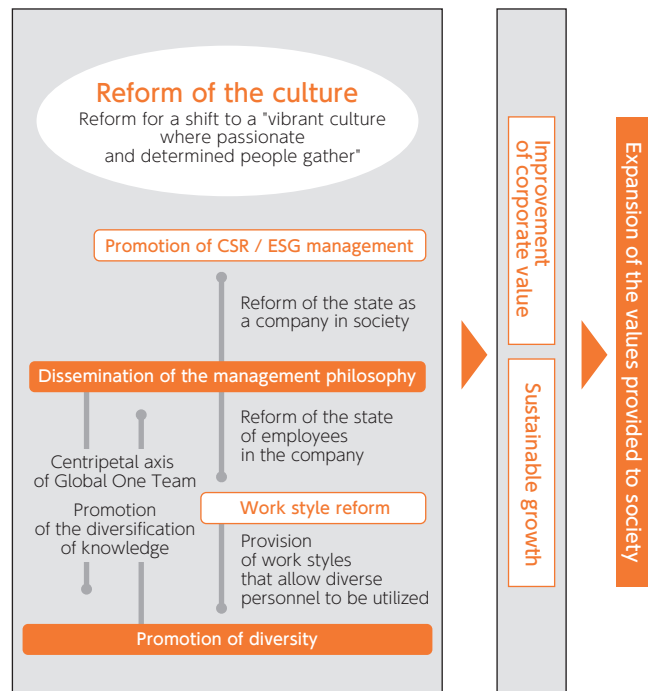
### Background and targets of our commitment to reforming the culture

To achieve the sustainable growth of our Group, we consider that continuous creation of new values for all of our stakeholders is essential. Our Group is committed to the reform of the conventional culture with an aim to realize a "vibrant culture where passionate and determined people gather." Under the Corporate Reforming Steering Committee (hereinafter "Corporate Reforming SC") set up in January 2018, we have developed the activities of three working groups respectively aimed at the dissemination of the management philosophy, the promotion of CSR/ESG management, and work style reform and the improvement of labor productivity.

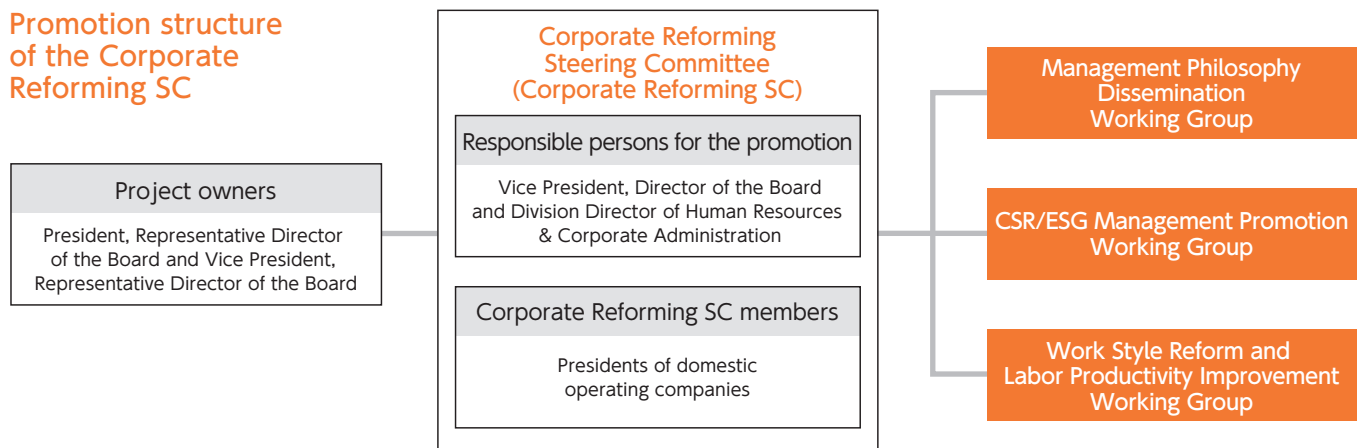
Each of the working groups is composed of the members selected from among Nippon Paint Holdings and the operating companies. In fiscal 2018, their activities began with a series of discussions through working groups to align the direction of the state we should be, understand the current situation, and identify challenges.

The activities of the Corporate Reforming SC are reported as one of the initiatives for the medium-term management plan "N-20" to the Board of Directors regularly.

Since such activities cannot make fruits over a short period, we will also continue them in 2019.



### Promotion structure of the Corporate Reforming SC



## Management Philosophy Dissemination Working Group

### Mission

The new management philosophy established in January 2018 provides centripetal force and can be shared by all Group employees working around the world as a compass that guides them. The philosophy is thus significant for Nippon Paint Holdings Group to grow globally with a sense of unity. Our Group considers that the dissemination of the management policy to be one of the most important management tasks. Through the activities of the Management Philosophy Dissemination Working Group, we aim to encourage Group employees to understand the philosophy more deeply and feel sympathy with it.

### Main themes

- Implementation of activities to disseminate the philosophy among Group employees in Japan
- Establishment of the management philosophy in the overseas version and dissemination of it

▶ See P31 for the progress of the initiatives.



## CSR/ESG Management Promotion Working Group

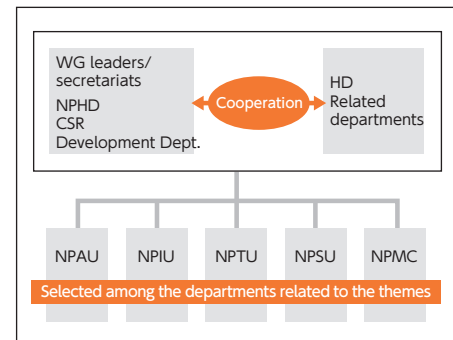
### Mission

Aiming to integrate CSR activities with business activities, the CSR/ESG Working Group is working with the "mitigation of environmental impact with products" as the central theme. We consider that products are the main contact point to society for a manufacturer like us and that we can naturally achieve a culture to fulfill CSR through business activities when employees and all other stakeholders recognize the contribution of our Group's businesses to the solution of social issues by considering environmental contribution through products and the product strategy in an integrated manner.

### Main themes

- Clarification of the definition of the products that mitigate environmental impact (eco-friendly products)
- Positioning of the above-mentioned eco-friendly products in the product strategy
- Setting of targets on the mitigation of environmental impact through products

▶ See P17 to P20 for the progress of the initiatives.



Working group promotion structure

## Work Style Reform and Labor Productivity Improvement Working Group

### Mission

Having conducted a questionnaire survey to all Group employees in Japan and identified eight aspects based on the answers, the working group is working for the themes set in line with the eight aspects. Through such activities, it aims to develop a comfortable and rewarding working environment, create values, and realize a cycle that enhances productivity.

### Main themes

- Improvement of the efficiency of meetings and material preparation
- Communication
- Use of IT
- Improvement of operations and reduction of work volume
- Support of management by persons in key positions
- Evaluation system and a mechanism to respect each other
- Evaluation system and a mechanism to respect each other

▶ See P34 for the progress of the initiatives.



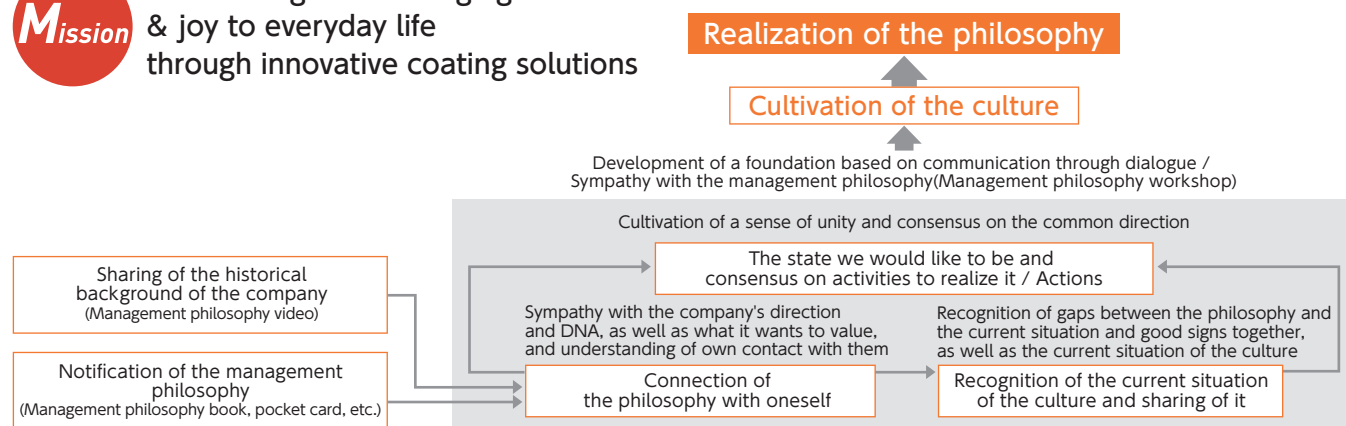
## Connecting Each of the Employees to Society

We aim to cultivate a vibrant corporate culture through the sharing of our Group's management philosophy with each of the employees and the establishment of a trust relationship between them and the management. To create a working environment where they can recognize the social contribution, we are promoting a change in the mindset.

### Image of the dissemination of the management philosophy



The leading brand bringing colors & joy to everyday life through innovative coating solutions



#### Production and distribution of management philosophy tools

To notify employees of the new management philosophy, we have distributed posters and portable pocket cards, as well as a "management philosophy book," which mentions the background of the re-establishment of the management philosophy and messages from the management, to all employees.

We have also produced a "management philosophy video" to deepen the understanding of the management philosophy. The video, with which the creed and values that form the basis of the management philosophy and have been taken over since the founding of the company can be learned along with its history, is used in internal training programs and workshops. In fiscal 2019, we plan to produce the tools in other languages and introduce them to overseas sites.



Management philosophy pocket card



Management philosophy video



Management philosophy book

#### Management philosophy workshop

We organize a management philosophy workshop where participants recognize their connection with the management philosophy and talk about challenges for realizing it and the direction they should pursue. This workshop aims to deepen communication between employees through dialogue, further improve their understanding of the management philosophy, and enhance their sympathy with it.

#### Workshop for the top management

We organized a management philosophy workshop for the top management in August 2018. Executive officers of Nippon Paint Holdings participated in the workshop to discuss the state the Group would like to be and share issues to be tackled by the top management. The workshop gave them an opportunity to reaffirm their determination to disseminate the management philosophy and reform the culture.



Workshop for the top management

#### Development of the workshop

Following the workshop for the top management, we organized a workshop for department heads in the Group in the eastern and western areas of Japan four times in total from December 2018 to January 2019. The department heads actively exchanged opinions about the actions they should take to realize the management philosophy from the middle management position.

In fiscal 2019, we have been introducing the philosophy workshop into the worksites as well in sequence. We have also incorporated the workshop into the position-based group training programs including new employee training to enhance the understanding and sympathy of employees with the management philosophy through dialogue.



Workshop for the department heads in the Group



## Initiatives to cultivate a sense of unity among employees



### Founding of a women's table tennis club

We underwent a transition to a holding company structure in 2014 and reorganization of operating companies in 2015, as well as deepening of our cooperation with Wuthelam to consolidate most of the Nipsea businesses we develop in Asia. Those actions significantly increased the size of our Group's businesses and dramatically changed the organizational structure.

In an effort to find something that cultivates a sense of unity and provides centripetal force for the Nippon Paint Holdings Group, in which more than 80% of the employees work outside Japan and people with various cultures gather, we interviewed companies that have their teams for sports that can be enjoyed by people irrespective of nationality, sex, or age around the world to pick out a sport based on a comprehensive evaluation. We then decided to set up a women's table tennis club as a symbol of unity because table tennis is hugely popular in Asia, especially China, which is the main region for our businesses, the league of corporate teams is open and easy to participate in, and it is not necessary to organize a team of many members or prepare large-scale facilities in comparison with baseball and other team sports.

While our initial target after the founding was to enter the second division of the Japan Table Tennis League, we set up the coincided with the launch of the T League, which has a higher competition level and a higher profile. By participating in the league, we aim to enable our team to cultivate a strong sense of unity in our Group.

In the meantime, we also promote initiatives to contribute to society and the local community through table tennis, such as the organization of table tennis classes for local residents.



Participation in the T League  
(Nippon Paint Mallets finished third in 2018)

### Activities of the women's table tennis club

2016.9	Launched a "table tennis project" and started the renovation of facilities and recruitment activities.
2016.12	The board of directors of the Japan Table Tennis Association approved the plan to establish a league.
2017.1	Mr. Takahiro Mihara became the head coach and full-scale activities to recruit team staff and players were started.
2017.4	CSR Development Department formed the women's table tennis club.
2017.9	Public invitation of teams for the T League was started.
2017.12	Applied for participation in the T League.
2018.1	Announced the structure of the team for the 2018-19 season
	Decided the head coach, 2 coaches, and 6 players (4 from Japan, 1 from Singapore, and 1 from Hong Kong).
2018.2	Announced the participation in T League; Nippon Paint Mallets were approved.
2018.10	The T League was started and Nippon Paint Mallets had an opening game.
2018.11	Two special license players, who were a college student and a high school student, newly joined the team.
2019.2	A Chinese player newly joined the team.
2019.2	The regular season for 2018-19 ended. Nippon Paint Mallets finished third.

### Through the participation in the T League

Our employees who were watching the games and cheering our team expressed enthusiasm and a sense of unity that were rarely seen before. The cheering squad formed voluntarily by employees became a new community in which they participate regardless of site, department, age, or sex. Employees from different sites gathered in the game venues across Japan to create a new type of communication. Furthermore, the home games generated "One Team" activities, including the advertisement of newly developed technologies by the R&D department in a joyful manner in a booth of the venue, as well as a half-time performance by baton twirlers who were formerly members of baton twirling clubs.

Through the participation in the community-based league, Nippon Paint Mallets are creating a wider circle of new communities mainly based in Osaka, its home city. We will develop activities to ensure that the team coexists with the local community and not only the team itself and our company but also all people can be proud of the team.



Ms. Miyu Kato, a member of Nippon Paint Mallets, became honorary police chief for a day



Table tennis class organized in cooperation with Nippon Paint Holdings

## Work Environment That Is Comfortable and Rewarding at the Same Time

To create an organization where all employees can demonstrate their abilities to the fullest extent, we are working to establish a work environment where they can work in a vibrant manner through various activities including the dissemination of the management philosophy and the promotion of diversity.

### Basic approach to employees

- We will value the trust relationship between management and employees and develop an energetic corporate culture.
- We will achieve job satisfaction and improve performance through teamwork.
- We will operate our business based on human abilities by ensuring that employees can perform at their full potential.
- We will focus on individual responsibility in human resource development because a willingness to grow and self-reliant efforts are essential for people's growth.

### Diversity and Inclusion

Based on our management philosophy, we are working for the diversification of knowledge such as the experience, abilities, and ideas of individuals irrespective of sex, age, nationality, or other attributes. Our efforts to use diversity as a source of the competitive advantage of our Group are made through four key initiatives to promote diversity. We aim to cultivate a corporate culture that takes advantage of diversity and become a company where unique employees can work more actively.

To promote "change in the mindset and development of a culture" for the effective use of diversity, we constantly hold a forum to create the "work" of the future from fiscal 2016. While also presenting specific examples, this forum provides employees with an opportunity to review the jobs of them as individuals and their team, work styles, job satisfaction, and future career and ask themselves again about what they will do and what they want to do. We continuously organize this enlightenment program to encourage employees to consider those issues to be their own.

### Sates that the Group should be

#### Recruiting diverse human resources.

The positions and missions are clarified and the right people are placed in the right Jobs.

#### Self-reliant human resources work actively.

All employees around the world act independently and produce results in their respective positions based on a globally shared vision.

#### Creating innovation.

The power of the organization is developed in a way to accept differences and leverage them as a strength.

### Key initiatives to promote diversity



### Creation of a Rewarding Work Environment

With an aim to establish an organization that can respond to changes, we actively seek to provide a work environment where employees with diverse values can feel rewarded.

In fiscal 2018, we implemented a "work cloth renewal project" as an initiative for reforming the culture from a bottom-up approach. The work clothes were renewed for the first time in 28 years. We formed a cross-sectoral work team of Group companies in Japan and produced new, safer, and more functional work clothes for our Group with a sense of unity and uniformity based on opinions and suggestions from all employees under the renewal concept of "WE WILL - each and every employee will take on challenges for the future." The work clothes, which are to be introduced in the spring of 2019, are an essential symbol for all Group employees to be united as "One Team."



Number of employees (persons)

	2016	2017	2018
Nippon Paint Holdings only	224	230	210
(percentage of temporary employees)	Less than 10%	Less than 10%	11.9%
Japan	3,005	3,013	3,223
Asia	12,793	14,449	14,287
Americas	627	2,407	2,492
Europe	447	388	400
Consolidated total	16,872	20,257	20,402

Our childcare leave and nursing care leave systems are used more frequently and have been firmly established as options for employees. We have also introduced a one-week holiday system to allow employees to take five consecutive days off as a measure to create an environment where employees can take holidays in a planned manner with teamwork to cover for each other, and more than 95% of the employees have used the system.

In addition, we continuously perform activities to prevent mental illness by understanding the workplace conditions through stress check, as well as monitoring of the awareness and satisfaction level of employees to motivate them and ensure that they can perform to the best of their abilities. We especially regard harassment in the workplace as a crucial challenge and make continuous efforts to eliminate it, such as workshops for all employees including management staff.

Furthermore, we have expanded the scope of application of the flex system from the perspective of work style reforms. The teleworking system and a program to allow employees to take paid holidays by the hour will be formally established in fiscal 2019. We also plan to introduce a new system for employees to have a certain amount of rest between working days on a trial basis.

Work style reforms are essential to make diversity one of the competitive advantages of our Group. We will continuously strive to create a corporate culture and system/mechanism that ensure that all employees are responsible for their own growth and can independently select their own work style to carry out their duties and will establish a virtuous circle in which the growth of our employees leads to the growth of the company.

## Career Development of Women

Diversity and the active work of women are considered to be important factors for the implementation of the value creation process of our Group and its further improvement. As part of our efforts for the "appointment and development of diverse human resources," one of the key initiatives to promote diversity, we encourage women to work actively.

We provide women with the following opportunities for further career development, including internal and external training programs for a change in the mindset and the improvement of skills.

### ● Female leader development training

This program has been continuously organized since 2015. In the fourth year, 10 trainees specified the ideal image of leaders they want to be and worked to accelerate their growth by trial and error.

### ● Cross-industrial exchange meeting (organized by J-Win\*, an NPO)

As an initiative to encourage women to work actively, we send our employees to the cross-industrial exchange meeting with participants from other companies and this is the fourth year of our participation. The participants mutually accept diverse values regardless of industry or business category and facilitate their own growth through friendly competition.

\* Japan Women's Innovative Network, a specified nonprofit corporation

## Initiatives of the Work Style Reform and Labor Productivity Improvement Working Group

To cultivate a "vibrant culture where passionate and determined people gather," which is mentioned in the new management philosophy, the Work Style Reform and Labor Productivity Improvement Working Group has begun efforts to develop a rewarding work environment and establish a cycle that creates values and enhances productivity. To meet the targets of "improvement of personnel value," "improvement of corporate value," and "improvement of the work-life balance," the working group seeks to realize an attractive company where employees can feel happy and satisfied and have rich ideas.

### An attractive company that our Group aims to become

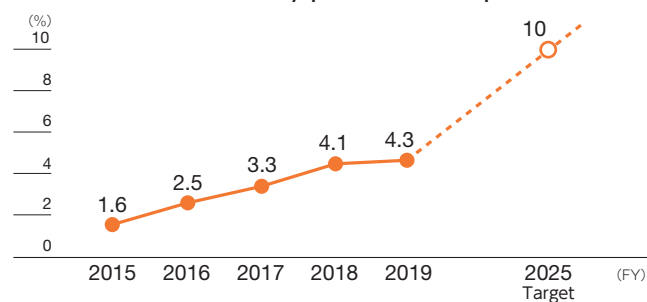
"Work actively like myself." "Surpass myself of yesterday."

"The best rivals are the best colleagues." "Be essential for the world."

We have launched "Project SWITCH!" to switch the mindset and actions of employees. The working group is now striving for the project with the six themes of "improvement of operations and reduction of work volume," "improvement of the efficiency of meetings and material preparation," "communication," "use of IT," "support of management by persons in key positions," and "evaluation system and a mechanism to respect each other," which were selected based on opinions from employees including the results of workshops in the workplace and surveys and questionnaires, as well as the understanding of the current situation based on data.

Work style reform town meetings have also been organized in the sites since fiscal 2018 to have active discussions and exchange opinions on relevant measures with employees.

### ▼ Ratio of women in key positions (in Japan)



Town meeting at Okayama Office



Female leader training

## Recruitment of Diverse Human Resources and Cultivation of Management Personnel

### Recruitment

When hiring new graduates, we promote the recruitment of candidates for management staff of the next generation who can lead the market regardless of nationality. We try to secure human resources with great abilities from the perspectives of "experience in leadership" and "challenge in the global environment" based on the requirements for human resources linked to management and business demand. Interns are also accepted proactively. While maintaining the long-term acceptance of students in engineering fields, we will adopt a more global perspective and expand the acceptance of human resources mainly from Asia in fiscal 2019. We are also working to enhance the internship program with focus on local and social contribution. In addition, mid-career employees are actively hired. Knowledge from external sources is aggressively absorbed to diversify our knowledge. We will continue our efforts to create an appealing company that attracts human resources with various experience and knowledge.

### Training

To accelerate our progress towards becoming a top company in the world, we have enhanced human resource development with focus on the cultivation of management personnel and pipeline management of the successors.

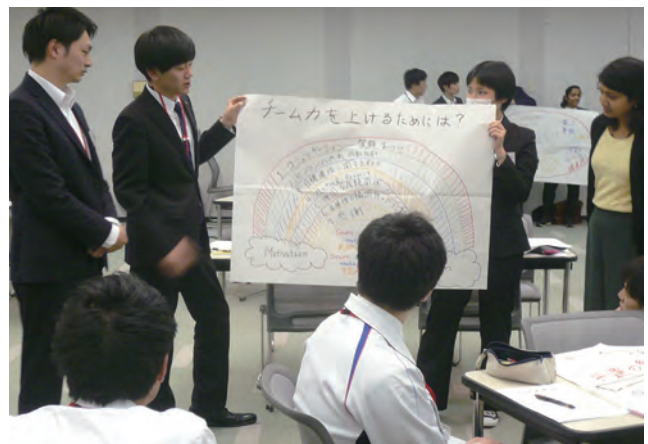
With "global" and "leadership" as the keywords, we have developed position-based leadership programs to improve our leadership training. The management personnel development programs for upper positions are also attended by employees of our overseas Group companies to promote friendly competition within the Group and enhance Group-wide cooperation and ties for human resource development in Japan and overseas. While helping the trainees acquire management literacy, the programs also provide opportunities to strengthen collaboration between domestic and overseas Group companies. We also accept trainees from overseas actively, which solves the human resource development issues of overseas Group companies and helps them expand their businesses. In addition to the leadership programs, we have prepared internal programs to supplement the abilities and skills required in each generation. We also plan to establish a mechanism to develop management personnel candidates early by giving them opportunities to build their career in a challenging environment and thereby accelerate their growth. Through these initiatives, as well as language training, engineer training, and distance learning programs, we will constantly produce human resources that can contribute to the company in an integrated manner.

### Generous support for those who aim to grow with self-responsibility

Nippon Paint Holdings Group seeks to strengthen human resources based on the policy on the right.



Acceptance of interns



New employee training in 2019

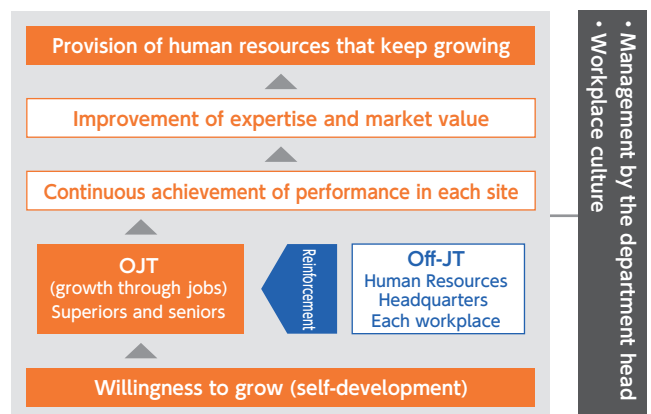
#### <Approach to human resource development (cultivation policy)>

People cannot grow without an underlying willingness to grow and self-help efforts.

Therefore, we set self-responsibility as the basis of human resource development.

#### <Training policy>

- The basis of training and cultivation is on-the-job training (OJT) in the workplace.
- We provide off-the-job training (Off-JT) to supplement the OJT.
- The training is classified into an equal-opportunity type and a selection-based type to clarify the objective of the cultivation.



## Health and Safety Activities in Japan

Nippon Paint Holdings Group is committed to the prevention of accidents under the concept that "safety takes priority over everything."

In fiscal 2018, we worked to improve health and safety activities and solve relevant problems through the RC Committees of the sites involving domestic affiliates of our Group, as well as Group safety and environment meetings and product safety meetings. In those efforts, we shared information on the accidents that occurred in the Group and the cases of accidents in different business sectors and introduced countermeasures against such accidents throughout the Group to prevent recurrence.

We also held health and safety committee meetings on an area or site basis to execute the decisions made in the committee meetings, etc. and identified the health and safety issues in each area, involving all employees in the efforts to improve the problems.

Risk assessment is actively conducted in each area to prevent accidents. In addition, events to help employees improve their health are designed and organized in cooperation with the labor union.

Despite those health and safety activities, the number of accidents that occurred in the Group increased by 10 year-on-year and the frequency of accidents also rose significantly in fiscal 2018. Thus, challenges remained in the fiscal year. Since most of the accidents without lost time were caused by insufficient adherence to the rules, we will review the rules, provide repetitive training, and enhance the confirmation of compliance with rules in the sites by managers.

We will make continuous efforts to reduce the number of occupational accidents.

## Support for Overseas Group Companies in Safety Control

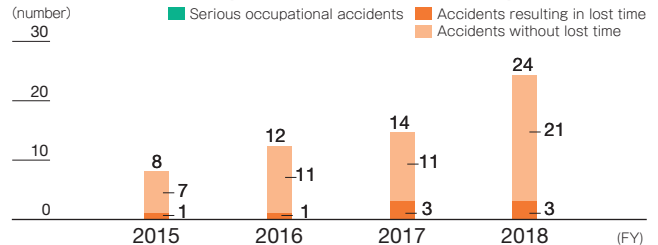
Nippon Paint Holdings Group continuously provides active support for the safety and environmental activities of overseas affiliates. In 2018 as well, we worked to enhance field management and develop activity leaders in Asia and other regions through NIPSEA Safety Council (hereinafter "NSC").

We also conducted a safety assessment in each area together with NSC members to prevent serious accidents. In the assessment, we used an assessment list prepared to identify and rectify serious risks that might result in a plant shutdown, such as fire and explosions.

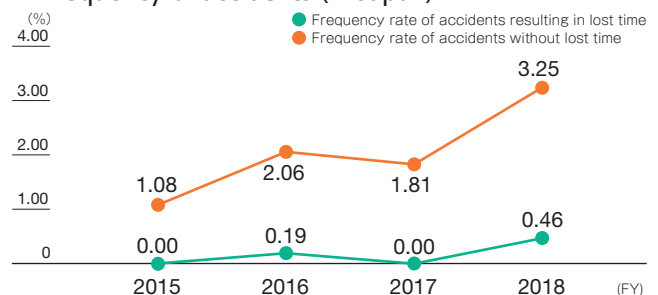
In addition to the safety assessment, we have introduced safety activities including experience-based training to enhance the understanding of the danger of static electricity into overseas production sites. We also monitor the fire-fighting drills conducted in each of the areas to check the appropriateness of the system, roles, and procedures in case of a fire or explosion accident and correct any problems in order to improve the fire prevention system.

For the areas such as North America, China, and Thailand, we support their safety control activities in cooperation with operating companies.

### ▼ Number of occupational accidents in Japan

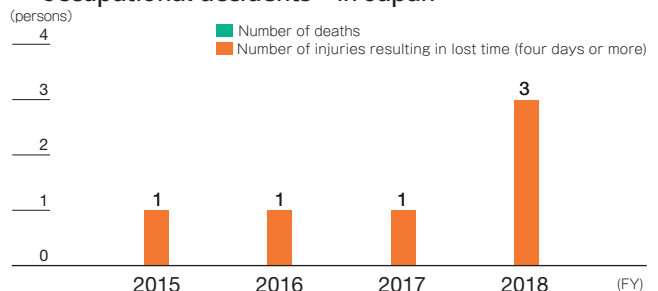


### ▼ Frequency of accidents (in Japan)



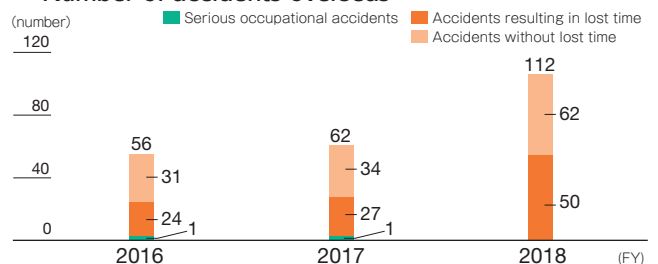
\* The frequency rate represents the number of occupational accidents that occurred in one million hours of total actual working hours.

### ▼ Number of the persons affected by occupational accidents \* in Japan

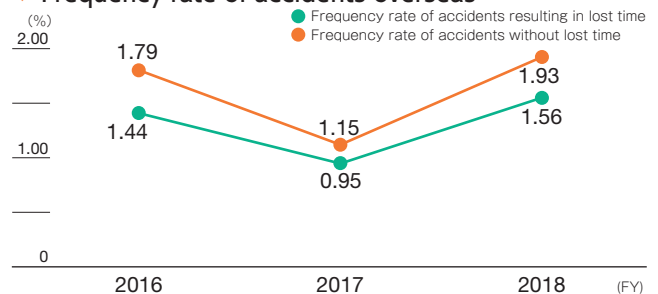


\* The accidents resulting in death or lost time for four days or more are included.

### ▼ Number of accidents overseas



### ▼ Frequency rate of accidents overseas



Scope of data collection  
In Japan: More than 90% is covered in terms of number of persons.  
Overseas: More than 80% is covered in terms of number of persons.

## Contributions to Local Communities and International Society

The companies have begun to operate overseas and the globalization of their employees and work environment is in progress.

We will work to make a social contribution in the countries where we operate through various activities that energize local communities.

### Activities in Japan

#### Participation of 100 Group employees as volunteers in the Chemical Experiment Show held in eastern and western Japan

Nippon Paint Holdings Group exhibits a booth at Children's Chemical Experiment Show, which is organized by the Japan Chemical Industry Association, every year. In 2018, the event was held at the Science Museum in Chiyoda-ku, Tokyo in August and at Kobe International Exhibition Hall in Kobe, Hyogo in October for two days each and four days in total. A total of approximately 100 employees from our Group participated as volunteers in the two events and gave guidance to children in an experiment to coat a metal ruler with electrodeposition paint using dry cells.



#### Organization of Happy Wall Project in Shibuya, Tokyo

ROOMBLOOM, a brand of interior paints handled by the Nippon Paint Holdings Group, participated in the Moshi Moshi Nippon Festival 2018, an inbound & outbound event held in Shibuya-ku, Tokyo in March 2018, and organized Happy Wall Project, which is a social contribution program that the brand has developed since 2014, jointly with the event organizer.

The Happy Wall Project was launched with a wish to extend our desire to "make life richer with paints" all over Japan. In the event, a picture of a circus tent was drawn with Down syndrome and autism children at a day-care center in Shibuya-ku.



#### Support for the activities of an artist of African painting

Nippon Paint Co., Ltd. (NPTU), a Group company dealing in trade-use paints, supports Mr. SHOGEN, who is an artist of African painting.

He participated in Umekita Machizukuri Art 2018 Spring, which was organized in Osaka City in April 2018. Together with more than 100 family visitors, the painter drew a large picture of tens of meters in length with environmentally friendly water-based paints for interior supplied by NPTU. This picture was exhibited in a surface passage between Grand Front Osaka and Umeda Sky Building in Kita-ku, Osaka City.

Mr. SHOGEN also joined "Tunnel Art Part 13," which was organized in Suita City, Osaka in July of the same year. NPTU provided water-based paints for the event as well. The company has co-sponsored the event since 2016 and will continue to support the revitalization of the local community and the improvement of landscape in Suita City.

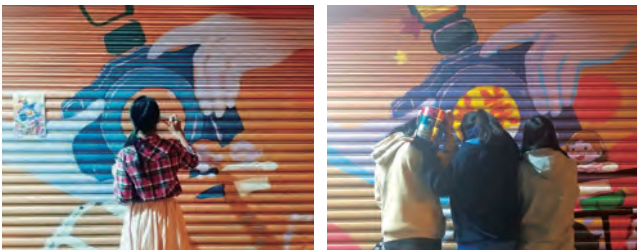


Mr. SHOGEN,  
an artist of African painting

## Activities outside Japan

### **[China and Hong Kong] Supply of water-based paints for initiatives to revitalize a local community**

Nippon Paint (H.K.) Company Limited provided their products without charge to support the activities of "Zaapjau x Pousi," which is an initiative to energize the local community in Sham Shui Po, a downtown area in Hong Kong. While Sham Shui Po has many stores including boutiques, toy wholesalers, and electronics retailers from long ago, some of the stores had aging shutters to spoil the aesthetic appearance. In the "Zaapjau x Pousi" initiative, local artists and young volunteers painted pictures on those shutters to help revitalize the local community. Nippon Paint (H.K.) supplied environmentally friendly water-based paints for this initiative.



### **[Indonesia] Support for painting ceremonies to celebrate the Independence Day**

In Indonesia, a gate called Gapura in the local language stands at the entrance of a residential area, and there is a custom to repaint Gapura every year to celebrate the Independence Day of the country on August 7. In Nippon Paint Indonesia, employees at 37 sites in the country work for the repainting in cooperation with the local communities. We supported the repainting of Gapura at 4,614 locations in 2017 and 7,488 locations in 2018. In 2019, we aim to do it at 10,000 locations.



### **[Asia] Support for young and talented would-be architects to leap forward**

Nippon Paint Holdings Group organizes an annual competition of architectural design for the students studying architecture in Asia. The final trial of the 11th competition was held in Singapore in March 2019 and two students, one from India and the other from Vietnam, were selected from among approximately 8,400 applicants to win the Grand Prix. The Grand Prix winners were awarded prizes worth about 10,000 US dollars including free participation in a six-week program of the Harvard University Graduate School of Design in the United States.



### **[India] Repainting of the interior and exterior of primary school buildings in cooperation with an NGO**

Nippon Paint India engages in volunteer activities to repaint the interior and exterior of primary school buildings in cooperation with a local NGO.

When the buildings of a primary school in Guduvanchery, Tamil Nadu in southern India were repainted, about 60 volunteers from the NGO joined the event. The company supplied approximately 50 liters of paints including environmentally friendly water-based paints. In addition, a plan to repaint the buildings of 200 schools in Chennai, the capital of the state of Tamil Nadu, is currently underway and the repainting was completed at 25 schools by 2018.



## Aiming to Practice the Management Philosophy

To achieve the sustainable growth of the Nippon Paint Holdings Group and improve the corporate value, we will work to establish a management mechanism that can properly respond to changes in the business environment.

Masayoshi Nakamura  
Independent Director  
of the Board

Yasunori Kaneko  
Independent Director  
of the Board

Toshio Morohoshi  
Independent Director  
of the Board

Takashi Tsutsui  
Independent Director  
of the Board

Hisashi Hara  
Independent Director  
of the Board

Atsushi Nagasaka  
Managing Executive Officer,  
Director of the Board

Manabu Minami  
Managing Executive Officer,  
Representative Director  
of the Board

Masaaki Tanaka  
Executive Chairman of the Board,  
Representative Director  
of the Board

### Executive Officer

**Yasuyuki Matsumoto**  
Managing Executive Officer  
(General Manager of Corporate Planning &  
Development, in charge of management strategy)

**Satoshi Nishimura**  
Executive Officer  
(Representative Director and President  
of Nippon Paint Surf Chemicals Co., Ltd.)

**Tetsuro Fujita**  
Senior Executive Officer  
(Nippon paint (USA) Inc. CEO)

**Yusaku Kobata**  
Executive Officer  
(General Manager of the R&D)

**Takeshi Shiotani**  
Senior Executive Officer  
(Representative Director and President of Nippon Paint  
Industrial Coatings Co., Ltd.)

**Masakazu Kato**  
Executive Officer  
(General Manager of Global Safety, Environment,  
Quality Assurance in charge of Corporate Audit Office,  
Production Planning Office)



**Hiroshi Miwa**  
Audit & Supervisory  
Board Member

**Toya Kawabe**  
Audit & Supervisory  
Board Member

**Toshihiko Oinuma**  
Independent Audit  
& Supervisory  
Board Member

**Ichiro Wakita**  
Independent Audit &  
Supervisory Board Member

**Yu Okazawa**  
Independent Audit &  
Supervisory Board Member



**Tetsushi Tado**  
President & CEO,  
Representative Director  
of the Board

**Seiichiro Shirahata**  
Managing Executive Officer,  
Director of the Board

**Hup Jin Goh**  
Director of the Board

**Shoichi Mure**  
Senior Executive Officer  
(President of Nippon Paint Automotive Coatings)

**Masuo Kida**  
Senior Executive Officer  
(President of Nippon Paint)

**Masakazu Wada**  
Executive Officer  
(General Manager of Human Resources)

**Hiroshi Hanaoka**  
Executive Officer  
(Nippon Paint (Europe) Ltd. CEO)

**Takeshi Ohnishi**  
Executive Officer  
(General Manager of NN-Model Development & Management,  
NIPSEA MANAGEMENT COMPANY PTE. LTD. V.P. China Liaison)

# Corporate Governance: Directors and Audit & Supervisory Board Members

	Name	Current position and responsibilities	Important positions concurrently held outside the company	Attendance in 2018		Number of shares owned
				Board of Directors meetings	Date of appointment as a director	
Inside Directors	Masaaki Tanaka	Executive Chairman of the Board, Representative Director of the Board	External Director, Money Forward, Inc.	—	March in 2019	0
	Tetsushi Tado	President & CEO, Representative Director of the Board	NIPSEA MANAGEMENT COMPANY PTE. LTD. Director Chairman, Japan Paint Manufacturers Association (Retired on May, 2019)	18 (attended all meetings)	June in 2013	13,152
	Manabu Minami	Managing Executive Officer, Representative Director of the Board Division Director of General Administration, in charge of Global Purchasing & Procurement, Financial Strategy	NIPSEA MANAGEMENT COMPANY PTE. LTD. Director	18 (attended all meetings)	June in 2013	14,570
	Seiichiro Shirahata	Managing Executive Officer, Director of the Board In charge of Technical	President, Representative Director of the Board, Nippon Paint Marine Coatings Co., Ltd.	13 (attended all meetings)*	March in 2018	10,407
	Atsushi Nagasaka	Managing Executive Officer, Director of the Board Division Director of Human Resources & Corporation Administration, in charge of Diversity & Inclusion, International, Human Resource Strategy	NIPSEA MANAGEMENT COMPANY PTE. LTD. Director	18 (attended all meetings)	March in 2017	21,778
	Hup Jin Goh	Director of the Board	NIPSEA HOLDINGS INTERNATIONAL LTD. Director WUTHELAM HOLDINGS LTD. Managing Director NIPSEA PTE. LTD. Managing Director NIPSEA MANAGEMENT COMPANY PTE. LTD. Director NIPSEA INTERNATIONAL LIMITED Director	18 (attended all meetings)	December in 2014	0

	Name	Current position and responsibilities	Important positions concurrently held outside the company	Attendance in 2018		Number of shares owned
				Board of Directors meetings	Date of appointment as a director	
Outside Directors & Independent Officers	Hisashi Hara	Director of the Board	Attorney Outside Audit & Supervisory Board Member, Chugai Pharmaceutical Co., Ltd.	13 (attended all meetings)*	March in 2018	793
	Takashi Tsutsui	Director of the Board	Representative, Ryuju Consulting	13 (attended all meetings)*	March in 2018	364
	Toshio Morohoshi	Director of the Board	Outside Director, WingArc1st Inc.	12 (among 13 meetings)	March in 2018	100
	Yasunori Kaneko	Director of the Board	Arcus Biosciences Lead Independent Director Kaneko Investments LLC Managing Director	13 (attended all meetings)*	March in 2018	2,000
	Masayoshi Nakamura	Director of the Board	Representative Director, OCTAHEDRON Inc.	13 (attended all meetings)*	March in 2018	1,322

	Name	Current position and responsibilities	Important positions concurrently held outside the company	Attendance in 2018		Number of shares owned
				Board of Directors meetings	Audit & Supervisory Board meetings	
Auditors	Hiroshi Miwa	Audit & Supervisory Board Member	—	13 (attended all meetings)*	13 (attended all meetings)*	23,433
	Toya Kawabe	Audit & Supervisory Board Member	—	18 (attended all meetings)	19 (attended all meetings)	13,828

	Name	Current position and responsibilities	Important positions concurrently held outside the company	Attendance in 2018		Number of shares owned
				Board of Directors meetings	Audit & Supervisory Board meetings	
External Auditors & Independent Officers	Toshihiko Oinuma	Auditor	Lawyer, Patent attorney	18 (attended all meetings)	19 (attended all meetings)	113
	Ichiro Wakita	Auditor	Certified public accountant	18 (attended all meetings)	19 (attended all meetings)	0
	Yu Okazawa	Auditor	—	13 (attended all meetings)*	13 (attended all meetings)*	264

Reasons for the appointment	Advisory bodies for the Board of Directors in which they are members (as of May 2019)			
	Designation Advisory Committee	Compensation Advisory Committee	M&A Advisory Committee	Governance Advisory Committee
Masaaki Tanaka has been engaged in the management of Mitsubishi UFJ Financial Group, Inc. for many years. He has also served as President and Director and in other positions at a U.S. financial institution, and has abundant international experience as a business manager.	●	—	●	●
Tado is the first president of Nippon Paint Holdings who is from a Group company. After becoming the president in April 2015, he realized the expansion of our overseas business through the acquisition of a US construction paint company as a subsidiary and other initiatives. Tado is leading the promotion of the medium-term management plan, N-20.	—	—	●	●
Since he joined the company, Minami has consistently worked in the finance/accounting area. He has also been in charge of IT, procurement, administration, engineering, and other areas in recent years to promote the improvement of management efficiency from a comprehensive perspective. Minami realizes the smooth transition to IFRS in 2019.	—	—	●	—
Shirahata was originally an engineer and spearheaded the domestic business restructuring project completed in April 2015. Having served as the president of two affiliates, he also has broad experience as a manager.	—	—	—	—
Nagasaka reformed the Group's cost structure for raw materials as the responsible person for raw materials procurement and also strengthened the Europe business while working for a German affiliate. He now promotes initiatives for "work style reforms and CSR management" as Division Director of Human Resources & Corporate Administration.	—	—	—	—
As the representative of the joint venture partner in Asia, Goh helped Nippon Paint achieve the largest share in Asia. He became a director of Nippon Paint Holdings in December 2014 and contributed to the revitalization of Board activities.	●	●	●	●

Reasons for the appointment	Specialty and background					Advisory bodies for the Board of Directors in which they are members (as of May 2019)			
	Legal	Financial	Governance Advisory Committee	M & A	IT	Designation Advisory Committee	Compensation Advisory Committee	M&A Advisory Committee	Governance Advisory Committee
With a career of more than 40 years as a lawyer, Hara has dealt with many corporate legal cases. He has also been involved in a large number of cross-border M&As and enjoys high reputation in foreign countries as well.	●	—	—	●	—	●	—	—	●
Tsutsui has served as a director, president, vice president, etc. in Nomura Securities, JASDAQ Securities Exchange, and LIXIL Group. With broad experience as a manager, he also has a profound knowledge of M&A and IR.	—	●	—	●	—	—	●	—	—
Morohoshi is an IT specialist with a career of more than 40 years. Having served as the president of IT companies such as NCR Japan and Yaskawa Information Systems, he is also experienced as a manager.	—	—	●	—	●	●	—	—	●
Kaneko has worked actively in life science and various other fields and served as a director, etc. of companies in Japan and overseas. He also served as a member of the advisory committee of Stanford Graduate School of Business in the United States.	—	●	—	●	—	—	●	—	—
Nakamura has held executive positions including a director in financial institutions, such as banks and securities firms, in Japan and overseas. He has over 30 years of work experience as an M&A adviser and financing expert.	—	●	—	●	—	—	●	●	—

Reasons for the appointment	Major career records
Miwa was originally an engineer in the industrial coatings field and became the president of a company related to industrial coatings. He has also been engaged in the transition to a holding company system and consolidation of joint ventures in the Asia region as a director of Nippon Paint Holdings.	<p>April 1982    Joined the company</p> <p>June 2013    Senior Executive Officer, Director of the Board</p> <p>April 2015    Representative Director and President of Nippon Paint Industrial Coatings Co., Ltd.</p> <p>March 2018    Audit &amp; Supervisory Board Member (to the present)</p>
Kawabe has mostly worked in the sales field. As an executive officer of Nippon Paint Holdings and General Manager of the Corporate Planning Department, he was involved in the transition to a holding company system and consolidation of joint ventures in the Asia region to contribute to the establishment of the current Group structure.	<p>April 1979    Joined the company</p> <p>April 2009    General Manager of the Corporate Planning Department</p> <p>April 2012    Senior Executive Officer</p> <p>June 2016    Audit &amp; Supervisory Board Member (to the present)</p>

Reasons for the appointment	Specialty and background		
	Legal	Financial	Global business
Oinuma is a lawyer and patent attorney and also admitted to practice in New York State, the US. He also served as a visiting professor of a graduate school as an expert of intellectual property laws and is familiar with engineering fields as well.	●	—	—
As a certified public accountant working for a major auditing corporation, Wakita has audited financial statements and internal control of listed companies and also been engaged in human resource development. He also has work experience in a car manufacturer.	—	●	—
Okazawa has mostly worked in the international field in Shiseido and served as General Manager of the China Business Department and General Manager of the International Sales Department. He is also engaged in corporate management as a director and executive officer.	—	—	●

\* For the Directors and Audit & Supervisory Board Members who were appointed at the 193th General Meeting of Shareholders held on March 28, 2018, attendance at the Board of Directors meetings and Audit & Supervisory Board meetings held after the appointment is shown.

## Basic Approach to Corporate Governance

Nippon Paint Holdings Group is continuously committed to improving and enhancing corporate governance for the establishment of a management mechanism that can respond to changes in the business environment in a prompt and proper manner, as well as for the implementation of transparent management, in order to achieve sustainable growth and medium- and long-term increases in its corporate value through the practice of the management philosophy. Our basic approach to corporate governance, its framework, and the administrative guidelines are outlined as the "Corporate Governance Policy" in the following page of our website.

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

## Corporate Governance Structure

Nippon Paint Holdings has adopted a "Company with Audit & Supervisory Board" system and introduced an "Executive Officer" system. The corporate governance structure is illustrated in the Corporate Governance Organizational Chart below.

## Board of Directors

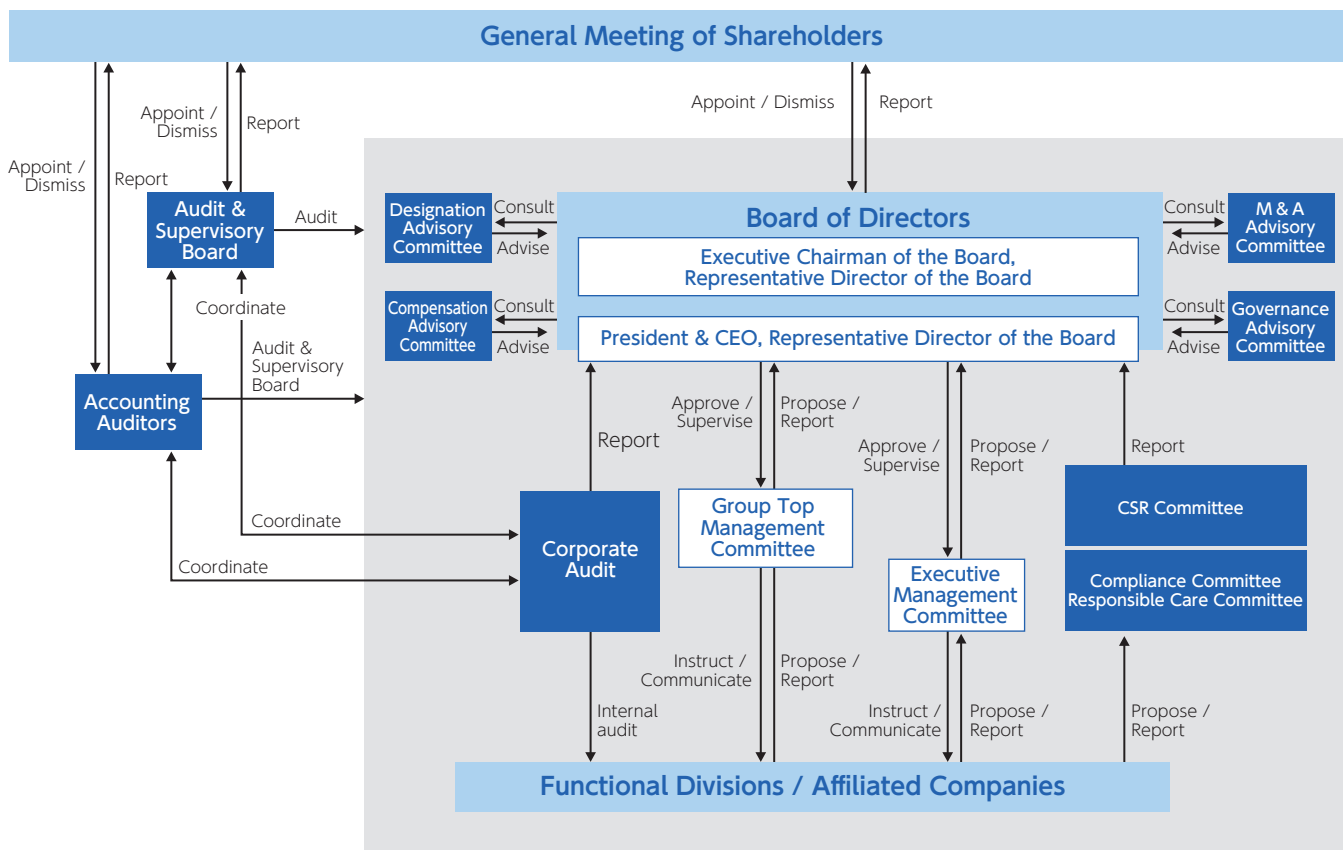
The Articles of Incorporation stipulate that the Company shall have no more than 11 directors. Our Board of Directors is composed of executive directors, independent directors, and non-executive directors, who are selected from among people from both Japan and overseas and from both inside and outside the Group. The current Board of Directors comprises 11 members in total (as of May 1, 2019), five of which are independent directors.

The Board of Directors oversees business execution by directors and meets once a month, in principle, to deliberate and make decisions on matters prescribed in the Companies Act, as well as other important management issues, chaired by the Chairman of the Board.

As advisory bodies to the President, a Group Top Management Committee and an Executive Management Committee have been set up to deliberate on the matters to be submitted to the Board of Directors for decisions on business execution in advance.

Directors or executive officers or other persons equivalent thereto of Nippon Paint Holdings are sent to key affiliates in Japan and overseas as directors to ensure compliance with our management policy.

### ▼ Corporate Governance Organizational Chart (as of May 1, 2019)



## Policy and Procedures for the Appointment and Dismissal of Top Management Executives and the Designation of Candidates for Directors and Audit & Supervisory Board Members

In our policy, the Board of Directors will appoint the Representative Director of the Board and executive officers (hereinafter "top executives") and designate candidates for directors and audit & supervisory board members from among those who can contribute to the sustainable growth of our Group and the medium- and long-term increases in its corporate value and have diverse experience, a good track record, deep insight, advanced expertise, and other features that are suitable to serve as a top executive or director/audit & supervisory board member. The top executives and candidates are selected and appointed from among people from both Japan and overseas and from both inside and outside the Group regardless of nationality or sex.

We have established Designation Advisory Committee chaired by an independent director, in which at least half of the members are independent directors, as an advisory body for the Board of Directors. The committee makes deliberations based on the above-mentioned policy and then gives advice concerning the appointment and dismissal of top executives and candidates for directors and audit & supervisory board members to the Board of Directors.

When appointing and dismissing top executives, the Board of Directors will consider the degree of their growth as top executive personnel in the management personnel development system, the evaluation of their performance in important executive duties. Meanwhile, when designating candidates for independent directors and independent audit & supervisory board members, the Board of Directors will take procedures to appoint the persons that meet the "Criteria for Judging Independence of Independent Officers" stipulated by it.

When the Board of Directors appoints President, Representative Director of the Board, who is the chief executive officer, a person who has rich experience and a good track record in the field of corporate management and can exercise abilities that are suitable for the position at a high level and realize the management vision will be appointed after deliberations based on advice from the Designation Advisory Committee and the plan on successors. If President, Representative Director of the Board falls under any of the following cases and it is found reasonable to dismiss him/her from an objective perspective, he/she will be dismissed based on advice from the Designation Advisory Committee and after sufficient deliberations by the Board of Directors.

- When he/she violates laws, the Articles of Incorporation, etc. and is considered to have significantly damaged the corporate value of the Nippon Paint Holdings Group
- When he/she has substantial difficulty in performing his/her duties
- When it has been revealed that he/she fails to meet the requirements in the appointment criteria

## Method of Determining the Remuneration of Directors and Audit & Supervisory Board Members

We have established Compensation Advisory Committee chaired by an independent director, in which at least half of the members

are independent directors, as an advisory body for the Board of Directors. The annual amount of the remuneration of directors will be deliberated upon in the Compensation Advisory Committee and decided by the Board of Directors based on advice from the committee.

After April 2019, the remuneration of our directors (excluding independent directors) is composed of job-based salary, performance-based salary, and long-term incentive salary, and the remuneration of independent directors is composed of job-based salary and long-term incentive salary. Fixed job-based salary is paid for each position based on the role and responsibility. The base amount of the performance-based salary is set to be 40% to 45% of the total remuneration according to the position, and the actual amount of the performance-based salary annually varies from 0% to 160% of the base amount depending on the consolidated performance. As the long-term incentive salary, restricted stock compensation is granted. When the restricted stock is granted to directors, monetary claims are supplied as compensation and the annual total will be no more than 600 million yen (including the annual amount of no more than 200 million yen for independent directors). The specific period of payment to the directors and the allocation will be determined by the Board of Directors. The share-remuneration-type stock option is scheduled to be abolished when the employees assigned overseas who are to be granted the option return home and the grant is completed.

The remuneration of audit & supervisory board members including independent audit & supervisory board members is composed of job-based salary only in consideration of their job content. No performance-based salary or long-term incentive salary is introduced for those positions.

## Audit & Supervisory Board Members' Audits

Audit & supervisory board members attend the Board of Directors and other important meetings to fulfill their functions to audit the legality of business execution by directors, the effectiveness of the established internal control system, the soundness of the process to prepare financial information, etc. and also meet the Representative Director of the Board in a regular manner to confirm the management policy and exchange opinions on the issues to be addressed by the company, risks involving the company, important matters on audits, and other subjects.

The Audit & Supervisory Board currently consists of five members (as of May 1, 2019), including three independent audit & supervisory board members with no special interest in Nippon Paint Holdings. Specifically, a lawyer and a certified public accountant who can conduct audits from a professional viewpoint, as well as a person with broad international experience and administrative experience, have been designated as the independent audit & supervisory board members.

The independent audit & supervisory board members attend the Board of Directors meetings to fulfill their functions to audit the legality of business execution by directors while conducting business audits on an as-needed basis. They also receive reports on the implementation of audits of departments and affiliates in the Audit & Supervisory Board meetings and give opinions on the reports. To ensure smooth execution of the audit & supervisory board members' audits, more than one person is deployed as dedicated staff.

## Internal Audit

We have set up the Corporate Audit Department in charge of internal audits, which reports directly to the President, with 15 members (who also serve in other positions). The Corporate Audit Department conducts internal audits to improve and enhance the internal control of Nippon Paint Holdings and Group companies and reports the results to the President, officers

## Promotion of Global Audits

Nippon Paint Holdings Group has grown to be a corporate body with many Group companies in Japan and overseas. While the Corporate Audit Department is responsible for internal audits in our Group, it is not realistic for the department to ensure all necessary skills for global audits alone. Such audits also require a full understanding of laws, regulations, business practices, and languages in the respective regions. Accordingly, we consider that coordination with regional headquarters and domestic operating companies is indispensable and conduct audits with an auditing system established based on the global governance system.

More specifically, the Corporate Audit Department supports the audits conducted by regional headquarters in Asia and the Americas, as well as the audits conducted by domestic operating companies in Europe. In either region, the department directly conducts audits in key sites (companies). In the meantime, our

in charge of management, heads of the audited departments and audit & supervisory board members. In case of any problem in the results of an internal audit, the department seeks to solve it in consultation with the head of the department in charge through follow-up actions for the relevant department.

Group companies and regional headquarters in Asia and the Corporate Audit Department actively share information via video conferences and other means, as well as various data and visualized materials related to safety and other issues on the network, and have thereby established a system that enables timely information exchanges. In addition, by ensuring a channel to report accidents and disasters in a speedy manner and improving the quality of communication, we can now prepare management reports effectively. We share information on accidents and disasters in the Group to help prevent their recurrence.

Furthermore, the results of the audits conducted by the Corporate Audit Department are shared with regional headquarters and domestic operating companies to facilitate continuous improvement activities in the targeted sites as well as subsequent support activities.

### ▼ Global Audit System in 2018



## Progress in the Implementation of Global Audits

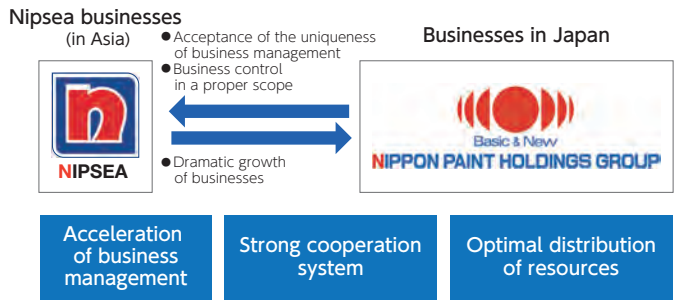
The Corporate Audit Department selects the companies to be audited in accordance with the total of the scores given to evaluation items including external factors such as revision of domestic and international laws on safety, the environment, etc., internal factors such as the performance of operating companies on safety, environmental, and other issues, and the degree of importance based on the sales volume. In 2018, Nippon Paint (Thailand) Co., Ltd. in Asia and Dunn-Edwards Corporation in the Americas were audited on safety and environmental issues. On the sites, the implementation of measures to address static

electricity (e.g. the grounding method) and the status of security during operations (e.g. the operation of measures to prevent disasters) were especially checked on the safety aspects while whether or not drainage or exhaust has caused any significant environmental impact or other problems was assessed on the environmental aspects. Those audits identified no significant deficiency. We will continue such risk-based audits and also share the audit results in the Group to raise the safety and environmental levels of the whole Group.

## Refinement and Global Development of the NN Model

Our Group has developed the Nipsea businesses in cooperation with Wuthelam, our partner in Singapore, in Asia for more than 50 years. In terms of governance, we have accepted the uniqueness of the business management of Nipsea and controlled the businesses without hindering judgments on business management or the speed of business development, which has led to the dramatic growth of the Nipsea businesses. We believe that we can achieve optimal distribution of management resources and accelerate the management speed in each region by reviewing and refining this unique management model called "NN model" in line with the times and business size and introducing it globally along with the management model of Nipsea, which is a precedent example of group control developed across multiple countries. By enhancing the monitoring and reporting of our Asia businesses, which are becoming more important than ever before, we work to improve the accuracy of judgments on business management in the Group.

### ▼ NPHD Group



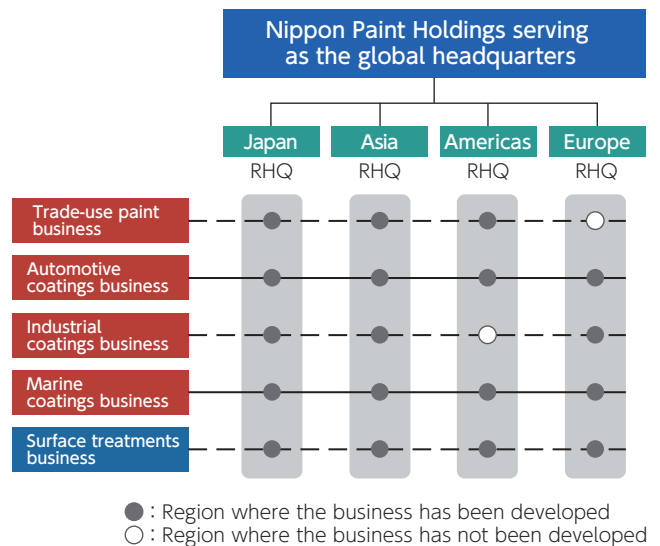
## Promotion of Global Governance

Nippon Paint Holdings started to review the authority and responsibility for governance and management on regional and business bases in 2017. Based on the review, we designed a new regional headquarters system (RHQ system) with Nippon Paint Holdings serving as the global headquarters and launched a project to establish the Americas RHQ system first in February 2018.

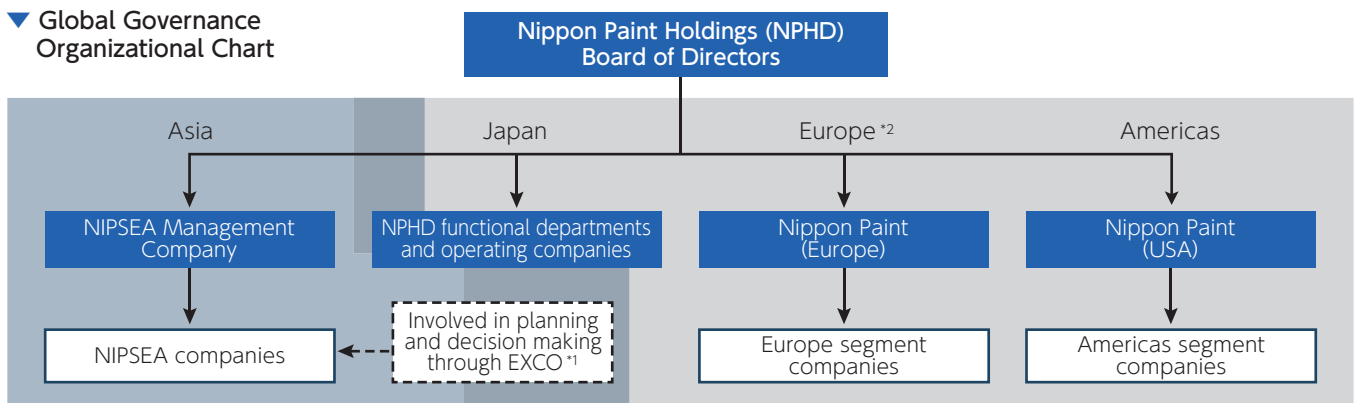
The Americas RHQ system aims to enhance the financial, risk management, and business planning functions that now cover the Americas as a whole. We developed new regulations on authority and responsibility and started to operate the Americas RHQ system in 2019. With this initiative, we seek to enhance proper governance based on local laws, business customs, etc. and achieve the prompt and accurate identification of growth opportunities and risks in each region, the acceleration of the decision-making process, and the streamlining and concentration of resources from the perspective of overall optimization in the region.

We are continuously considering the introduction of the restructuring of the RHQ system, as currently promoted in the Americas, into other regions in sequence. We will continue to develop global governance and strive to improve the transparency and efficiency of business activities as measures that underlie our sustainable growth on a global scale.

### ▼ The state that the "region x business matrix management" aims to be



### ▼ Global Governance Organizational Chart



■ Scope developed based on the Business Management Control Policy

■ Scope where the channels for advice and reports had been already developed

\*1 EXCO: Executive Committee, a decision-making meeting in NIPSEA

\*2 Disclosed segments are included in "Others."

## Adherence to Compliance

All officers and employees in the Nippon Paint Holdings Group act in pursuit of the state that the Group should become based on the compliance book, which is action guidelines for the companies.

### Action Guidelines

Nippon Paint Holdings has prepared a compliance book that clearly defines action guidelines to ensure compliance and asks all Group employees to become familiar with the content and act in line with the book. From the perspective of compliance as well, we act based on the new management philosophy established in January 2018 and in pursuit of the state that the Group should become.

### Positioning of Compliance and Establishment of the Structure

Based on the idea that compliance is a precondition for enterprise continuity, Nippon Paint Holdings Group has set up Compliance Committee chaired by the director in charge of the Division of Human Resources & Corporate Administration under the CSR Committee chaired by President. Composed of the heads of our functional departments and the representatives of our main subsidiaries in Japan, the Compliance Committee specifies the compliance-related issues to be tackled by the whole Group, implements relevant initiatives, manages the progress, verifies the effect, and implements the PDCA of monitoring while also sharing information on the compliance activities performed independently by domestic subsidiaries and giving support, advice, etc. to them. For our principal overseas subsidiaries in Asia, the Americas, and Europe, we promote collaboration between their compliance departments to improve our compliance outside Japan.



Compliance guidebook revised in 2017

### Compliance Training

We organize a CSR Committee meeting annually at the end of each fiscal year and a Compliance Committee meeting quarterly. In those meetings, we set subjects to be tackled by the whole Group and conduct improvement activities to reduce risks. In the previous term, we managed working hours in a proper manner, organized harassment workshops for all Group employees, ensured the dissemination of the compliance book, and conducted a test to check the understanding of the book for Group employees. We also published five issues of a compliance e-mail newsletter with focus on information-related subjects for Group employees while considering its connection with the compliance book.

In Nippon Paint Holdings, in addition to compliance training for all employees, training activities for specific departments are implemented according to their duties in order to ensure compliance.

We have organized a seminar on compliance and other subjects for the officers of our Group every year since 2008 and expanded it to also target general managers in our Group companies in 2018 to ensure that the top management and other management staff members who support it are aware of compliance.

In fiscal 2018, we organized the following compliance-themed training programs:

1. Departmental training on the compliance book for Group employees
2. Compliance seminar for officers in our Group (a presentation of an external lecturer on the mechanism that causes dishonest acts peculiar to Japan)
3. Workshops on the Subcontracting Act for the heads of color-mixing sites
4. Group training for new employees, mid-level employees, and employees newly appointed in key positions (compliance, information management, and basics of contracts)
5. e-Learning on GDPR and other subjects related to global issues

### Prevention of Corruption

We recognize the prevention of corruption as an important subject and continuously provide e-Learning programs on the prevention of bribery for those who are newly assigned to compliance promotion work and jobs related to overseas issues in Group companies.



## Establishment of a System That Can Respond to Risks and Crises

We have unified risk management, which prevents risks, and crisis management, which addresses risks that have occurred, in each Group company to improve the quality of our risk management activities.

### Internal Reporting System

Nippon Paint Holdings has established internal contacts and external contacts (law firms) for internal reporting that guarantee anonymity, as well as a system to allow direct reporting to audit & supervisory board members, to have in place a system that enables officers and employees of our Group to report any non-compliance, such as corruption, violation of the competition law, and infringement of human rights, or its possibility within the Group without suffering any disadvantage while also working to familiarize employees with the system. When a report is received, we investigate it while making maximum efforts to avoid the whistleblower to be identified. If any problem is found as a result of the investigation, we promptly take corrective actions. The number of reports made under our internal reporting system in Japan during this term is as mentioned below:

#### Breakdown of the internal reports

- Harassment ..... 7
- Dishonest business practices and violation of rules ... 2
- Unfair treatment ..... 1
- Other ( complaints about the work environment ) ... 3

**Total: 13**

### Commitment to Risk Management

In our Group, the Group companies separately conduct risk management in accordance with the features of their businesses, their organizational structure and culture, and changes in the internal and external environment as a general rule. For the risks related to the whole Group, we have a structure to take measures to address them based on discussions on an as-needed basis under the initiative of our directors and department heads.

We are also committed to crisis management especially in consideration of the high possibility of large-scale earthquakes in Japan, possible damage to companies and residents in the neighborhood in case of an accident or disaster due to the hazardous materials handled by many of our Group companies on a daily basis, our responsibility for supplying products to car manufacturers and other industrial product manufacturers, etc.

As part of the efforts, we drastically revised the regulations and procedures concerning crisis management in fiscal 2018. In addition, we are working to develop crisis management systems in our overseas subsidiaries to ensure that they can cooperate with us and take effective actions to address any crisis that has occurred on them.

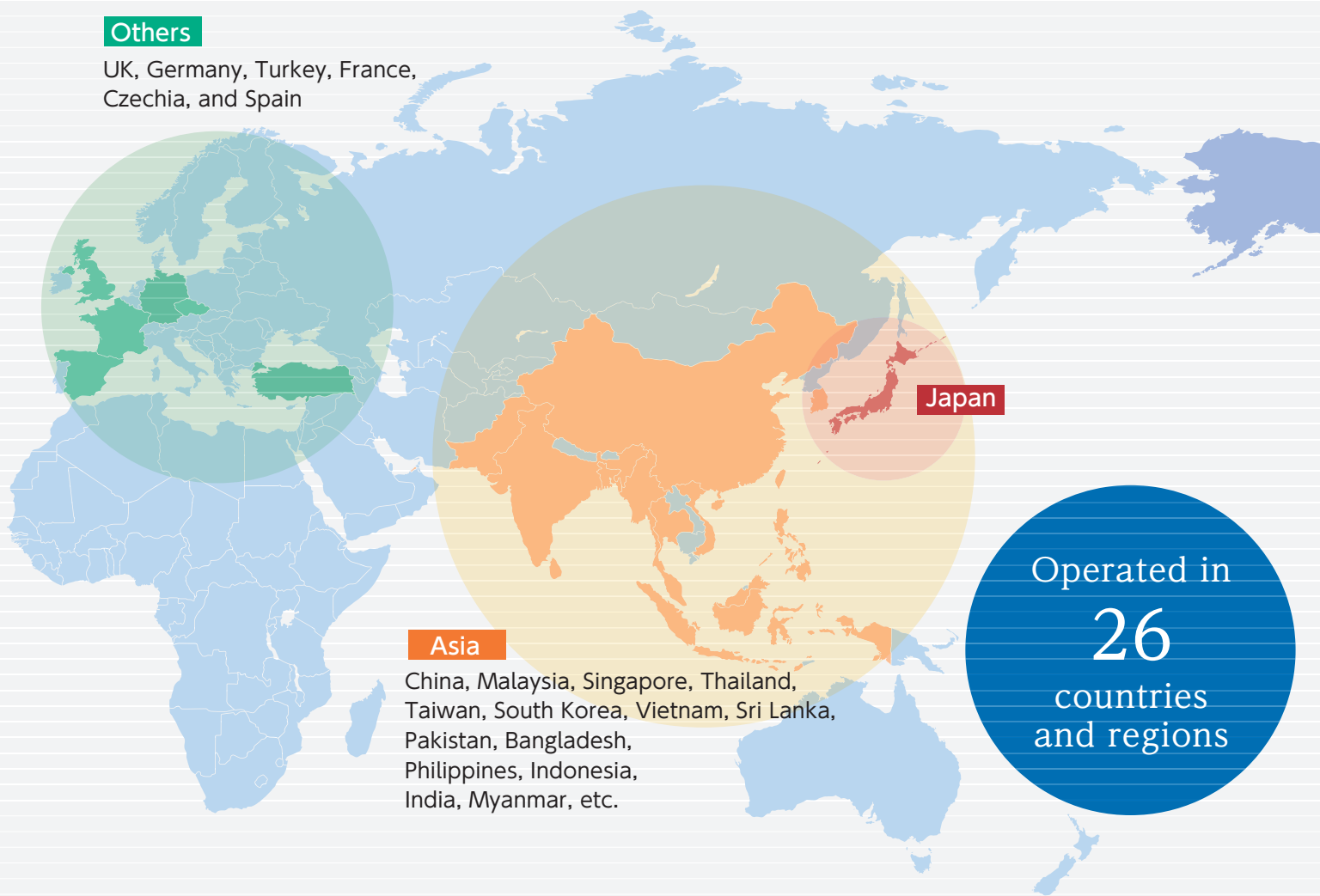
### Assumed risks on our businesses

		Examples of the risks
Risks regarding business development	(1) Risks of fluctuations in the market environment	Sluggish demand due to fluctuations in the market environment
	(2) Risks regarding the sales price trend	Fluctuations in sales prices
	(3) Risks regarding overseas activities	
	a. Exchange rate fluctuation risk	Exchange loss due to fluctuations in the foreign exchange market
	b. Risks associated with changes in political and economic conditions	Rapid changes in political and economic conditions
	(4) Risks regarding the trends of raw materials	
	a. Raw material procurement risks	Interruption of the supply of raw materials due to the suspension of the production by the suppliers and other reasons
	b. Risks of fluctuations in the prices of raw materials	Changes in the prices of raw materials such as petroleum and naphtha
Risks regarding laws and regulations	(1) Risks regarding product quality assurance and product liability	Defects and quality problems of products
	(2) Risks regarding intellectual property rights	Infringement/leakage of intellectual property rights, disputes with third parties regarding intellectual properties
	(3) Risks regarding response to environment-related laws	Tightening of laws and regulations concerning chemical substances, health and safety, etc. that exceeds expectation
Risks of natural disasters and accidents		Suspension of production due to large-scale natural disasters, fire, unforeseen accidents, etc.

# Global Business Development of the Nippon Paint Holdings Group

## Others

UK, Germany, Turkey, France, Czechia, and Spain



## Asia

China, Malaysia, Singapore, Thailand, Taiwan, South Korea, Vietnam, Sri Lanka, Pakistan, Bangladesh, Philippines, Indonesia, India, Myanmar, etc.

## Japan

Operated in  
**26**  
countries  
and regions

Japan: Nippon Paint Holdings and its consolidated subsidiaries  
18 in total  
Number of Employees: 3,223

Asia: Consolidated subsidiaries 97  
Number of Employees: 14,287  
Operated in 15 countries and regions including China, which is the main domain,  
as well as Malaysia, Singapore, and Thailand

Americas: Consolidated subsidiaries 10  
Number of Employees: 2,492  
Operated in the United States and the three other countries of Canada, Mexico, and Brazil

Others: Consolidated subsidiaries 10  
Number of Employees: 400  
Operated in six countries including the United Kingdom, Germany, and Turkey

## Corporate Profile

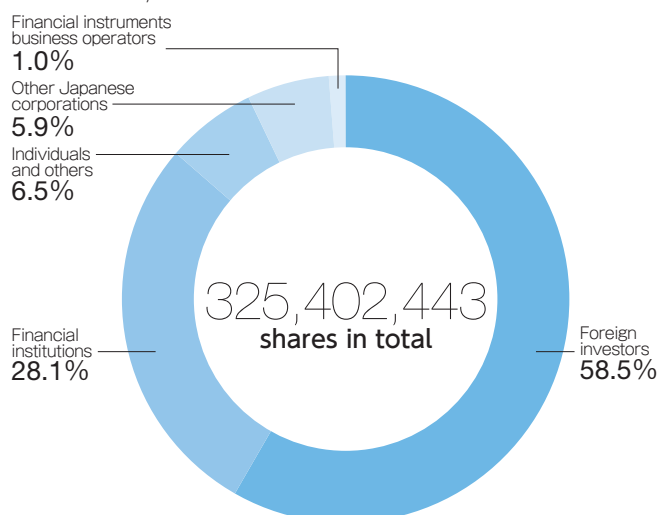
Head Office:	Nippon Paint Holdings Co., Ltd. 2-1-2 Oyodo Kita, Kita-ku, Osaka 531-8511 Tel: (+81) 6-6458-1111
Founded:	March 14, 1881
Capital:	78,862 million yen
Number of employees	210 (non-consolidated), 20,402 (consolidated) (as of December 31, 2018)
Fiscal year	From January 1 to December 31
General meeting of shareholders	March
Share unit number	00
Stock listing	Tokyo Stock Exchange
Securities code	4612
Accounting auditor	KPMG AZSA LLC
Shareholder registry administrator	Mitsubishi UFJ Trust and Banking Corporation Osaka Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation 3-6-3 Fushimi-machi, Chuo-ku, Osaka 541-8502

## Stock Information

Total number of authorized shares	1,000,000,000
Total number of issued shares	325,402,443
Number of shareholders	8,842

### ▼ Distribution by type of shareholders (ratio of the shares owned)

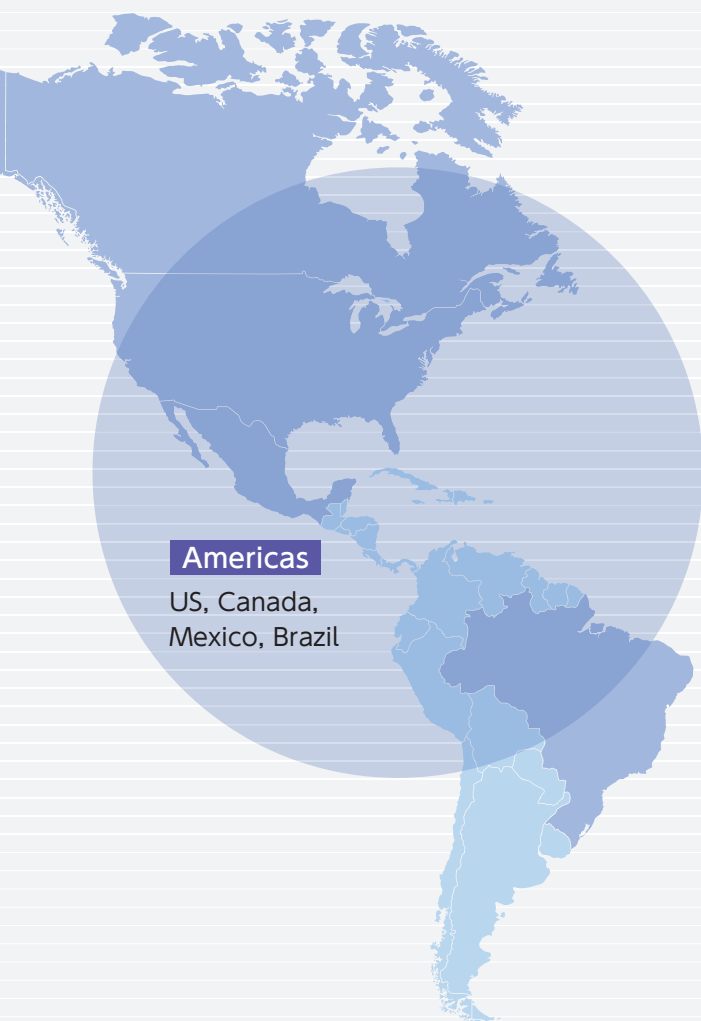
\* The treasury stock of 4,689,703 shares is included in "Individuals and others."



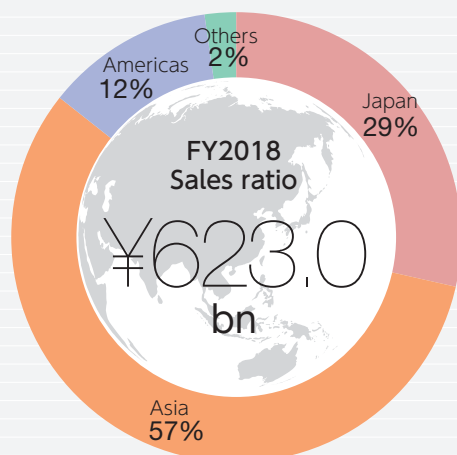
### ▼ Major shareholders

Name	Number of shares (thousand)	Shareholding ratio (%)
NIPSEA INTERNATIONAL LIMITED	126,906	39.57
HSB BANK PLC A/C 792827	14,474	4.51
NATIXIS	12,375	3.85
Nippon Life Insurance Company	10,817	3.37
Sumitomo Life Insurance Company	10,750	3.35
Sumitomo Mitsui Banking Corporation	9,999	3.11
MUFG Bank, Ltd.	7,133	2.22
Sumitomo Mitsui Trust Bank, Limited	7,053	2.19
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,652	2.07
The Master Trust Bank of Japan, Ltd. (Toyota Motor Account)	5,109	1.59

(Note) The shareholding ratio is calculated by subtracting treasury stock.



### Consolidated sales by region





Basic & New

**NIPPON PAINT HOLDINGS**

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

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