



KANSAI PAINT

2017

Corporate Report

Year Ended March 31, 2017

KANSAI PAINT CO.,LTD.

Profile

Established in 1918, Kansai Paint Co., Ltd. has grown into Japan's most progressive manufacturer in various fields related to coatings.

Today, the company enjoys a well-established position as one of the world's leading paint manufacturers.

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

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

Company Profile

Name:	Kansai Paint Co., Ltd.
Head office:	6-14, Imabashi 2-chome, Chuo-ku, Osaka 541-8523, Japan
Date established:	May 17, 1918
Capitalization:	25,658 million yen
Number of employees:	14,828 (consolidated)
Principal business lines:	Manufacturing and sale of paints Design, manufacturing, and sale of coating equipment Control and undertaking of painting work Design of color schemes
Corporate website:	http://www.kansai.co.jp/

Contents

Five-Year Summary of Selected Financial Data	01
A Message from the President	02
Management Philosophy and Vision	04
Board of Directors	06

Business Review

ALESCO at a Glance.....	08
Business Overview by Segment	10
Research and Development Operations	12
Product Focus	14

Environmental Activities

Policies on Environmental Conservation ...	16
Environmental Management	17
ALES ECO PLAN 2018	18
Materials Balance	20
Green Procurement and Supply Chain Management	21
Management of Chemical Substances	22
Environmental Conservation Activities	23

Social Activities

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

Financial Section	31
Directory	67



Corporate Brand

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

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

Five-Year Summary of Selected Financial Data (Years ended March 31, 2017, 2016, 2015, 2014 and 2013)

Consolidated Basis

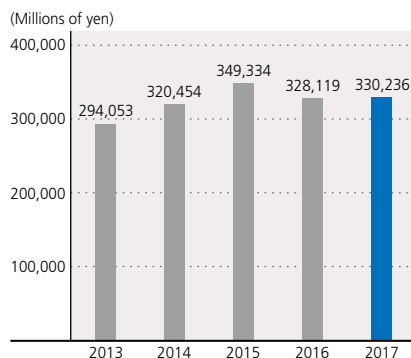
	Millions of yen					Thousands of U.S. dollars *1
	2017	2016	2015	2014	2013	2017
For the year:						
Net sales	¥330,236	¥328,119	¥349,334	¥320,454	¥294,053	\$2,943,542
Operating income	35,311	34,772	31,580	29,636	24,171	314,743
Income before income taxes and non-controlling interests	40,468	47,431	36,867	39,087	32,437	360,710
Net income attributable to owners of the parent	24,169	28,344	20,409	21,560	17,758	215,429
At year-end:						
Total assets	¥540,458	¥430,198	¥448,085	¥400,092	¥362,625	\$4,817,346
Net assets	296,165	293,903	303,627	258,016	222,798	2,639,852
						U.S. dollars *1
Per share amounts:						
Net income *2	¥93.16	¥106.41	¥76.61	¥80.91	¥66.62	\$0.83
Diluted net income *3	83.46	-	-	-	-	0.74

* 1: For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥112.19 to U.S.\$1.00, the exchange rate at March 31, 2017.

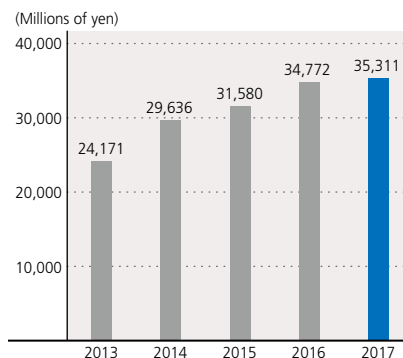
* 2: Net income per share is calculated based on the weighted average number of shares of common stock in issue during the year.

* 3: Diluted net income per share is not recorded for the fiscal years ended March 31, 2016, 2015, 2014 and 2013 because there were no dilutive shares during those fiscal years.

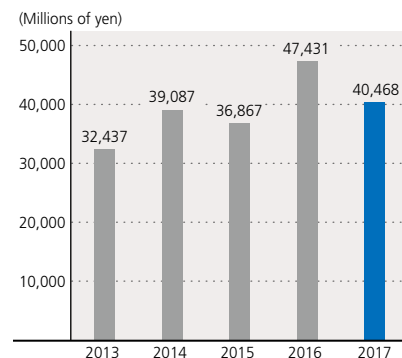
• Net sales



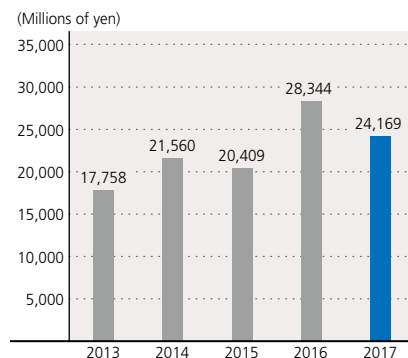
• Operating income



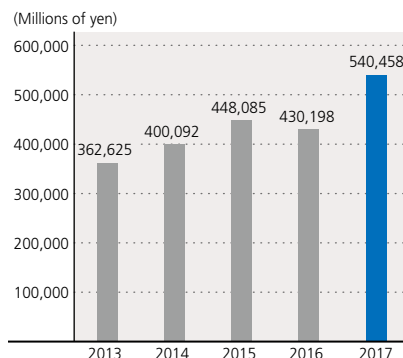
• Income before income taxes and non-controlling interests



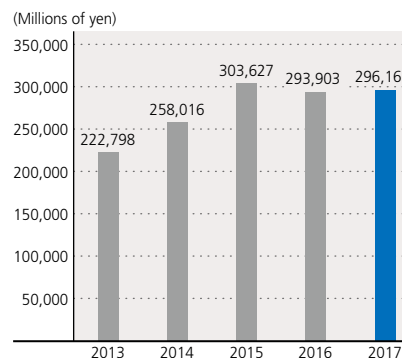
• Net income attributable to owners of the parent



• Total assets



• Net assets





To all of our stakeholders:

The Kansai Paint Group's management philosophy is to contribute to society by providing products and services that satisfy our customers.

The coatings business, the core business of the Group, is supported by customers in wide-ranging market sectors, including automobiles and other industrial products, buildings, structures, and ships. The basis and reason for the Group's existence is our mission to continuously increase the satisfaction of these customers, and we are committed to contributing to society at large by enhancing shareholder value and strengthening the business foundation through realization of ever-higher customer satisfaction.

Overview of the Fiscal Year Ended March 2017

Detailed figures on a consolidated basis for the fiscal year under review, fiscal 2016, ended March 31, 2017, are presented later in this report. To summarize, the Company achieved net sales of ¥330,236 million (US\$2,944 million), up 0.6% year on year, operating income of ¥35,311 million (US\$315 million), up 1.5%, and net income of ¥24,169 million (US\$215 million), down 14.7%, all on a consolidated basis. Annual dividends were ¥22 per share.

The global economy showed gradual recovery in the year under review, even amid concerns about the impact of economic policy trends in the U.S.

following the inauguration of the new administration, uncertainty about the outlook for emerging economies, and geopolitical risks. The Japanese economy remained on a moderate recovery path, supported by factors such as a pickup in capital investment.

The domestic business results of the Kansai Paint Group were affected by sluggish growth in demand for paints and coatings as a full-scale recovery in consumer spending failed to materialize, and sales declined year on year. At the same time, profit increased as a result of total cost reduction efforts.

In our markets outside of Japan, business performance in India improved substantially amid continuing growth in its economy. Elsewhere in Asia, however, business performance was weak as full-scale recovery in overall coatings demand failed to materialize because of weak automobile production in Thailand and Malaysia, among other factors, despite recovery in automobile production in China and signs of an economic upturn in Indonesia. Business results deteriorated substantially in Africa, reflecting an economic slump in South Africa and neighboring countries, a sharp increase in raw materials prices accompanying currency depreciation, and the occurrence of one-time expenses. In Europe, there were signs of recovery in business performance in Turkey. Overall sales in the Other Regions segment increased year on year, thanks to the contribution from a U.S. subsidiary consolidated in the year under review. In addition, overseas business operations as a whole were significantly affected by currency conversion. For these reasons, although overall overseas sales exceeded the prior-year level, profit declined year on year. A gain on the sale of fixed assets in India recorded in fiscal 2015 did not re-occur in fiscal 2016.

In addition, in March 2017 the Company acquired the shares of the Helios Group, a European coatings manufacturer, and made it a consolidated subsidiary. In February 2017, Kansai Plascon Africa Ltd., a consolidated subsidiary of the Company, acquired the shares of the companies comprising the Sadolin Paint Group, the market share leader in the coatings market in the East Africa Community.

Outlook for the Fiscal Year Ending March 2018

In the outlook for the global economy, despite concerns about the trend in U.S. economic and monetary policies under the new administration, uncertainty surrounding the economic outlook for China and other emerging countries, and geopolitical risks, expectations are for continuing strong economic growth in India, steady economic recovery in the U.S., and gradual economic recovery in Europe and the

ASEAN region.

In Japan, moderate economic recovery is expected to result from the effects of government policies amid continuing improvement in the employment and personal income environment. However, there are concerns about delayed economic improvement in some sectors and downward pressure on corporate earnings resulting from fluctuations in raw materials prices.

In these circumstances, the Kansai Paint Group will focus its capabilities on achieving the key policies in the three-year mid-term management plan—accelerated globalization, increased profitability, and strengthening of the group management foundation—and engage in business activities to further improve business results.

For the fiscal year ending March 31, 2018, (fiscal 2017), we have set targets of net sales of ¥405,000 million (US\$3,610 million), operating income of ¥43,000 million (US\$383 million), and net income of ¥30,000 million (US\$267 million), all on a consolidated basis. We plan to pay annual dividends of ¥27 per share for fiscal 2017.

Management Strategies

The Group has instituted a three-year mid-term management plan that began in fiscal 2016 and is engaging in business activities based on the following key policies.

1. Accelerated Globalization

Strengthen the competitiveness of overseas businesses, focused on emerging economies with high growth prospects, by meeting market needs and optimizing cost, quality, and functions. Solidify the position of existing businesses and further strengthen the Group's presence in overseas markets. In addition, increase the overseas business contribution to consolidated business performance by accelerating business expansion through entry into untapped regions and market sectors, including markets in developed countries offering prospects for stable growth. Accelerate entry into new businesses and strengthening of competitiveness by effectively utilizing product lines, business expertise, and other assets acquired through expansion into various market sectors and regions.

2. Increased Profitability

Pursue further profit growth overseas through business scale expansion and efficiency improvement. In Japan, strengthen business competitiveness, maintain and increase market share, and boost profitability through productivity improvement from total cost reduction attained through optimization of the organizational structure and business processes and the resulting increase in competitiveness.

3. Strengthening of the Group Management Foundation

To support acceleration of globalization and contribute to its further acceleration, establish and implement headquarters functions to control the Kansai Paint Group and serve as a management foundation for increasing collaboration and providing benefits to Kansai Paint and its Group companies. Through implementation of the headquarters functions, further strengthen the Group companies and businesses in each region and create synergies and maximize Group profit through sharing and effective utilization of enterprise resources within the Group.

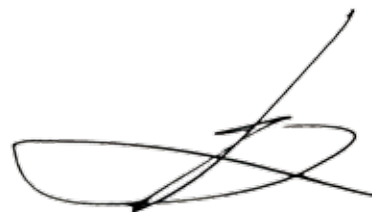
Closing Thoughts

Kansai Paint celebrates its centennial anniversary in May 2018. To prepare for the Group's further development and growth in its second century, Kansai Paint aspires to become a truly global company that competes and thrives on the world stage by providing highly competitive products and services in markets all over the world.

As part of this effort, we will accelerate business innovation by implementing best practices activities involving groupwide sharing of Group company business models, open-minded study of their benefits, and their further improvement. Engaging in best practices activities requires understanding of the standpoints, characteristics, cultures, and other aspects of diverse peoples and regions and building relationships of trust by showing respect for one another. Accordingly, we will strive to foster a corporate culture of recognizing and respectfully studying the good points of others and making up for one another's deficiencies.

By fostering such a corporate culture, we aim to sustain our business activities indefinitely by building even stronger relationships of trust with all of the Group's stakeholders, including customers, business partners, local communities, and shareholders, and building trust and confidence in the Group.

We hope that you find this corporate report a useful source of information about the business activities of the Kansai Paint Group.



Hiroshi Ishino
President and Representative Director

Management Philosophy and Vision

Corporate Mission

(Established January 1967)

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

Management Philosophy

Our corporate mission is to contribute to society by providing eco-friendly and value-added coating materials and services that satisfy our customers.

To realize new innovations in coating materials, we have defined our philosophy so that our employees are eager to

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

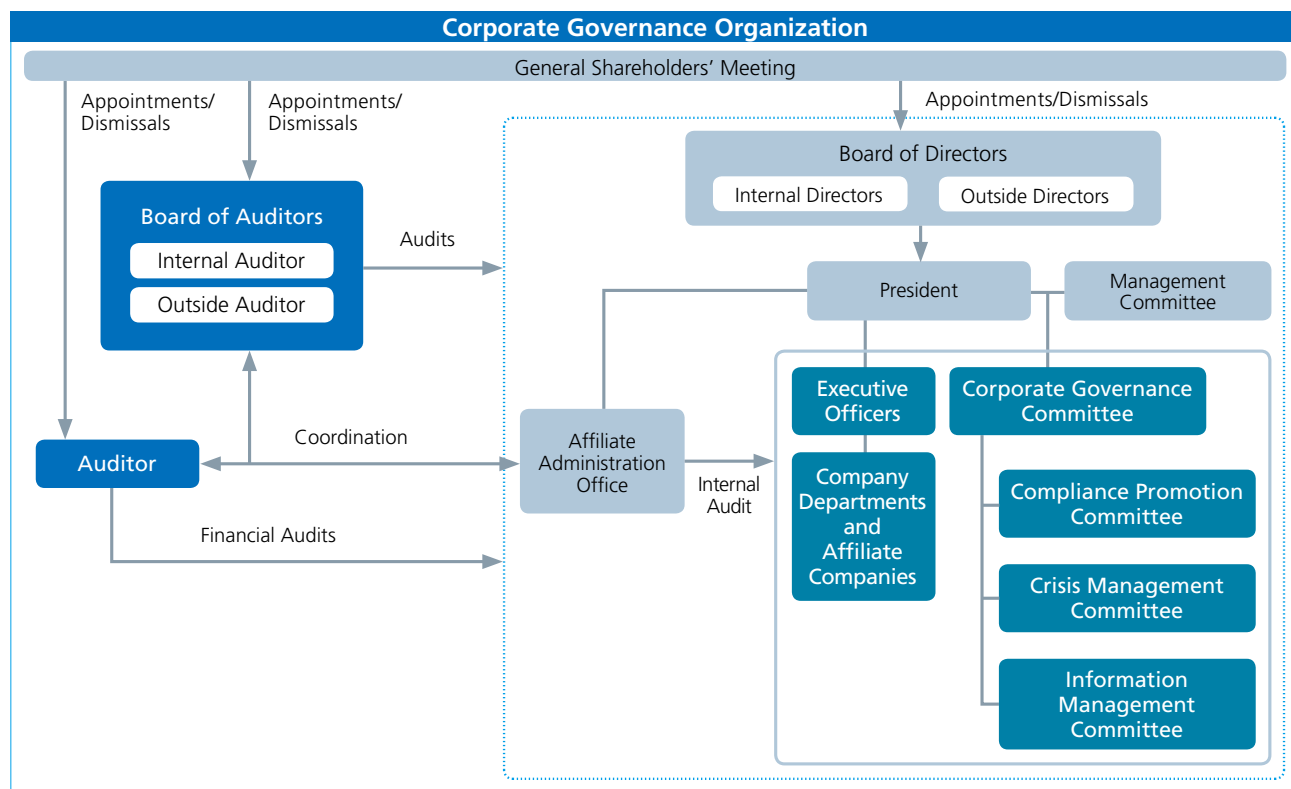
The Kansai Paint Concept of Corporate Social Responsibility

On the basis of harmony between business activities and environmental conservation, Kansai Paint aims to be an industry leader that ranks among the world's most trusted companies by developing coatings that are markedly superior in quality, performance, new functionality, and cost

performance while at the same time pursuing global business development with keen awareness of the importance of compliance and risk management. We will contribute to the development of a sustainable society through these sound, continuous business activities.

Corporate Governance Organization (As of June 2017)

The corporate governance organization shown below ensures management transparency and soundness.



Engagement with Stakeholders

In the Kansai Paint Policy and Initiatives with Respect to the Corporate Governance Code, established on September 25, 2015, the Company has expressed the following stance on the nature of engagement with stakeholders.

Kansai Paint Group	Response to Stakeholders (Stance)
Employees	• Realization of comfort and fulfillment for employees • Maintenance of a safe, worker-friendly workplace environment • Respect for character and individuality and fostering of a climate that rewards willingness to take on challenges • Support for character and skills development through work
Customers	• Provision of products with excellent cost performance that match customer needs • Provision of safe products and services that deliver high added value and have low environmental impacts
Industry groups	• Engagement in active interchange and information exchange with the industry as a member of the paint and coatings industry • Active contribution to the development of voluntary control regulations for the reduction of hazardous substances
Business partners	• Good-faith dealings with all business partners • Establishment and observance of fair and proper trading conditions
Shareholders and investors	• Increase of corporate value from sustained growth through strengthening of existing business in Japan, development of new businesses, and expansion of overseas businesses • Accurate disclosure of useful information relating to business activities
Local communities	• Co-existence and co-prosperity with society • Active interchanges with local communities
Global environment	• Products friendly to the global environment • Autonomous, proactive environmental conservation initiatives

Compliance Promotion

To comply with laws and regulations and fulfill our corporate social responsibility,

Kansai Paint has established the Code of Ethics, Code of Conduct and Code of Behavior and clearly set out conduct guidelines that make “profit and fairness” the cornerstone of corporate activities. We also distribute a corporate ethics

handbook and continuously provide compliance education according to the situation. Furthermore, we have set up a consultation desk for reporting compliance violations and appropriately deal with any reports through accurate information collection and disclosure.

Risk Management

The Company established the Crisis Management Committee for the purpose of preventing and responding to risks that may have a significant impact on the business and has formulated the Risk Management Guidelines and Risk Management Manual and is developing a risk management system to respond to various potential risks.

In addition, the Company has prepared the Action Manual to prepare against identified risks taking into consideration the nature and characteristics of the business and constantly strives to operate and maintain a risk management system to rapidly obtain information about crises, whether in Japan or overseas, ascertain the situation, and take appropriate response measures.

Information Management

To ensure the legality of the business activities of Group companies and promote efficient operation, the Company properly handles and collects information necessary for the conduct of business activities and correctly records and retains the results in accordance with laws and regulations. To increase the transparency of business activities, the Company endeavors

to disclose in an accurate and timely manner matters stipulated by laws and regulations, important information concerning business management, and information useful to society relating to business activities except for information recognized as trade secrets under normal social conventions.



Kunishi Mouri
Representative Director

Hiroshi Ishino
President, Representative Director

(As of June 29, 2017)

President

Hiroshi Ishino

Directors

Kunishi Mouri
Masaru Tanaka
Koji Kamikado
Hidenori Furukawa
Jun Senoo
Shinji Asatsuma
H. M. Bharuka

Outside Directors

Shigeaki Nakahara
Yoko Miyazaki

Corporate Auditors

Akira Aoyagi
Hirokazu Hayashi
Mineo Imamura
Seiichiro Azuma

Business Review

- 08** ALESCO at a Glance
- 10** Business Overview by Segment
- 12** Research and Development Operations
- 14** Product Focus

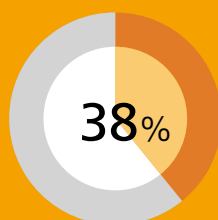
Automotive Coatings

Main Products and Services

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

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

Product Sales Ratio



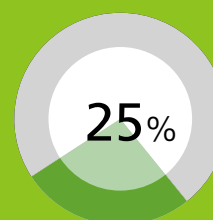
Industrial Coatings

Main Products and Services

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

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

Product Sales Ratio



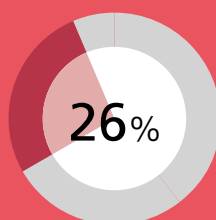
Decorative Coatings

Main Products and Services

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

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

Product Sales Ratio



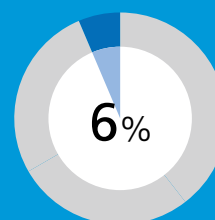
Marine and Protective Coatings

Main Products and Services

This area encompasses marine coatings used with marine structures in order to provide long-term protection from corrosion for steel structures and protective coatings for structures on land.

Marine structures include ships, offshore structures, and marine containers, while structures on land include bridges, tanks, and plants. Coatings are available for new structures and for maintenance applications.

Product Sales Ratio



Business Overview by Segment

Japan

In the automotive coatings sector, automobile production was flat year on year, and sales held steady at the prior-year level. Sales fell in the industrial coatings, marine coatings, and protective coatings sectors due to weak market conditions. Sales also decreased in the decorative coatings sector, as a full-scale recovery failed to materialize. Sales were maintained at the prior-year level in the automotive refinish paints sector thanks to efforts to continue sales expansion of high-value-added products. As a result of the above factors, overall segment sales declined year on year. In these circumstances, profit increased substantially thanks to total cost reduction efforts, including lowering of raw materials costs, despite the impact of currency exchange loss. Sales in Japan were ¥151,417 million, down 2.5% from the previous term, and ordinary profit was ¥23,536 million, up 9.6%.

India

The Indian economy continued to grow, despite the impact of a temporary decrease in demand resulting from the withdrawal of high-denomination banknotes. Sales rose in the automotive coatings sector, fueled by a continuing increase in automobile production. Sales also continued to increase in the decorative coatings sector despite the temporary slowing of demand expansion due to the withdrawal of high-denomination banknotes. In addition, stable raw materials prices contributed greatly to improvement of business results. However, business performance on a yen basis was adversely affected by currency conversion. As a result, sales in India were ¥74,694 million, up 13.5% from the previous term, and ordinary profit was ¥11,623 million, up 26.4%.

Asia

In China, sales growth in the automotive sector continued, partly as a result of the introduction of tax incentives for small-engine cars. Equity in earnings of affiliates in China rose on growing demand from local automakers and an increase in the share of sales. However, sales in other sectors were weak, and overall sales in China declined year on year. Signs of an economic upturn appeared in Indonesia, business results improved, particularly in the industrial coatings sector, and sales and profits rose on a local currency basis. In Thailand, full-scale recovery in automobile production failed to materialize, demand remained weak, and sales fell year on year. Overall business performance in Asia was weak, in part because of the impact of currency conversion. In addition, we reflected the business results of Malaysia-based Sancora Paints Industries Sdn. Bhd., which became a consolidated subsidiary in October 2016, in the consolidated business results and recorded amortization of goodwill. We also continued to amortize goodwill resulting from the acquisition of Indonesia-based PT. Kansai Prakarsa Coatings. As a result, sales in Asia were ¥56,624 million, down 3.9% from the previous term, and ordinary profit was ¥6,570 million, down 14.1%.



Africa

Sales fell year on year at a time of weakness in the economies of South Africa and neighboring countries, despite continuing sales promotion efforts. In addition, a steep rise in raw materials prices due to currency weakness and the occurrence of one-time expenses put significant pressure on profits. As a result, sales in Africa were ¥28,026 million, down 4.2% from the previous term, and ordinary loss, including goodwill amortization, was ¥3,732 million.

Europe

In Turkey, sales rose and the profit recovery trend continued on a local currency basis due to an increase in automobile production and sales promotion initiatives, despite the impact of currency weakness on raw materials prices. However, currency conversion affected the business results. An increase in equity in earnings of affiliates boosted segment profits. As a result of these factors, sales in Europe were ¥16,831 million, down 5.3% from the previous term, and ordinary profit was ¥1,024 million, up 45.7%.

Other Regions

Although automobile production in North America was steady, equity in earnings of affiliates decreased due to factors including intensification of competition. In addition, the business results of U.S. Paint Corporation, which became a consolidated subsidiary in August 2016, contributed to the results, and overall segment sales increased year on year. As a result, sales in Other Regions were ¥2,644 million, up 156.8% from the previous term, and ordinary profit was ¥1,004 million, down 22.1%.



Research and Development Operations

The Kansai Paint Group research and development organization mainly consists of two research institutes and one research center, and they concentrate their researchers and functions in the R&D Center, a core facility located in Hiratsuka City, Kanagawa Prefecture. Centralized at this R&D Center, the Group's technology departments collaborate with those of domestic and overseas Group companies in efficient, wide-ranging research and development activities for the timely development of technologies and products that are adapted to market needs.

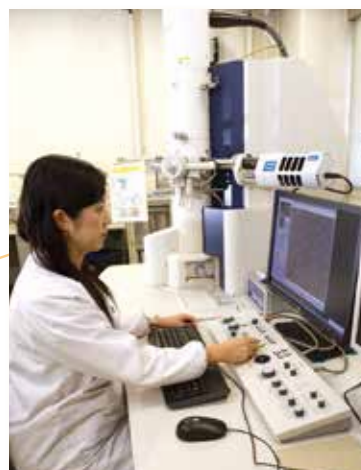
As the Group accelerates global business development, the Company is

further strengthening collaboration with Group companies and undertaking development of new technologies suited to the world's markets while fostering world-class R&D personnel.

The Kansai Paint Group's total R&D expenditure in the fiscal year under review amounted to ¥5,297 million. A total of 701 Group employees are engaged in R&D activities at this time.

The status of the Group's main R&D activities is as follows:

The Company's basic research, aimed at the discovery of new materials that can be applied globally, is focused on accumulating core technologies useful for coatings. It covers key research areas including polymer



synthesis, new cross-linking reactions, pigment dispersion, surface control, rheology control, and environmental improvement technologies. In basic analysis, we establish new technologies for the analysis of phenomena in the film formation process and film performance and functions, areas in which it is extremely difficult to originate evaluation technologies, and contribute to product development through detailed and accurate observation. We are working to establish a highly reliable global research system by sharing technologies acquired through these activities with Group companies, providing guidance concerning quality control, the environment, and safety, and offering consulting and other services to customers.

In our color and design research activities, in the field of automotive coatings we have developed and proposed

advanced color groups that reflect the results of research and analysis of the latest color trends conducted at motor shows in Japan and overseas. Furthermore, we have continuously conducted surveys of automotive color trends in Asian countries that have driven color proposal activities. We have developed color application technologies for improving weather resistance and color stability in eco-friendly coatings and have applied them in development of colors with high design added value.

In the field of color optical science, we are conducting research on the application of color design utilizing IT and working to improve paint color adoption rates by automobile manufacturers in Japan and overseas.

In painting and coating systems development, we are developing technologies for realizing eco-friendly paint and painting with the aim of contributing to a sustainable society. In the automotive coatings field, we have further progressed research and development for expanding

and diversifying use of our highly rated Waterborne 3-Wet Coating System, an eco-friendly technology that is both process-efficient and energy-efficient, and are designing materials that will further reduce environmental impacts, such as a low-temperature curing, thin-film system. In the industrial coatings field as well, we are engaging in technical development related to environmental responsibility, process efficiency, and conversion to waterborne coatings. In the decorative coatings and protective coatings fields, we are converting to waterborne coatings and have focused efforts on researching and commercializing functionally enhanced coatings, such as heat-shielding, anti-bacterial, insect-repellent, and multicolor coatings. At the same time, we are developing evaluation technologies and equipment required to develop these coatings and working to increase coating development efficiency so as to bring products in development closer to completion.

Research and development expenditure by segment during the fiscal year under review was ¥4,254 million for Japan, ¥395 million for India, ¥67 million for Africa, ¥504 million for Europe, and ¥77 million for Other Regions.



Creating Healthy, Safe, Comfortable Living Spaces

ALES SHIKKUI® for deactivation of all viruses

Influenza viruses, the norovirus, and other viruses exist all around us. The widespread outbreak of Ebola hemorrhagic fever in West Africa in 2014 and the outbreak of Middle East Respiratory Syndrome (MERS), which is said to have a mortality rate of 40–50%, have not yet subsided, and virus countermeasures are required worldwide to prevent infection.

Kansai Paint has sold ALES SHIKKUI®, a slaked lime plaster coating with deodorant and antibacterial functions, since 2008. Now, under the supervision of Professor Jiro Yasuda of the Institute of Tropical Medicine, Nagasaki University, a leading expert in virus research, it has been demonstrated that ALES SHIKKUI® exerts deactivation of all viruses.

ALES SHIKKUI® Product Features: The same excellent functionality of plaster



Deodorization



VOC adsorption and decomposition



Moisture absorption and humidity control



Deactivation of viruses

ALES SHIKKUI® Product Line

For decorative use

- ALES SHIKKUI® for interior use
- ALES SHIKKUI® for exterior use
- ALES ART SHIKKUI thick plaster

ALES SHIKKUI® is suitable for both interior and exterior use. ALES ART SHIKKUI thick plaster can add texture to surfaces.

For use with flexible materials

- ALES SHIKKUI MONTYART®

This product produces a highly flexible coating film. By making possible coating of cloth, paper, and other soft materials, it has further expanded the scope of usage of ALES SHIKKUI®.

A local product

- ALES SHIKKUI RYUKYU®

ALES SHIKKUI® for interior use, made using Okinawa slaked lime, has been registered as an excellent prefectural product recommended by Okinawa Prefecture.

Simpler than painting

- ALES SHIKKUI TAPESTRY and SHIKKUI MARU SHEET

ALES SHIKKUI TAPESTRY and SHIKKUI MARU SHEET are products coated with ALES SHIKKUI MONTYART®. Easily applied by attaching or hanging, they are ideal for locations that can't be painted.

Contributes to Improvement of Natural Gas Transportation Efficiency and VOC Reduction

AlesEpomir PTG/PTG2.0 solvent free epoxy coating for the internal mirror lining of gas pipes

In conjunction with an increase in infrastructure development, mainly in oil-producing countries, a number of pipelines for transporting oil and natural gas are planned for construction.

Although pipelines are suitable for transporting large volumes over long distances, both the enormous construction costs required as an initial investment and the efficiency oil

and natural gas transportation have been issues. To address them, Kansai Paint has introduced flow efficiency coatings (FEC) technology from the Italian company Mirodur S.p.A that makes it possible to improve transportation efficiency by coating the internal surface of a pipeline.

AlesEpomir PTG/PTG2.0

Reducing the friction of gas flowing within a pipeline with a smooth internal-surface coating film results in substantial improvement in gas transportation efficiency. Not only that, elimination of solvents sharply reduces VOC emissions during coating.

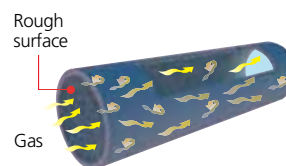
AlesEpomir PTG/PTG2.0 Product Features

- Smooth coating film that realizes low friction
- Ultra hi-solid
- Conforms with international standards
API RP5 L2 (American Petroleum Institute),
ISO UNI EN 10301:2003, ISO 15741:2001

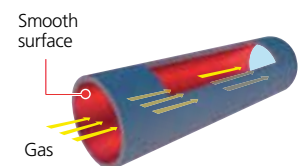


Difference in Transportation Efficiency due to Surface Resistance

Uncoated pipe



Coated pipe (AlesEpomir PTG/PTG2.0)



Transportation energy requirements decrease. Pipe diameter reduction is also possible, which contributes to construction cost reduction and resource conservation.

Environmental Activities

- 16** Policies on Environmental Conservation
- 17** Environmental Management
- 18** ALES ECO PLAN 2018
- 20** Materials Balance
- 21** Green Procurement and Supply Chain Management
- 22** Management of Chemical Substances
- 23** Environmental Conservation Activities

Policies on Environmental Conservation

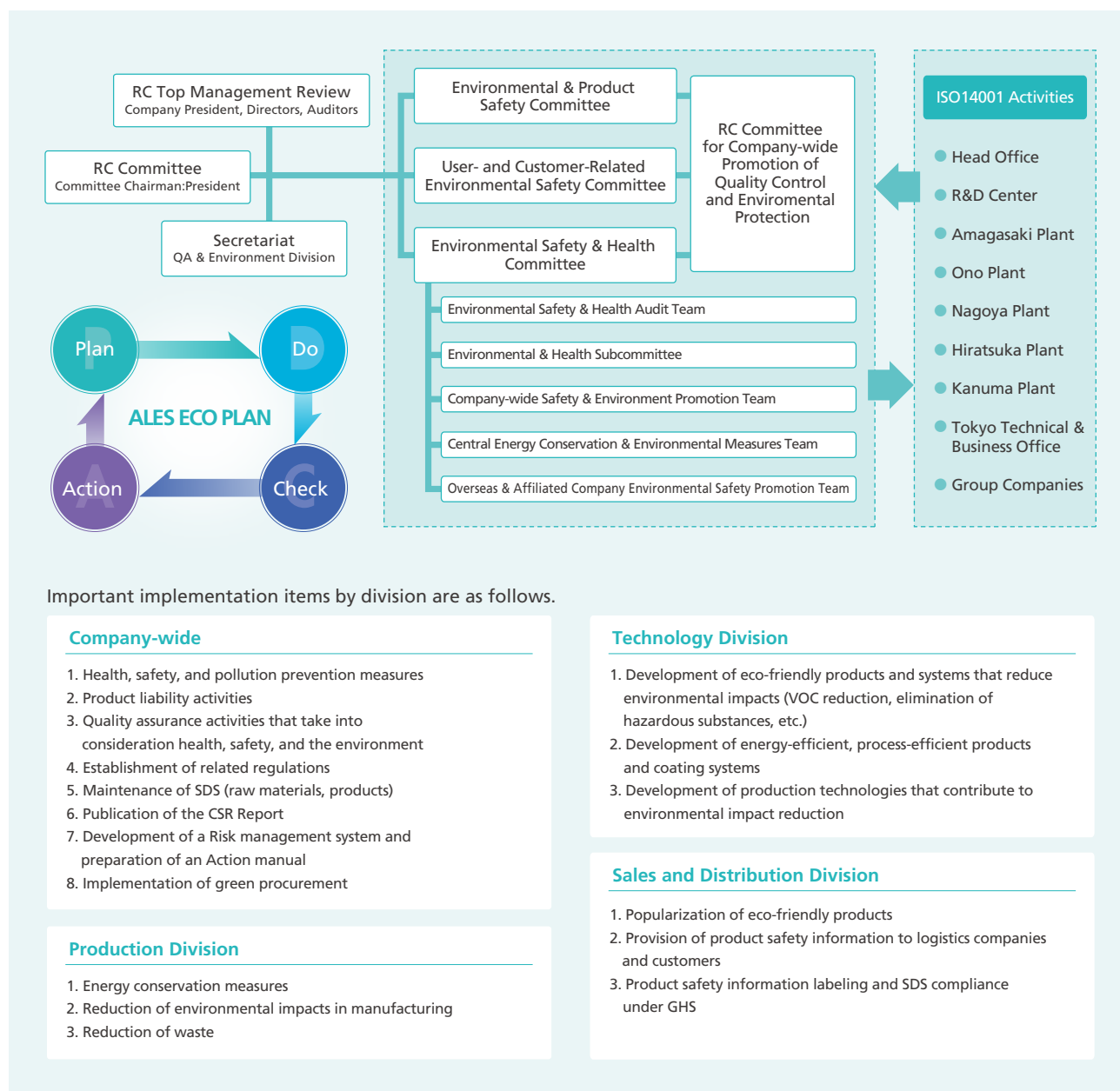
Corporate Policies on Environmental Conservation

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

Basic Policies

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

Responsible Care Organizational Structure



Responsible Care Audit by Top Management

The committees reported to the president (in his capacity as chairman of the Responsible Care Committee) and top management executives on progress with ALES ECO PLAN 2018 (see P18–19) in fiscal 2016 and trends in environmental regulations in Japan and overseas and received instructions concerning future initiatives. They were instructed to achieve

the ALES ECO PLAN 2018 targets, to comply with chemical substance regulations in Japan and overseas, and to engage in more efficient and effective health and safety initiatives in Japan and overseas. They will now enhance RC activities under these instructions.



Management of Chemical Substances in Product Design

Kansai Paint has considered the hazards and harmful effects of chemical substances and designated as “prohibited substances” those whose use in products is prohibited and as “restricted-use substances” those whose use in new designs and applications are restricted.

We strive to secure the health and safety of product users and Kansai Paint technical and production personnel and conserve the environment by confirming before the materials registration and product formulation preparation stages whether or not these prohibited substances and restricted-use

substances are contained in raw materials blended into products, based on information in SDS and raw materials samples and instructions submitted by raw materials manufacturers.

When handling new raw materials or when the method of handling an existing raw material is changed, technical and production personnel conduct risk assessments required under the Industrial Safety and Health Act and devise measures for safer handling of these raw materials.

	Activities and Targeted Areas		FY2016 Targets	
Product Safety Activities	Reduction of Hazardous Substances in Products	1. Amount of lead in products sold* ¹	96% reduction from the FY2003 level	
		2. Amount of hexavalent chromium in products sold* ²	76% reduction from the FY2003 level	
		3. Amount of T, X, EB* ³ in products sold* ⁴	Maintenance of the FY2015 results	
Environmental Safety and Health	Environmental Conservation Activities	1. ISO 14001 activities	Continued implementation	
		2. Preparation of environmental accounting information	Continued publication	
		3. Prevention of environmental pollution		
		1) Environmental measured values	Within standard values	
		2) Security and disaster prevention (Occurrence of fires, spills, etc.)	0 cases	
	Health and Safety Assurance	1. Number of occupational accidents	Accidents involving loss of at least one workday: 0 cases	
		2. Safety assurance at affiliated companies overseas	Provision of safety education to local employees simultaneously with safety diagnosis at affiliated companies overseas	
	Reduction of Operational Environmental Impacts	1. Energy consumption (per unit of production)	1.0% reduction from the FY2015 level	
		2. CO ₂ emissions (total: including incinerators)	34% reduction from the FY1990 level	
		3. Waste generated (per unit of production)	1.0% reduction from the FY2015 level	
		4. Waste recycling ratio	Maintenance of 99% or higher	
User- and Customer-related Environmental Safety	Market and Environmental Safety Activities	1. Compliance with environmental laws and regulations in Japan and overseas	- Entrenchment of a system for complying with environmental regulations in Japan - Consideration and development of a system for complying with environmental regulations overseas in accordance with market developments	
		2. Environment management system enhancement	Development of required systems	
		3. Product liability complaints	0 claims related to the Product Liability Law	
Environmental Information Disclosure		1. Publication of CSR Report	Continued publication	
		2. Publication of Corporate Report		

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

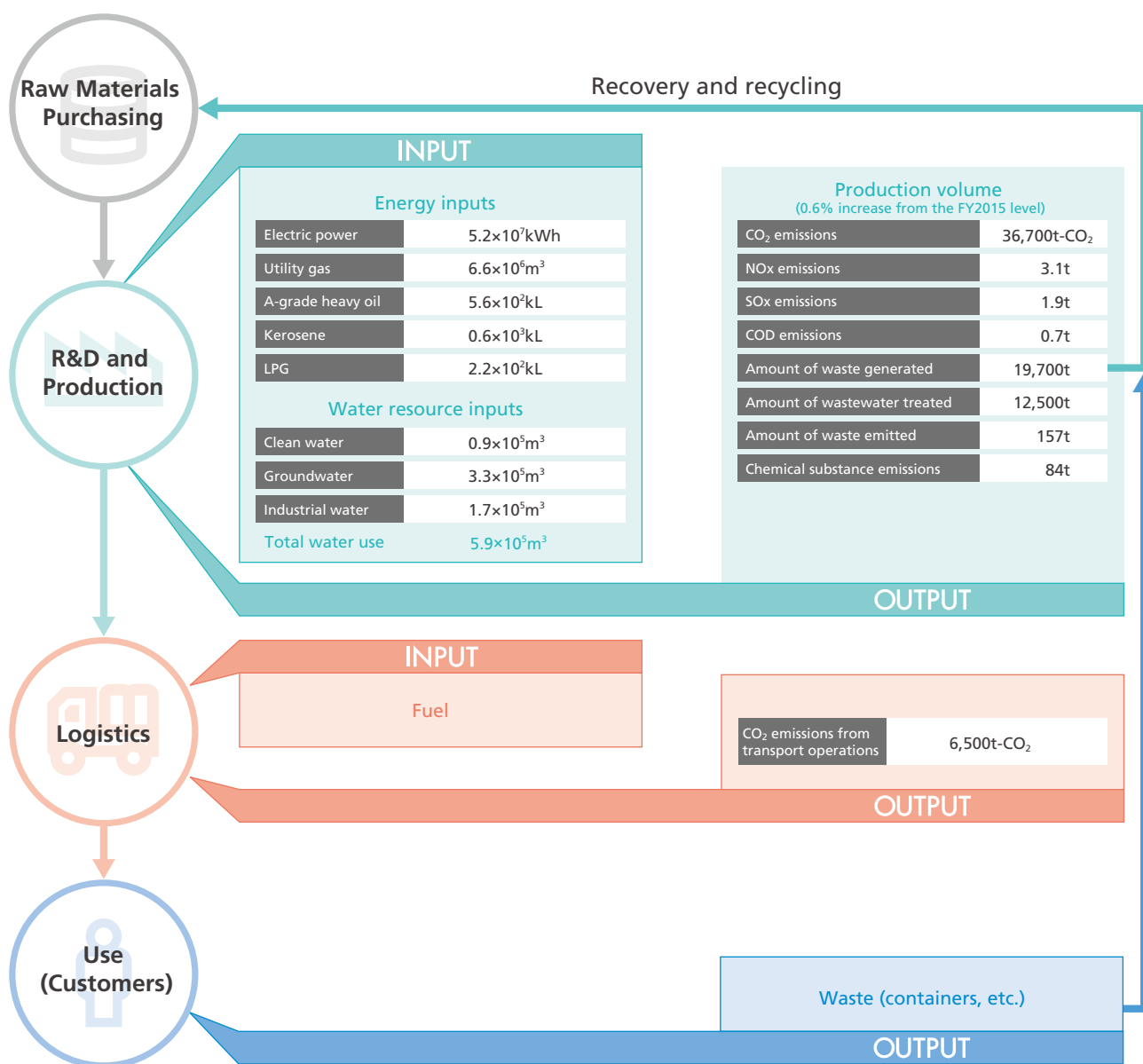
*2 Amount of hexavalent chromium (Cr VI): amount of elemental hexavalent chromium content

*3 "T, X, and EB": abbreviation for "toluene, xylene, and ethylbenzene"

*4 Finished products: includes thinners sold

FY2016 Results	Evaluation	Final Year (FY2018) Targets
97% reduction from the FY2003 level	Target achieved	Complete elimination
82% reduction from the FY2003 level	Target achieved	78% reduction from the FY2003 level
2.0% reduction from the FY2015 results	Target achieved	Maintenance of the FY2015 results
Continued implementation	Target achieved	Continued implementation
Continued publication	Target achieved	Continued implementation
Within standard values	Target achieved	Within standard values
0 cases	Target achieved	0 cases
0 cases	Target achieved	Accidents involving loss of at least one workday: 0 cases
- Provision of safety education in Japan to overseas employees (TWK: 2 persons, ASEAN: 5 persons) - Provision of safety education to local employees simultaneously with KYT training in Vietnam (KAP)	Target achieved	Provision of safety education to local employees simultaneously with safety diagnosis at affiliated companies overseas
6.5% reduction	Target achieved	3.0% reduction from the FY2015 level
35.5% reduction	Target achieved	38% reduction from the FY1990 level
10.4% reduction	Target achieved	3.0% reduction from the FY2015 level
Full-year average: 100%	Target achieved	Maintenance of 99% or higher
Response to amendment of relevant government and ministerial ordinances (Ordinance on Prevention of Hazards due to Specified Chemical Substances, etc.)	Implementation continuing for each item	- Entrenchment of a system for complying with environmental regulations in Japan - Consideration and development of a system for complying with environmental regulations overseas in accordance with market developments
Revision of labelling/SDS system		Development of required systems
Kansai Paint, Kansai Paint Sales, Kansai Paint Marine, Kanpe Hapio: 0 claims		0 claims related to the Product Liability Law
June publication of CSR Report (Japanese)	Information disclosed as planned	Continued publication
August publication of Corporate Report (English)		

Materials Balance



Energy inputs	Amount of energy used in business activities
Water resource inputs	Amount of water used in business activities
Amount of waste generated	Amount of waste generated from business activities (excluding wastewater)
Amount of waste emitted	External intermediate disposal and external final disposal volume of waste generated from business activities
CO ₂ emissions	Amount of CO ₂ emitted from business activities
SOx emissions	Amount of SOx emitted from business activities
NOx emissions	Amount of NOx emitted from business activities
Chemical substance emissions	Amount of substances subject to notification under the PRTR system in the Chemical Substances Management Act emitted into the atmosphere from business activities
Amount of wastewater treated	Amount of water discharged from business activities (amount treated as wastewater treated + amount incinerated)
COD emissions	Amount calculated by multiplying the COD concentration in wastewater by the amount of wastewater
Fuel	Diesel oil used in truck transport
CO ₂ emissions from transport operations	Amount calculated from the amount of fuel used in truck transport (estimate)

Green Procurement and Supply Chain Management

Green Procurement

Green procurement refers to the selection and procurement of materials for containers, wrappings, parts, and raw materials that are environmentally friendly. The corporate philosophy of the Kansai Paint Group is to “Conserve resources and protect the environment to build and sustain an affluent society,” and we have implemented a strict system for managing materials procurement.

Kansai Paint procurement policies

- Kansai Paint promises to conduct fair and impartial business transactions in accordance with a legal mindset.
- Kansai Paint maintains a wide open door for business transactions, both in Japan and abroad.
- In the spirit of green procurement, Kansai Paint gives preference to business partners that have established environmental management systems.
- Kansai Paint creates fair cooperative relationships based on an equal footing with business partners and strives to continuously enhance partnerships.

Classifications of materials used

Kansai Paint discloses to business partners the raw materials management classifications established in accordance with hazardous properties using the Kansai Paint Environmental Management Substances List and other means and strives to obtain raw materials with low environmental impacts.

Banned Raw Materials	Materials containing more than a defined amount of banned substances whose use is prohibited regardless of the reason.
Restricted Raw Materials	Raw materials containing more than a defined amount of restricted substances whose use is reduced or limited to certain applications.
Dangerous and Hazardous Raw Materials	Raw materials containing more than a defined amount of dangerous or hazardous substances whose use is subject to more rigorous management than general raw materials.
Regular Raw Materials	Raw materials whose use is subject to normal management.

Supply Chain Management

Kansai Paint requests raw materials producers to engage in rigorous management of harmful substances and meet the requirements of customers.

Supplier greenness survey	Kansai Paint continuously ascertains the greenness of raw materials producers from whom we have purchased a certain threshold amount through confirmation of ISO 14001 certification status.
Raw materials management	When exporting to countries requiring compliance with the End-of Life Vehicles (ELV) Directive, Restricting the use of Hazardous Substances (RoHS) Directive, and other regulations, we are required to submit documents such as certificates of non-use of harmful substances in paints. We request raw materials producers to strictly control harmful substances in raw materials used in specific applications and obtain certificates of non-use of controlled substances or evidence of non-inclusion as necessary.
Environmental conservation	When outsourcing work that may have a significant impact on the environment to shipping companies, waste disposal companies, and other contractors, we communicate work procedures and requirements and request their cooperation in reducing the occurrence of accidents and mistakes and environmental conservation.

Green Purchasing

Green purchasing refers to the prioritized selection and purchasing of products and services with low environmental impacts, not solely on the basis of quality and price. The practice is based on the Act on Promoting Green Purchasing,

enacted in April 2001. Kansai Paint, together with Group companies in Japan, promotes the purchasing of office supplies and other Eco Mark certified products and goods that comply with the Act on Promoting Green Purchasing.

Management of Chemical Substances

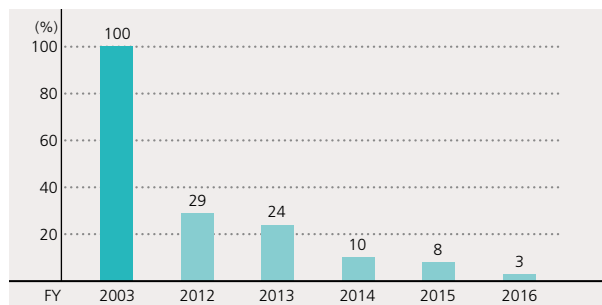
Amount of lead contained in products sold (relative amount with FY2003 taken as 100)

We are reducing the amount of lead compounds used in products, using “Amount of Lead Contained in Products Sold” as a performance index.

In FY2016, we discontinued products that use coloring pigments containing lead or found substitute pigments. The amount of lead compounds in products sold in FY2016 was 3% of the FY2003 level, and the reduction rate of 97% was higher than the reduction target in FY2016.

The Japan Paint Manufacturers Association (JPMA) has issued a declaration regarding the elimination of pigments containing lead. In line with the JPMA declaration, we will continue to reduce the amount of lead compounds in order to completely eliminate them by FY2018.

• Change in the Amount of Lead in Products Sold



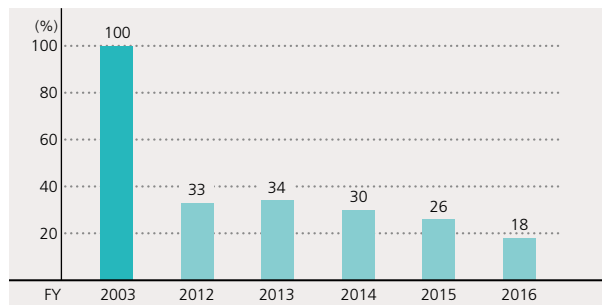
Amount of hexavalent chromium contained in products sold (relative amount with FY2003 taken as 100)

We are reducing the amount of hexavalent chromium compounds used in products, using “Amount of Hexavalent Chromium Contained in Products Sold” as a performance index.

We have made progress in eliminating or finding substitutes for some coloring pigments and anticorrosive pigments that contain lead or chromium. The amount of hexavalent chromium compounds in products sold in FY2016 was 18% of the FY2003 level, and the reduction rate of 82% was higher than the reduction target in FY2016.

Although anticorrosive pigments that contain hexavalent chromium are mainly used for applications that require long-term durability, we will continue to develop and offer alternative products and reduce the use of hexavalent chromium.

• Change in the Amount of Hexavalent Chromium in Products Sold

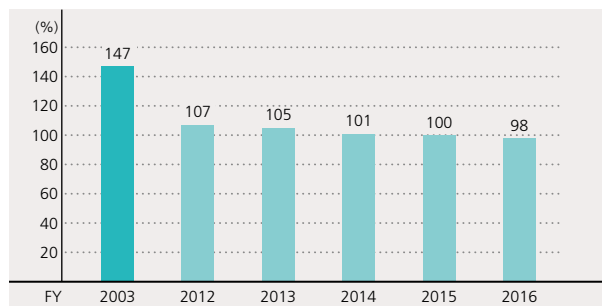


Toluene, xylene and ethylbenzene contained in products sold (relative amount with FY2015 taken as 100)

In ALES ECO PLAN 2018, we set a target of maintaining the amount of toluene, xylene, and ethylbenzene (hereafter, T, X, and EB) in products sold at the FY2015 level.

The amount of T, X, and EB in products sold in FY2016, the first year of the plan, was 2.0% below the FY2015 level as a result of transitioning from solvent-based coatings to waterborne coatings and substituting less hazardous alternative solvents for T, X, and EB. We will continue to develop and promote sales of products that use alternative solvents and strive to avoid increasing the amount of T, X, and EB in products sold.

• Change in the Amount of T, X, and EB in Coating and Thinner Products Sold



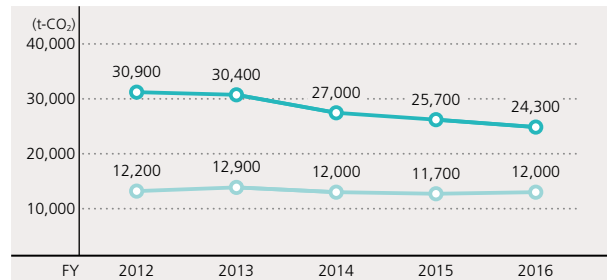
Environmental Conservation Activities

Reduction of CO₂ Emissions

Although production in FY2016 increased by 0.6% from the FY2015 level, the amount of carbon dioxide emitted by the production division was sharply reduced to 24,300 tons as a

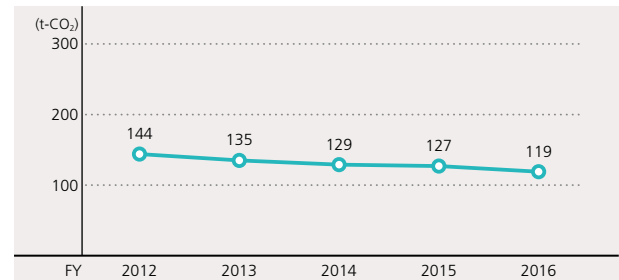
result of factors including smooth operation of cogeneration facilities. CO₂ emissions per unit of output were 119 kg-CO₂/ton, down 6.3% from the FY2015 level.

• Change in CO₂ Emissions by Division



◆ Total CO₂ emissions in production division
◆ Total CO₂ emissions in technology division

• Change in CO₂ Emissions per Production Unit



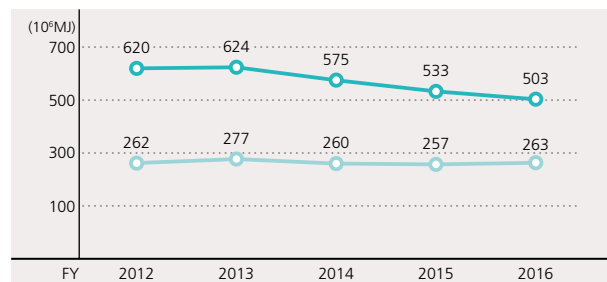
◆ CO₂ emissions per production unit

Energy Conservation

The amount of energy used by the production division in FY2016 decreased by approximately 5.6% from the FY2015 level, resulting in a decrease of 6.5% in energy consumption per production unit from the FY2015 level. This result is

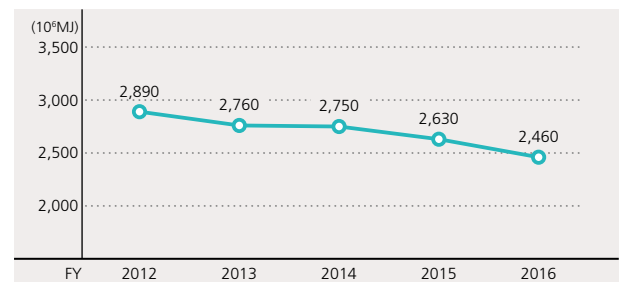
attributable to power-saving measures taken at worksites and the practice of more efficient production methods. We intend to continue engaging in energy conservation activities.

• Change in Energy Consumption by Division



◆ Total energy consumption in production division
◆ Total energy consumption in technology division

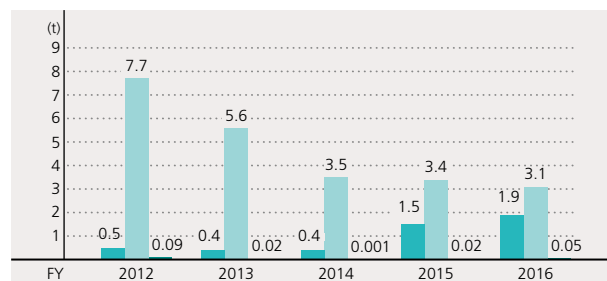
• Change in Energy Consumption per Production Unit



◆ Energy consumption per production unit

Air Pollution Control at Production Plants

• Change in SO_x, NO_x, and Dust Emissions



■ SO_x ■ NO_x ■ Dust

■ Sulfur oxides (SO_x)

Sulfur oxides are generated when fuels such as heavy oil and kerosene and waste materials that contain sulfur are burned. SO_x comprise sulfur dioxide and small amounts of sulfur trioxide.

■ Nitrogen oxides (NO_x)

Nitrogen oxides are contained in exhaust gases from boilers, incinerators, trucks, and other equipment. NO_x comprise nitrogen monoxide, nitrogen dioxide, and other gases.

■ Dust

Dust is defined in the Air Pollution Control Law as particulate matter comprising soot and cinders that is generated accompanying the combustion of fuels and other materials or the use of electricity as a heat source.

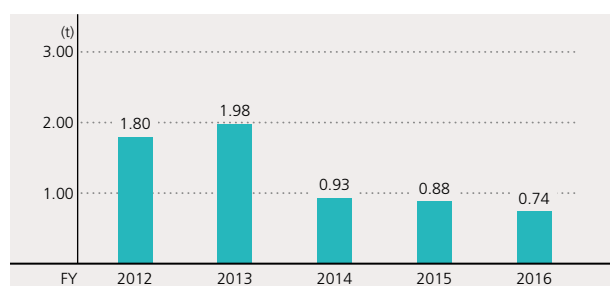
Environmental Conservation Activities

Water Resource Reduction and Water Pollution Prevention

Water pollution prevention at production plants

The amount of COD discharge, an indicator of the amount of water pollutants discharged, decreased by approximately 15.9% from the FY2015 level in FY2016. The decrease is attributable to a review of wastewater treatment plant management methods at each production plant, which stabilized the quality of treated water. Kansai Paint will continue efforts to prevent water pollution by strengthening plant management to ensure that wastewater treatment plants operate appropriately.

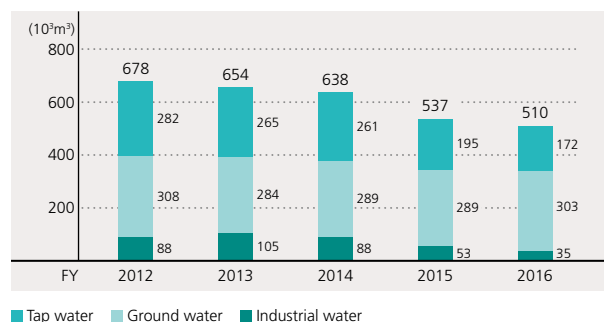
• Change in the Amount of COD Discharge



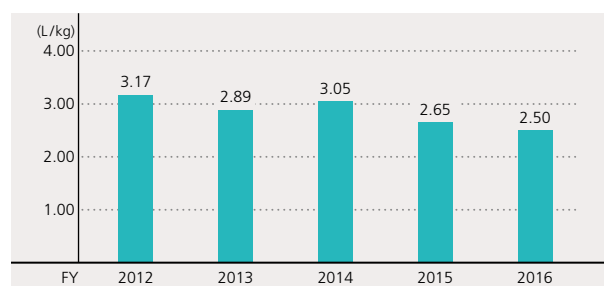
Water conservation at production plants

Water usage in FY2016 decreased by approximately 5.0% from the FY2015 level, and water usage per unit of production also decreased by 5.7%. Kansai Paint will continue efforts to efficiently use water resources as cooling water and boiler steam water.

• Change in Water Usage



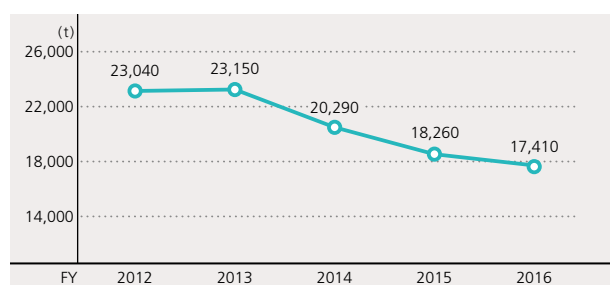
• Change in Water Usage per Unit of Production



Waste Reduction Initiatives

Kansai Paint launched a company-wide waste reduction team in 1999 to contribute to the creation of a recycling-oriented society by promoting the "3Rs" of industrial waste: reducing the generation of industrial waste (Reduce), recycling of waste that is generated (Recycle), and reusing materials (Reuse). As a result of efforts to achieve zero emissions of industrial waste generated through production activities, the production division has achieved a recycling rate of 100% in FY2016.

• Change in the Amount of Industrial Waste Generated (Production Division)

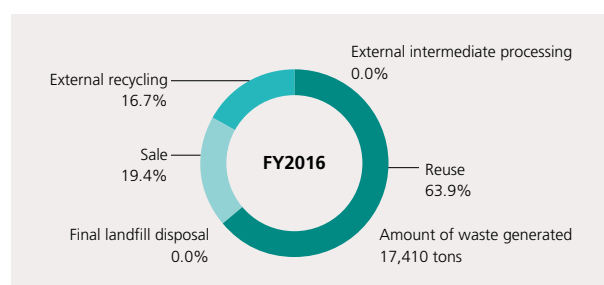


◆ Amount of generated industrial waste

The Kansai Paint Group's definition of zero emissions:
A state of zero emissions is achieved when the annual recycling rate is 99% or higher.

$$\text{Recycling rate} = \frac{(\text{Reuse} + \text{Sell} + \text{Recycle externally}) \times 100}{\text{Amount of waste generated}}$$

• Breakdown of Waste Recycling and Amount of Waste Generated



Social Activities

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

Occupational Safety and Health

Occupational Safety and Health Activities

No accidents resulting in loss of workdays occurred in fiscal 2016, and the number of accidents resulting in loss of workdays decreased compared to fiscal 2015. We will

continue efforts to raise the safety awareness and hazard sensitivity of each employee and prevent accidents by energizing safety activities.

• Change in the Number of Occupational Accidents



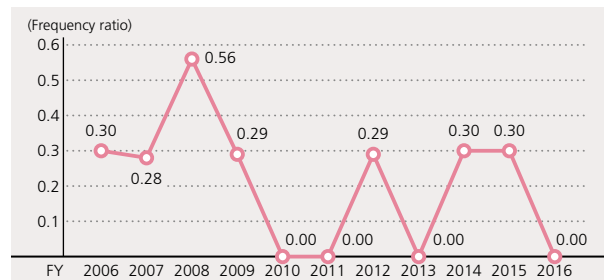
◆ Minor injuries ◇ Lost-work injuries

• Change in the Severity of Occupational Accidents



◆ Severity = (Lost-work days / Total man-hours) × 1,000

• Change in the Frequency of Occupational Accidents



◆ Frequency ratio for accidents =
(Lost-work accidents (number of victims) / Total man-hours) × 1,000,000

Environmental Safety and Health Inspections by Management

Kansai Paint has adopted the slogan “The time to correct a problem is as soon as it is noticed. Let’s create accident-free workplaces together” for the fiscal 2016 central health, safety, and environmental (HSE) audit conducted in September and October at seven production plants, one center, and fifteen affiliated company business sites. The audit focused on:

- Status of implementation of static electricity prevention measures
- Dissemination of disaster report case studies and spill-prevention methods for cross-organizational implementation of recurrence prevention measures
- Selection of proper protective equipment and use status
- 3A KYT (actual place, actual goods, actual conditions hazard prediction training) and 3H (hajimete [first time], henkou [change], hisashiburi [long interval]) measures
- Safety assurance and disaster prevention measures and training
- Information sharing with on-site business partners

These audits are conducted by a ten-person audit team led by a central HSE manager and made up of a central health manager, a coordination team, and a team of experts in

machinery, electricity, and health. In fiscal 2016, auditing of safety assurance and disaster prevention measures and static electricity prevention measures was particularly rigorous. The audit team provides guidance on safety management within the production plants to ensure that each and every worker responsibly engages in day-to-day safety management, including guidance to and requests for cooperation from business partners that perform work within the plants.



Safety Education and Safety Audits at Overseas Affiliates

With the goal of preventing accidents and disasters at overseas affiliated companies, Kansai Paint systematically conducts safety audits of affiliates in selected regions. In fiscal

2016, we conducted hazard prediction training (KYT) and provided other safety guidance and conducted safety audits at affiliate in Vietnam.

Safety Initiatives at Overseas Affiliates

Kansai Paint affiliates do business worldwide and operate production plants in China, Taiwan, the ASEAN region, India, Pakistan, Turkey, and other countries. Kansai Paint employees

assigned to these overseas production plants engage in plant HSE management or support.

Health Management

The Health and Hygiene Subcommittee was established within the Environment Safety and Health Committee as a dedicated organization that engages in health management for employees of Kansai Paint and affiliated companies. In fiscal 2016, it worked to improve mental health care for employees, mainly through Employee Assistance Program (EAP) services, in accordance with the Mental Health Promotion Plan.

Mental health care and follow-up after periodic health examinations

- In fiscal 2016, the following mental health training was conducted.

Trainees	Training content
New employees	Self-care
Newly appointed supervisors	Line care and self-care
Employees newly transferred overseas	Self-care
Serving supervisors	Line care and Harassment

- In mental health training for newly appointed and serving supervisors, case studies were used to confirm the duty of care and the role of supervisors in mental health support and promote understanding of things to bear in mind in the workplace, and introduced communication techniques beneficial in team member support as well as methods of overcoming crises.

- Following the mandating of stress checks for employees, Kansai Paint engaged industrial physicians to conduct stress check tests in each region of Japan and followed up by means including industrial physician interviews and EAP counseling for employees with high levels of stress.
- Kansai Paint periodically holds training seminars in each region to deepen employee understanding of mental health care and lifestyle-related diseases. We have also instituted a system for following up on employees diagnosed with medical conditions after periodic health examinations and are striving to maintain and promote the health of employees.



Mental Health Training (Osaka Head Office)

Treatment of Employees

Human Resource Development and Training

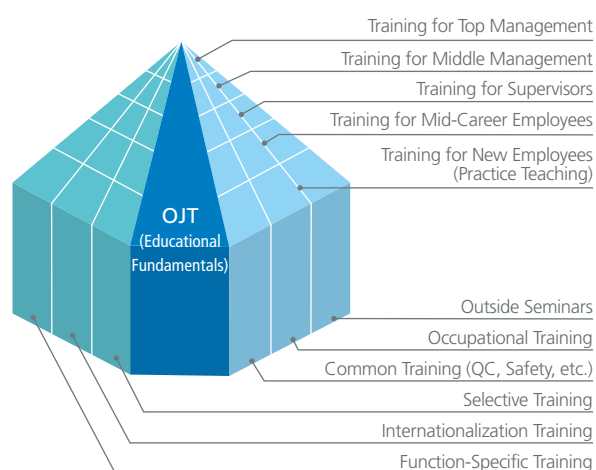
Kansai Paint is enhancing the human resource development plan with the aim of increasing motivation, the most important factor in human development.

Human resource development concept and structure

Kansai Paint has defined five themes as key pillars of the human resource development plan: assistance with self-development, a long-term human resource development plan, expansion of professional duties, transformation of organizational culture, and a training system.

Systematically organized training system

As shown in the diagram, the Kansai Paint training system is systematically organized in matrix form, with various types of training centered on OJT (on-the-job training) corresponding to training objectives and levels. The objective is to enhance the specialized skills of employees and foster their overall competency as professionals.



Promoting Women's Participation and Advancement

Kansai Paint launched the Committee for the Promotion of Women's Participation and Advancement in April 2016. We held the Women's Participation and Advancement Forum, where female employees and male employees currently raising children or having experience in child-raising gathered to exchange views. At the forum, concerns and issues relating to

women continuing to work during the life events of childbirth and child-raising were aired. We also conducted a survey seeking women's concerns about childbirth and maternity leave. We will continue to expand the scope of these activities and engage in initiatives to clarify and solve various issues and create women-friendly workplaces where women can flourish.

Employment of Persons with Disabilities

Kansai Paint creates workplace environments that enable persons with disabilities to play an active role in each occupational category and strives to expand employment opportunities through year-round recruitment. In FY2016, the

employment rate of persons with disabilities was 2.03%, above the legal quota of 2.0%. We will continue to actively pursue improvement efforts.

Benefits Program

Kansai Paint places importance on individual lifestyles and pursues individuality. Our benefit program includes annual paid holidays, special paid holidays, accumulated paid holidays (used for nursing care, volunteer work, and sick leave), and refreshment holidays. In addition, to promote utilization of paid holidays, we enable employees to take up to 28 half-day

paid holidays per year (amounting to 14 workdays).

We provide support to enable employees with children to balance work and childrearing, such as childcare leave, a short-time working system available until children enter elementary school, and the provision of childcare subsidy vouchers for temporary childcare.

Addressing Human Rights Issues

In keeping with the fundamental principle that a company exists for the happiness of people and society, the Kansai Paint Group strives to maintain wholesome working environments where people are free from harassment or discrimination because of race, nationality, age, gender, religious beliefs, lineage, physical handicap, or any other reason. To uphold this

principle, we undertake to raise employee awareness of human rights through various forms of training.

In fiscal 2016, more than 1,000 entries were submitted in an annual slogan contest held in accordance with Human Rights Week in December.

Consumer Protection

Consumer Protection Policy

To ensure product safety for consumers, when developing markets for new products and using new materials, the Kansai Paint Group conducts investigations based on internal regulations relating to safety confirmation and supplies safe products to customers. The provision of safer products has the added benefit of contributing to improvement in working environments at paint manufacturers.

Provision of Safety Information

The incorrect use of even a safe product can lead to an accident. Kansai Paint provides information on the hazardous properties of products and handling precautions in safety data sheets (SDS), product catalogs, technical materials, and container labels. We prepare SDS and labels that comply with applicable laws and regulations, JIS standards, and guidelines

issued by the Japan Paint Manufacturers Association.

We will promptly revise the content of SDS and labels in response to amendments to applicable laws and regulations, JIS standards, and guidelines and appropriately add and provide to users information necessary for the safe use of products.

Social Action Programs

A Coatings Industry First! “Life Support Paint” that Protects Children around the World

The most lethal living thing in the world is, surprisingly, the familiar, ubiquitous mosquito. There is no sign of decline in the number of people overseas who lose their lives due to infection with dengue fever or malaria, diseases carried by this tiny killer. To help improve this problem, the Kansai Paint Group has developed and distributes in Africa, Malaysia, and Indonesia mosquito-repellent coatings that have produced results. In Japan as well, we offer ALES Mushiyoke Clean®, a coating that repels insect pests. ALES SHIKKUI®, a product with deodorant, antibacterial, and antiviral effects, is attracting attention in the medial field for its effectiveness in inactivating many viruses and bacteria that plague human beings.

For these reasons, Kansai Paint has positioned ALES Mushiyoke Clean® and ALES SHIKKUI® as “Life Support Paint.” We help protect the health and lives of children around the world not only by improving living environments through promotion and dissemination of these products, but also by donating a portion of product sales to the international NGO Save the Children.

命をつなぐ塗料



 **Save the Children**

“セーブ・ザ・チルドレン” 1919年に設立された約100年の歴史を持つ、子供支援専門の国際NGO。

壁紙の上からでも塗れ、下地の色や柄を生かせるクリアタイプ虫よけ塗料
アレスムシヨケクリーン®

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ムシヨケクリーンカラー




漆喰塗料 **ALESSHIKKUI**
アレスシクイ

Social Action Programs

Provision of ALES SHIKKUI TAPESTRY and SHIKKUI MARU SHEET for Use in Temporary Housing Following the 2016 Kumamoto Earthquakes

The Kumamoto earthquakes of April 2016 took a heavy human and material toll and continue to affect people's lives after more than a year. To assist in the early reconstruction of affected areas, Kansai Paint donated ¥10 million in relief money through the Central Community Chest of Japan. In addition, in a cooperative effort with Kumamoto City to help make the lives of persons residing in temporary housing as comfortable as possible, we installed HALSHIKKUI* plaster sheets, which have deodorizing, and bacteria and virus deactivating properties, on lavatory walls and installed ALES SHIKKUI TAPESTRY plaster tapestries in meeting places and lounges. We were gratified to

hear from a temporary housing resident who had previously experienced problems with temporary storage of soiled paper diapers that after installation of the plaster sheets it became possible to store diapers in the lavatory without worrying about odor.

We again offer our thoughts and prayers for those affected by the earthquake and an early recovery of the disaster-stricken area.

*HALSHIKKUI is a product name of NICHIEI KAKOH CO., LTD.



Kansai Paint and Manchester United Football School

From March 27 to 31, 2017, Kansai Paint held a football school together with Manchester United, with which we have an Official Global Partner agreement. Two official coaches of the football school operated by the Manchester United Foundation in the U.K. visited Japan to provide instruction to 192 elementary school students selected by lottery and a coach's session for football instructors from the birthplace of football. The students and around 400 parents and siblings were from all over Japan. In addition to the football

instruction, a specialist gave a lecture on health, and employees of Kanpe Hapio Co.,Ltd. and Kansai Paint Sales Co.,Ltd. conducted a hands-on painting workshop for the parents.

A total of 125 employees supported the event, which ended successfully without injury or incident. It was an excellent opportunity for customers to experience firsthand the distinctive identity and global reach of Kansai Paint.



OFFICIAL PAINT PARTNER OF MANCHESTER UNITED



Financial Section

- 32** Consolidated Balance Sheets
- 34** Consolidated Statements of Income
- 34** Consolidated Statements of Comprehensive Income
- 35** Consolidated Statements of Changes in Net Assets
- 36** Consolidated Statements of Cash Flows
- 37** Notes to Consolidated Financial Statements
- 66** Independent Auditor's Report

Consolidated Balance Sheets

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
March 31, 2017 and 2016

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and deposits (Notes 3, 6 and 11)	¥ 53,027	¥ 72,309	\$ 472,654
Receivables (Note 3):			
Trade notes and accounts:			
Unconsolidated subsidiaries and affiliates	13,822	11,801	123,202
Other	89,377	79,743	796,657
Securities (Notes 3 and 4)	9,182	8,536	81,843
Loans	761	1,174	6,783
Other	4,844	2,774	43,178
Allowance for doubtful receivables	(3,238)	(1,222)	(28,862)
Total	114,748	102,806	1,022,801
Inventories (Note 6):			
Finished goods	33,611	25,768	299,590
Work-in-process	4,252	3,729	37,900
Raw materials and supplies	21,274	13,677	189,625
Total	59,137	43,174	527,115
Deferred tax assets (Note 13)	2,777	2,820	24,753
Other current assets (Note 3)	4,264	4,123	38,005
Total current assets	233,953	225,232	2,085,328
Property, plant and equipment (Note 6):			
Land	23,248	17,638	207,220
Buildings, machinery and equipment	266,979	216,078	2,379,704
Construction in progress	6,664	3,295	59,399
Total	296,891	237,011	2,646,323
Accumulated depreciation	(186,327)	(146,987)	(1,660,816)
Net property, plant and equipment	110,564	90,024	985,507
Investments and other assets:			
Investments in and loans to unconsolidated subsidiaries and affiliates	52,305	33,571	466,218
Investment securities (Notes 3, 4 and 6)	59,697	50,630	532,106
Loans receivable	117	65	1,043
Net defined benefit asset (Note 12)	7,944	6,782	70,808
Deferred tax assets (Note 13)	3,755	2,074	33,470
Other	5,026	4,487	44,800
Allowance for doubtful receivables	(1,130)	(2,121)	(10,072)
Total investments and other assets	127,714	95,488	1,138,373
Intangible assets:			
Goodwill	44,216	7,657	394,117
Other intangible assets	24,011	11,797	214,021
Total intangible assets	68,227	19,454	608,138
Total assets	¥ 540,458	¥ 430,198	\$ 4,817,346

See accompanying notes.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Short-term borrowings (Notes 3, 5 and 6)	¥ 8,600	¥ 3,987	\$ 76,656
Current portion of long-term debt (Notes 3 and 5)	1,805	16,616	16,089
Payables (Note 3 and 6):			
Trade notes and accounts:			
Unconsolidated subsidiaries and affiliates	1,690	1,784	15,064
Other	57,692	53,226	514,235
Other	4,680	5,533	41,714
Total	64,062	60,543	571,013
Income and enterprise taxes payable	4,374	3,631	38,987
Accrued expenses	13,970	12,401	124,521
Deferred tax liabilities (Note 13)	18	39	160
Other current liabilities (Notes 3 and 6)	6,644	4,794	59,222
Total current liabilities	99,473	102,011	886,648
Non-current liabilities:			
Long-term debt (Notes 3, 5 and 6)	105,993	2,211	944,763
Retirement benefits for directors and corporate auditors	125	156	1,114
Net defined benefit liability (Note 12)	9,632	8,503	85,854
Deferred tax liabilities (Note 13)	27,045	21,833	241,064
Other long-term liabilities	2,025	1,581	18,051
Total non-current liabilities	144,820	34,284	1,290,846
Contingent liabilities (Note 15)			
Net assets (Note 9):			
Shareholders' equity:			
Common stock:			
Authorized - 793,496,000 shares in 2017 and 2016			
Issued - 272,623,270 shares in 2017 and 2016	25,659	25,659	228,710
Capital surplus	14,422	18,896	128,550
Retained earnings	218,881	200,096	1,950,985
Treasury stock, at cost:			
15,286,492 shares in 2017			
6,268,153 shares in 2016	(25,089)	(5,077)	(223,630)
Total shareholders' equity	233,873	239,574	2,084,615
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	31,229	25,424	278,358
Foreign currency translation adjustments	(12,549)	(10,545)	(111,855)
Remeasurements of defined benefit plans	795	785	7,086
Total accumulated other comprehensive income	19,475	15,664	173,589
Non-controlling interests	42,817	38,665	381,648
Total net assets	296,165	293,903	2,639,852
Total liabilities and net assets	¥540,458	¥430,198	\$4,817,346

See accompanying notes.

Consolidated Statements of Income

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥330,236	¥328,119	\$2,943,542
Cost of sales	218,584	219,978	1,948,337
Selling, general and administrative expenses	76,341	73,369	680,462
Operating income	35,311	34,772	314,743
Other income (expenses):			
Interest and dividend income	2,499	2,482	22,275
Interest expense	(1,025)	(1,049)	(9,136)
Gain (loss) on sale of securities and investment securities, net	1,047	(74)	9,332
Write-down of securities and investment securities	(2)	—	(18)
Loss on disposal of inventories	(215)	(284)	(1,916)
Gain (loss) on sale or disposal of property, plant and equipment, net	(28)	7,908	(250)
Foreign currency exchange loss	(1,625)	(545)	(14,484)
Equity in earnings of unconsolidated subsidiaries and affiliates	4,185	4,084	37,303
Impairment loss	(42)	—	(374)
Loss on liquidation of subsidiaries	(533)	—	(4,751)
Other, net	896	137	7,986
Other income (expenses), net	5,157	12,659	45,967
Income before income taxes and non-controlling interests	40,468	47,431	360,710
Income taxes (Note 13):			
Current	13,639	11,662	121,570
Deferred	(1,186)	255	(10,571)
Total income taxes	12,453	11,917	110,999
Net income attributable to non-controlling interests	(3,846)	(7,170)	(34,282)
Net income attributable to owners of the parent	¥ 24,169	¥ 28,344	\$ 215,429

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Net income per share	¥ 93.16	¥ 106.41	\$ 0.83
Diluted net income per share	83.46	—	0.74
Cash dividends per share	22.00	19.00	0.20

Diluted net income per share of common stock for the year ended March 31, 2016 is not shown since there were no outstanding convertible bonds with stock acquisition rights.

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net Income	¥28,015	¥ 35,513	\$249,710
Other comprehensive income (Note 10):			
Net unrealized holding gains (losses) on securities	5,573	(8,016)	49,675
Foreign currency translation adjustments	(2,494)	(15,880)	(22,230)
Remeasurements of defined benefit plans	10	(4,037)	89
Shares in other comprehensive income of equity method affiliates	(146)	(1,536)	(1,301)
Total other comprehensive income	2,943	(29,469)	26,233
Comprehensive income	¥30,958	¥ 6,044	\$275,943
Comprehensive income attributed to:			
Owners of the parent	¥27,980	¥ 2,834	\$249,399
Non-controlling interests	2,978	3,210	26,544

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥25,659	¥27,154	¥176,296	¥ (5,035)	¥224,074	¥33,986	¥ 2,328	¥ 4,859	¥ 41,173	¥38,380	¥303,627
Cash dividends paid			(4,544)		(4,544)						(4,544)
Net income attributable to owners of the parent			28,344		28,344						28,344
Purchase of treasury stock				(44)	(44)						(44)
Disposal of treasury stock		0		1	1						1
Purchase of shares of consolidated subsidiaries		(8,258)			(8,258)						(8,258)
Change in treasury stock arising from change in equity in entities accounted for using equity method				1	1						1
Net changes in items other than shareholders' equity						(8,562)	(12,873)	(4,074)	(25,509)	285	(25,224)
Balance at April 1, 2016	¥25,659	¥18,896	¥200,096	¥ (5,077)	¥239,574	¥25,424	¥(10,545)	¥ 785	¥ 15,664	¥38,665	¥293,903
Cash dividends paid			(5,379)		(5,379)						(5,379)
Net income attributable to owners of the parent			24,169		24,169						24,169
Purchase of treasury stock				(20,012)	(20,012)						(20,012)
Disposal of treasury stock		0		0	0						0
Purchase of shares of consolidated subsidiaries		(4,474)	(5)		(4,479)						(4,479)
Net changes in items other than shareholders' equity						5,805	(2,004)	10	3,811	4,152	7,963
Balance at March 31, 2017	¥25,659	¥14,422	¥218,881	¥(25,089)	¥233,873	¥31,229	¥(12,549)	¥ 795	¥ 19,475	¥42,817	¥296,165

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$228,710	\$168,429	\$1,783,546	\$ (45,254)	\$2,135,431	\$226,616	\$ (93,992)	\$6,997	\$139,621	\$344,639	\$2,619,691
Cash dividends paid			(47,945)		(47,945)						(47,945)
Net income attributable to owners of the parent			215,429		215,429						215,429
Purchase of treasury stock				(178,376)	(178,376)						(178,376)
Disposal of treasury stock		0		0	0						0
Purchase of shares of consolidated subsidiaries		(39,879)	(45)		(39,924)						(39,924)
Net changes in items other than shareholders' equity						51,742	(17,863)	89	33,968	37,009	70,977
Balance at March 31, 2017	\$228,710	\$128,550	\$1,950,985	\$ (223,630)	\$2,084,615	\$278,358	\$ (111,855)	\$7,086	\$173,589	\$381,648	\$2,639,852

See accompanying notes.

Consolidated Statements of Cash Flows

Kansai Paint Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 40,468	¥ 47,431	\$ 360,710
Depreciation and amortization	10,154	9,742	90,507
Impairment loss	42	—	374
Amortization of goodwill	1,501	1,382	13,379
Increase (decrease) in allowance for doubtful receivables	(217)	360	(1,934)
Decrease in net defined benefit liability	(720)	(945)	(6,418)
Interest and dividend income	(2,499)	(2,482)	(22,275)
Interest expense	1,025	1,049	9,136
Equity in earnings of unconsolidated subsidiaries and affiliates	(4,185)	(4,084)	(37,303)
Gain on sale of investment securities	(891)	—	(7,942)
Write-down of securities and investment securities	2	—	18
Loss (gain) on sale or disposal of property, plant and equipment, net	28	(7,908)	250
Increase in trade notes and accounts receivable	(1,382)	(4,423)	(12,318)
Increase in inventories	(4,199)	(2,234)	(37,428)
Increase (decrease) in trade notes and accounts payable	(1,028)	2,117	(9,163)
Other, net	1,962	224	17,488
Subtotal	40,061	40,229	357,081
Interest and dividends received	3,487	3,973	31,081
Interest paid	(1,093)	(1,040)	(9,742)
Income taxes paid	(13,309)	(11,691)	(118,629)
Net cash provided by operating activities	29,146	31,471	259,791
Cash flows from investing activities:			
Payments into time deposits	(59,715)	(17,023)	(532,267)
Proceeds from withdrawal of time deposits	70,580	13,526	629,111
Net decrease (increase) in securities	427	(8,476)	3,806
Purchase of property, plant and equipment	(12,311)	(10,121)	(109,734)
Proceeds from sale of property, plant and equipment	231	9,396	2,059
Purchase of intangible assets	(1,879)	(2,276)	(16,748)
Purchase of investment securities	(18,541)	(65,364)	(165,264)
Proceeds from sale of investment securities	1,181	66,347	10,527
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 11)	(42,102)	—	(375,274)
Payments of loans receivable (Note 11)	(35,239)	(2,004)	(314,101)
Collection of loans receivable	520	1,135	4,635
Other, net	(173)	71	(1,542)
Net cash used in investing activities	(97,021)	(14,789)	(864,792)
Cash flows from financing activities:			
Net increase in short-term borrowings	3,547	836	31,616
Proceeds from long-term debt	3,266	—	29,111
Repayments of long-term debt	(1,570)	(23)	(13,994)
Proceeds from issuance of convertible bonds with stock acquisition rights	102,100	—	910,063
Redemption of bonds	(15,000)	—	(133,702)
Purchase of treasury stock	(20,012)	(44)	(178,376)
Cash dividends paid	(5,379)	(4,544)	(47,945)
Cash dividends paid to non-controlling interests	(1,493)	(1,295)	(13,308)
Proceeds from share issuance to non-controlling shareholders	81	132	722
Purchase of investments in subsidiaries without change in scope of consolidation	(5,244)	(9,898)	(46,742)
Other, net	(32)	1	(285)
Net cash provided by (used in) financing activities	60,264	(14,835)	537,160
Effect of exchange rate changes on cash and cash equivalents	(936)	(1,901)	(8,342)
Decrease in cash and cash equivalents	(8,547)	(54)	(76,183)
Cash and cash equivalents at beginning of year	60,861	60,915	542,481
Cash and cash equivalents at end of year (Note 11)	¥ 52,314	¥ 60,861	\$ 466,298

See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements in the fiscal year ended March 31, 2017 include the accounts of the Company and its 108 (62 at March 31, 2016) significant subsidiaries.

Intercompany transactions and accounts have been eliminated.

Investment in 12 unconsolidated subsidiaries and 29 affiliates in the fiscal year ended March 31, 2017 (14 and 29, respectively, at March 31, 2016) are stated at cost, adjusted for equity in undistributed earnings and losses since acquisition.

The accounts of 88 consolidated subsidiaries in the fiscal year ended March 31, 2017 (46 at March 31, 2016) are included on the basis of their respective fiscal year ends, one of which ends on February 28 and the others on December 31. These subsidiaries do not prepare for consolidation purposes statements for the period which corresponds with the fiscal year of the Company, which ends March 31. For these consolidated subsidiaries, when there are significant transactions between their respective fiscal year end and that of the Company, necessary adjustments are made to reflect the transactions in the consolidated financial statements.

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

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

Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in

principle be unified for the presentation of the consolidated financial statements. Moreover, if the financial statements of foreign subsidiaries are prepared in accordance with IFRS or U.S. GAAP, they may tentatively be used for the consolidation process. However, if the four specified items are material to the group's consolidated financial statements, then they should be adjusted for in the consolidation process.

Allowance for doubtful receivables

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

Securities

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

If the quoted market price of equity securities issued by unconsolidated subsidiaries or affiliated companies not accounted for by the equity method or the quoted market price of available-for-sale securities declines significantly, the securities are stated at the quoted market price, and the difference between the quoted market price and the carrying amount is recognized as loss in the period of the decline. If the quoted market price of equity securities issued by unconsolidated subsidiaries or affiliated companies not

accounted for by the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the consolidated statements of income in the event the net asset value declines significantly. In these cases, the quoted market price or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Inventories

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the declining balance method for the Company and the domestic consolidated subsidiaries and the straight-line method for overseas consolidated subsidiaries. For the Company and the domestic consolidated subsidiaries, buildings (excluding facilities attached to buildings) acquired after March 31, 1998 and facilities attached to buildings and structures acquired after March 31, 2016 are depreciated using the straight-line method.

Software costs

Software held for own use, recorded in intangible assets, is amortized using the straight-line method over the estimated useful life (mainly five years).

Amortization of goodwill

Goodwill is amortized using the straight-line method over an appropriate period not to exceed 20 years.

Research and development expenses

Research and development expenses are charged to income as incurred. Research and development expenses for the years ended March 31, 2017 and 2016 were ¥5,297 million (\$47,215 thousand) and ¥5,046 million, respectively.

Income taxes

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

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

Finance leases

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

Retirement benefits

- (1) Method used to attribute expected benefit payments to periods of service
In determining retirement benefit obligations, the benefit formula basis is used for attributing expected benefit payments to periods of service.
- (2) Actuarial gains and losses and past service cost
Actuarial gains and losses and past service cost are recognized in expenses using the straight-line method mainly over 13 years, which is within the average of the estimated remaining service years of the employees.

Retirement benefits for directors and corporate auditors

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

Cash and cash equivalents

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

Derivatives

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

Significant hedge accounting methods

- (1) Hedge accounting method
If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value until the related loss or gain on the hedged item is recognized. However, in cases in which forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the foreign currency receivables or payables are translated at the contracted rate.
- (2) Hedging instruments and hedged items
Hedging instruments consist of forward foreign exchange contracts. Hedged items comprise receivables and payables denominated in foreign currencies and forecasted transactions denominated in foreign currencies.
- (3) Hedging policy
The Companies utilize forward exchange contracts to reduce the risk of exchange rate fluctuations associated with receivables, payables and forecasted transactions denominated in foreign currencies within actual demand.

- (4) Assessment method for hedge effectiveness
Hedge effectiveness is not assessed for forward exchange contracts as the substantial terms and conditions of the hedging instruments and hedged items are the same and considered highly counterbalanced.
- (5) Transaction risk management structure
The finance department of the Company administers hedging transactions based on the Company's rules and with the approval of management.

Net income and cash dividends per share

The calculation of net income per share is based on the weighted average number of shares of common stock in issue during the year. The calculation of diluted net income per share is based on the weighted average number of shares of common stock in issue during the year after giving effect to the dilutive potential of shares to be issued upon the exercise of convertible bonds with stock acquisition rights.

Cash dividends per share presented in the accompanying consolidated statements of income are based on the dividends attributable to the profit for the year, including dividends to be paid after the end of the year.

Changes in accounting policies and disclosures for the year ended March 31, 2017

Reclassification

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2016 to conform to the presentation for the year ended March 31, 2017.

Application of "Practical Solution on a change in depreciation method due to Tax Reform 2016"

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force No.32, June 17, 2016) from the beginning of the fiscal year ended March 31, 2017 and changed the depreciation method for facilities attached to buildings and structures acquired after March 31, 2016 from the declining balance method to the straight line method.

The effect of this change on operating income and Income before income taxes and non-controlling interests was minor.

Application of "Revised Implementation Guidance on Recoverability of Deferred Tax Assets"

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the fiscal year ended March 31, 2017.

3. Financial Instruments

1. Status of financial instruments

(1) Policies on financial instruments

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

(2) Details of financial instruments and associated risks

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

Most trade notes and accounts payable are due for payment within one year. Those denominated in foreign currencies are exposed to the risk of exchange rate fluctuations. The Companies generally raise working capital required for business transactions through short-term borrowings and procure funds required for capital expenditure and investment through long-term debt and bonds. The Companies use forward foreign exchange contracts to reduce the risk of exchange rate fluctuations associated with receivables, payables and forecasted transactions denominated in foreign currencies within the actual demand. Refer to "Significant hedge accounting methods" in Note 2, "Summary of Significant Accounting Policies," for a description of the Company's accounting policies related to hedging activities.

(3) Risk management framework for financial instruments

1) Credit risk management (counterparty risk)

The Company has established internal rules and procedures for receivables under which the Business Planning & Administration Division and Finance and Accounting Department are primarily responsible for monitoring counterparty status. The departments manage amounts and settlement dates by counterparty and work to quickly identify and mitigate payment risk that may result from situations such as the deterioration of the financial condition of a counterparty. Consolidated subsidiaries of the Company

are subject to the same risk management rules. In using derivative transactions, the Company mitigates counterparty risk by conducting transactions with financial institutions with high credit ratings.

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

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

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

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

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

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

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

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

2. Fair value of financial instruments

Book values of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2017 and 2016 were as follows (financial instruments for which the fair values were extremely difficult to determine were not included):

	Millions of yen		
	2017		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 53,027	¥ 53,027	¥ —
(2) Trade receivables - notes and accounts	103,199	103,199	—
(3) Securities and investment securities			
Available-for-sale securities	66,281	66,281	—
(4) Trade payables - notes and accounts	59,382	59,382	—
(5) Convertible bonds with stock acquisition rights (included in "Long-term debt")	101,587	105,660	4,073
(6) Derivative transactions (included in "Other current liabilities")	(71)	(71)	—

	Millions of yen		
	2016		
	Book value	Fair value	Difference
(1) Cash and deposits	¥72,309	¥72,309	¥—
(2) Trade receivables - notes and accounts	91,544	91,544	—
(3) Securities and investment securities			
Available-for-sale securities	58,415	58,415	—
(4) Trade payables - notes and accounts	55,010	55,010	—
(5) Derivative transactions (included in "Other current assets")	49	49	—

Thousands of U.S. dollars (Note 1)			
2017			
	Book value	Fair value	Difference
(1) Cash and deposits	\$472,654	\$472,654	\$ —
(2) Trade receivables - notes and accounts	919,859	919,859	—
(3) Securities and investment securities			
Available-for-sale securities	590,792	590,792	—
(4) Trade payables - notes and accounts	529,299	529,299	—
(5) Convertible bonds with stock acquisition rights (included in "Long-term debt")	905,491	941,795	36,304
(6) Derivative transactions (included in "Other current liabilities")	(633)	(633)	—

Derivative assets and liabilities were on a net basis.

Fair value measurement of financial instruments

(1) Cash and deposits (2) Trade receivables - notes and accounts

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

(3) Securities and investment securities

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

(4) Trade payables - notes and accounts

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

(5) Convertible bonds with stock acquisition rights (included in "Long-term debt")

The fair value of convertible bonds with stock acquisition rights is determined by the market price.

(6) Derivative transactions (included in "Other current liabilities")

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

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

		Millions of yen	Thousands of U.S. dollars (Note 1)
		2017	2016
			2017
Non-listed equity securities	¥ 2,598	¥ 750	\$ 23,157
Non-listed investment securities of unconsolidated subsidiaries and affiliates	36,133	18,729	322,070

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

Millions of yen				
2017				
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥ 53,027	¥ —	¥ —	¥ —
Receivables - trade notes and accounts	103,199	—	—	—
Securities and investment securities				
Other securities with maturity				
Corporate bonds	173	48	167	45
Other	8,749	—	—	—

Millions of yen				
2016				
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥72,309	¥ —	¥ —	¥ —
Receivables - trade notes and accounts	91,544	—	—	—
Securities and investment securities				
Other securities with maturity				
Corporate bonds	171	170	188	39
Other	8,536	—	—	—

Thousands of U.S. dollars (Note 1)				
2017				
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	\$472,654	\$ —	\$ —	\$ —
Receivables - trade notes and accounts	919,859	—	—	—
Securities and investment securities				
Other securities with maturity				
Corporate bonds	1,542	428	1,488	401
Other	77,984	—	—	—

4. Securities

(1) The following table summarizes acquisition costs and book values of available-for-sale securities with available fair values at March 31, 2017 and 2016.

Millions of yen			
2017			
	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥14,070	¥55,756	¥41,686
Corporate bonds	225	260	35
Investment trust funds	7,533	7,693	160
Total	¥21,828	¥63,709	¥41,881
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 1,603	¥ 1,344	¥ (259)
Corporate bonds	173	173	—
Investment trust funds	1,055	1,055	—
Total	¥ 2,831	¥ 2,572	¥ (259)

Millions of yen			
2016			
	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	¥12,032	¥46,778	¥34,746
Corporate bonds	255	264	9
Investment trust funds	8,476	8,536	60
Total	¥20,763	¥55,578	¥34,815
Securities with book value not exceeding acquisition cost:			
Equity securities	¥ 3,369	¥ 2,533	¥ (836)
Corporate bonds	307	305	(2)
Investment trust funds	0	0	—
Total	¥ 3,676	¥ 2,838	¥ (838)

Thousands of U.S. dollars (Note 1)			
2017			
	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost:			
Equity securities	\$125,412	\$496,978	\$371,566
Corporate bonds	2,006	2,318	312
Investment trust funds	67,145	68,571	1,426
Total	\$194,563	\$567,867	\$373,304
Securities with book value not exceeding acquisition cost:			
Equity securities	\$ 14,288	\$ 11,979	\$ (2,309)
Corporate bonds	1,542	1,542	—
Investment trust funds	9,404	9,404	—
Total	\$ 25,234	\$ 22,925	\$ (2,309)

(2) The following table summarizes book values of available-for-sale securities with no available fair value at March 31, 2017 and 2016.

Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016
Non-listed equity securities	¥2,598	¥750
		\$23,157

(3) Total sales of available-for-sale securities for the years ended March 31, 2017 and 2016 were as follows:

Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016
Selling amount	¥433,627	¥247,426
Realized gains	891	67
Realized losses	—	(140)
		\$3,865,113
		7,942
		—

(4) Write-down of securities

In the year ended March 31, 2017, a write-down of ¥2 million (\$18 thousand) was recognized on available-for-sale securities, consisting of listed equity securities in the amount of ¥0 million (\$0 thousand) and non-listed equity securities in the amount of ¥2 million (\$18 thousand).

In the year ended March 31, 2016, write-down was not recognized on securities.

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

5. Short-Term Borrowings and Long-Term Debt

Annual interest rates on the short-term borrowings ranged from 0.01% to 11.00% at March 31, 2017 and from 0.10% to 13.25% at March 31, 2016.

Short-term borrowings at March 31, 2017 and 2016 consisted of the following:

Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016
Bank loans	¥8,520	¥3,907
Loans from unconsolidated subsidiaries and affiliates	80	80
Total	¥8,600	¥3,987
		\$75,943
		713
		\$76,656

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Bank loans with interest rates ranging from 1.00% to 9.99% in 2017 (from 1.20% to 9.50% in 2016) due serially to 2024	¥ 6,211	¥ 3,827	\$ 55,361
0.564% unsecured bonds, due January 2017	—	15,000	—
Zero-coupon convertible bonds, due June 2019	41,327	—	368,366
Zero-coupon convertible bonds, due June 2022	60,260	—	537,125
Total	107,798	18,827	960,852
Current portion of long-term debt	(1,805)	(16,616)	(16,089)
Long-term debt	¥105,993	¥ 2,211	\$944,763

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥ 1,805	\$ 16,089
2019	2,493	22,221
2020	40,070	357,162
2021	58	517
2022 and thereafter	61,785	550,718
Total	¥106,211	\$946,707

6. Pledged Assets

At March 31, 2017, the following assets were pledged as collateral for certain trade notes and accounts payable.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Cash and deposits	¥20	\$178
Inventories	—	—
Property, plant and equipment	—	—
Investment securities	19	169
Total	¥39	\$347

At March 31, 2016, the following assets were pledged as collateral for certain trade notes and accounts payable, short-term borrowings of ¥13 million, other current liabilities of ¥15 million and long-term debt of ¥27 million.

	Millions of yen
	2016
Cash and deposits	¥ 5
Inventories	190
Property, plant and equipment	798
Investment securities	—
Total	¥993

7. Derivative Transactions

(1) Derivative transactions to which the Companies didn't apply hedge accounting as of March 31, 2017 and 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2017			2017		
	Contract amount	Fair value* ¹	Unrealized gain (loss)	Contract amount	Fair value* ¹	Unrealized gain (loss)
Foreign currency forward contracts						
Buy						
U.S. dollar	¥ 231	¥ (4)	¥ (4)	\$ 2,059	\$ (36)	\$ (36)
Euro	361	(3)	(3)	3,218	(26)	(26)
Japanese yen	231	(22)	(22)	2,059	(196)	(196)
Sell						
U.S. dollar	174	(2)	(2)	1,551	(18)	(18)
Euro	32,319	(35)	(35)	288,074	(312)	(312)
Hungarian forint	60	(0)	(0)	535	(0)	(0)
Russian ruble	24	(2)	(2)	214	(18)	(18)
Polish zloty	108	(2)	(2)	962	(18)	(18)
Currency option contracts * ²						
Buy (Call)						
U.S. dollar	58	2	2	517	18	18
Euro	126	2	2	1,123	18	18
Sell (Put)						
U.S. dollar	116	(1)	(1)	1,034	(9)	(9)
Euro	250	(4)	(4)	2,228	(36)	(36)
Total	¥34,058	¥(71)	¥(71)	\$303,574	\$(633)	\$(633)

	Millions of yen		
	2016		
	Contract amount	Fair value* ¹	Unrealized gain (loss)
Foreign currency forward contracts			
Buy			
U.S. dollar	¥ 2	¥ 0	¥ 0
Euro	2	0	0
Japanese yen	277	4	4
Sell			
U.S. dollar	223	(1)	(1)
Currency option contracts * ²			
Buy			
Euro	378	46	46
Total	¥882	¥49	¥49

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

*2 The currency option contracts are zero-cost options and no premium is received or paid.

(2) Derivative transactions to which the Companies applied hedge accounting as of March 31, 2017 and 2016

Not applicable.

8. Related Party Transactions

During the years ended March 31, 2017 and 2016, a consolidated subsidiary of the Company had operational transactions with OHGI SHOKAI CO., LTD., an affiliate of the Company. The significant transactions with OHGI SHOKAI CO., LTD. for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
For the year:			
Sales of automotive and industrial coatings	¥14,822	¥14,017	\$132,115
At year-end:			
Trade notes and accounts receivable	¥ 6,967	¥ 6,045	\$ 62,100

9. Net Assets

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

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

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

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

At the annual shareholders' meeting held on June 29, 2017, the shareholders approved cash dividends of ¥11 (\$0.10) per share amounting to ¥2,840 million (\$25,314 thousand). This appropriation was not accounted for in the consolidated financial statements at March 31, 2017. Such appropriations are recognized in the period in which they are approved by the shareholders.

10. Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net unrealized holding gains (losses) on securities:			
Gains (losses) arising during the year	¥ 7,514	¥(12,602)	\$ 66,976
Reclassification adjustments	(71)	(67)	(633)
Amount before income tax effect	7,443	(12,669)	66,343
Income tax effect	(1,870)	4,653	(16,668)
Net unrealized holding gains (losses) on securities	5,573	(8,016)	49,675
Foreign currency translation adjustments:			
Gains (losses) arising during the year	(2,494)	(15,749)	(22,230)
Reclassification adjustments	—	(131)	—
Amount before income tax effect	(2,494)	(15,880)	(22,230)
Income tax effect	—	—	—
Foreign currency translation adjustments	(2,494)	(15,880)	(22,230)
Remeasurements of defined benefit plans			
Gains (losses) arising during the year	390	(5,888)	3,476
Reclassification adjustments	(375)	(118)	(3,342)
Amount before income tax effect	15	(6,006)	134
Income tax effect	(5)	1,969	(45)
Remeasurements of defined benefit plans	10	(4,037)	89
Shares in other comprehensive income of equity method affiliates:			
Gains (losses) arising during the year	(134)	(1,536)	(1,194)
Reclassification adjustments	(12)	—	(107)
Shares in other comprehensive income of equity method affiliates	(146)	(1,536)	(1,301)
Total other comprehensive income	¥ 2,943	¥(29,469)	\$ 26,233

11. Supplementary Cash Flow Information

(1) Reconciliation of cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash and deposits	¥53,027	¥ 72,309	\$472,654
Time deposits with original maturity of more than three months	(713)	(11,448)	(6,356)
Cash and cash equivalents	¥52,314	¥ 60,861	\$466,298

(2) Acquisition cost and net payments for assets and liabilities of newly consolidated subsidiaries acquired through a stock purchase
1) Acquisition cost and net payments for assets and liabilities of U.S. Paint Corporation for the year ended March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Current assets	¥ 1,245	\$ 11,097
Non-current assets	7,172	63,927
Goodwill	2,613	23,291
Current liabilities	(417)	(3,717)
Non-current liabilities	(2,840)	(25,314)
Non-controlling interests	(2,526)	(22,515)
Acquisition cost	5,247	46,769
Less: cash and cash equivalents acquired	(92)	(820)
Net payments for the acquisition	¥ 5,155	\$ 45,949

2) Acquisition cost and net payments for assets and liabilities of Annagab S.A. and its 38 consolidated subsidiaries for the year ended March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Current assets	¥ 29,716	\$ 264,872
Non-current assets	23,462	209,127
Goodwill	34,981	311,801
Current liabilities	(10,929)	(97,415)
Non-current liabilities	(33,888)	(302,059)
Non-controlling interests	(608)	(5,419)
Acquisition cost	42,734	380,907
Less: cash and cash equivalents acquired	(8,786)	(78,313)
Net payments for the acquisition	¥ 33,948	\$ 302,594

* Current liabilities and non-current liabilities include borrowings corresponding to payments of loans receivable of ¥33,085 million (\$294,902 thousand) executed by the Company up to the acquisition date. Such borrowings were eliminated on consolidation as Annagab S.A. became a consolidated subsidiary.

12. Employees' Severance and Retirement Benefits

The Company and some of the consolidated subsidiaries have defined benefit plans, i.e., corporate pension fund plans and lump-sum payment plans. Certain consolidated subsidiaries have defined contribution pension plans. Some of the consolidated subsidiaries use the simplified method for the calculation of net defined benefit liability and retirement benefit costs. In certain cases, the Company and some of the consolidated subsidiaries pay additional retirement benefits upon the retirement of employees.

(1) Defined benefit plans

1) Reconciliation of beginning and ending balances of the retirement benefit obligations (except plans applying the simplified method) at March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Retirement benefit obligations at beginning of year	¥45,668	¥42,357	\$407,059
Service cost	1,748	1,484	15,581
Interest cost	425	635	3,788
Actuarial losses	707	3,825	6,302
Benefits paid	(2,010)	(2,317)	(17,916)
Changes in the scope of consolidation	783	—	6,979
Foreign currency exchange difference	(88)	(316)	(784)
Retirement benefit obligations at end of year	¥47,233	¥45,668	\$421,009

2) Reconciliation of beginning and ending balances of plan assets (except plans applying the simplified method) at March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Plan assets at beginning of year	¥44,675	¥46,146	\$398,208
Expected return on plan assets	1,036	1,049	9,234
Actuarial gains (losses)	823	(2,185)	7,336
Contributions from the employer	1,405	1,403	12,524
Benefits paid	(1,651)	(1,698)	(14,716)
Foreign currency exchange difference	1	(40)	9
Plan assets at end of year	¥46,289	¥44,675	\$412,595

3) Reconciliation of beginning and ending balances of net defined benefit liability applying the simplified method at March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net defined benefit liability at beginning of year	¥728	¥721	\$6,489
Net periodic benefit costs	131	157	1,168
Contributions from the employer	(59)	(80)	(526)
Benefits paid	(56)	(70)	(499)
Net defined benefit liability at end of year	¥744	¥728	\$6,632

4) Reconciliation of ending balances of retirement benefit obligations and plan assets with net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheets at March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Funded retirement benefit obligations	¥ 44,006	¥ 43,503	\$ 392,245
Plan assets	(47,199)	(45,538)	(420,706)
	(3,193)	(2,035)	(28,461)
Unfunded retirement benefit obligations	4,881	3,756	43,507
Net amount of asset and liability recognized in the consolidated balance sheets	1,688	1,721	15,046
Net defined benefit liability	9,632	8,503	85,854
Net defined benefit asset	(7,944)	(6,782)	(70,808)
Net amount of asset and liability recognized in the consolidated balance sheets	¥ 1,688	¥ 1,721	\$ 15,046

Note: Including plans applying the simplified method.

5) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Service cost	¥ 1,748	¥ 1,484	\$15,581
Interest cost	425	635	3,788
Expected return on plan assets	(1,036)	(1,049)	(9,234)
Recognized actuarial losses	92	185	819
Amortization of past service cost	(185)	(184)	(1,649)
Net periodic benefit costs calculated by the simplified method	131	157	1,168
Net periodic benefit costs	1,175	1,228	10,473
Additional retirement benefits	10	36	89
Total	¥ 1,185	¥ 1,264	\$10,562

6) The amounts recognized in remeasurements of defined benefit plans (before the tax effect) in other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Past service cost	¥(185)	¥ (184)	\$(1,649)
Actuarial gains (losses)	200	(5,822)	1,783
Total	¥ 15	¥(6,006)	\$ 134

7) The amounts recognized in remeasurements of defined benefit plans (before the tax effect) in accumulated other comprehensive income at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unrecognized past service cost	¥ (847)	¥(1,031)	\$ (7,550)
Unrecognized actuarial gains	(298)	(99)	(2,656)
Total	¥(1,145)	¥(1,130)	\$(10,206)

8) The component ratio of plan assets by asset category at March 31, 2017 and 2016 was as follows:

	2017	2016
Debt securities	42%	45%
Equity securities	31	29
Life insurance company general accounts	21	21
Cash and deposits	4	3
Other	2	2
Total	100%	100%

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

10) Principal actuarial assumptions for the years ended March 31, 2017 and 2016 were as follows (presented as weighted averages):

	2017	2016
Discount rate	0.9%	0.9%
Expected long-term rate of return on plan assets	2.5%	2.5%
Salary increase rate	3.7%	3.7%

(2) Defined contribution pension plans

The amounts of contribution to defined contribution plans of certain consolidated subsidiaries were ¥880 million (\$7,844 thousand) and ¥820 million for the years ended March 31, 2017 and 2016, respectively.

13. Deferred Income Taxes

(1) The following table summarizes the significant differences between the statutory tax rate and the Companies' effective income tax rate for financial statement purposes for the years ended March 31, 2017 and 2016.

	2017	2016
Statutory tax rate	30.8%	33.0%
Amortization of goodwill	1.1	1.0
Elimination of dividends from subsidiaries	4.4	2.5
Equity in earnings of affiliates	(3.2)	(2.8)
Undistributed foreign earnings	(0.1)	0.7
Difference in statutory tax rates of foreign subsidiaries	0.0	(6.8)
Reduction of the amount of deferred tax assets resulting from the change in tax rate	—	0.1
Other	(2.2)	(2.6)
Effective tax rate	30.8%	25.1%

(2) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Deferred tax assets:			
Valuation loss on inventories	¥ 177	¥ 155	\$ 1,577
Elimination of unrealized gain on inventories	558	510	4,974
Excess allowance for doubtful receivables	1,020	776	9,092
Excess accrued expenses	647	530	5,767
Excess bonuses accrued	1,259	1,208	11,222
Net defined benefit liability	833	911	7,425
Acquisition related costs of shares	213	—	1,898
Tax losses carried forward	2,427	64	21,633
Revaluation of assets of subsidiaries on consolidation	1,123	1,008	10,010
Other	84	138	749
Subtotal	8,341	5,300	74,347
Valuation allowance	(12)	(25)	(107)
Total deferred tax assets	8,329	5,275	74,240
Deferred tax liabilities:			
Adjustments of allowance for doubtful accounts	25	55	223
Adjustments to fixed assets based on corporate tax laws	3,089	3,280	27,533
Net unrealized holding gains on securities	12,306	10,400	109,689
Revaluation of assets of subsidiaries on consolidation	8,311	3,507	74,080
Tax effect of foreign subsidiaries' and affiliates' undistributed earnings	4,880	4,859	43,497
Other	249	152	2,219
Total deferred tax liabilities	28,860	22,253	257,241
Net deferred tax liabilities	¥20,531	¥16,978	\$183,001

14. Leases

Operating leases

Future minimum lease payments under non-cancellable operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within one year	¥ 528	¥ —	\$ 4,706
Due over one year	1,226	—	10,928
Total	¥1,754	¥ —	\$15,634

15. Contingent Liabilities

At March 31, 2017 and 2016, the Companies had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Guarantees of bank borrowings	¥2,128	¥2,167	\$18,968
Trade receivables transferred	1,004	—	8,949
Total	¥3,132	¥2,167	\$27,917

16. Segment Information

1. Segment information

(1) General information for reportable segments

The reportable segments of the Kansai Paint Group are defined as components of the Group for which separate financial information is available and reviewed regularly by the Board of Directors in determining how to allocate management resources and evaluate operating performance. The Company and its consolidated subsidiaries and affiliates are primarily engaged in the manufacturing and sale of paints and coatings. The Company is mainly in charge of business activities in Japan while locally incorporated overseas subsidiaries are in charge in each region. Locally incorporated overseas subsidiaries are independent business units that develop their own business activities and establish their own comprehensive strategies in each region. Accordingly, the Kansai Paint Group, being composed of regional segments based on manufacturing and selling systems, has the following five reportable segments: Japan, India, Asia, Africa and Europe.

Starting from the fiscal year ended March 31, 2017, the Kansai Paint Group has changed the method of reporting as reportable segment because quantitative importance of "Europe" included in "Other" increased.

The segment information for the fiscal year ended March 31, 2016 is disclosed based on the reporting segment classification for the fiscal year ended March 31, 2017.

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

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

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

Segment information for the fiscal years ended March 31, 2017 and 2016 was as follows:

	Millions of yen									
	2017									
	Reportable segments						Other*1	Total	Adjustment*2	Consolidated financial statements*3
	Japan	India	Asia	Africa	Europe	Total				
Net sales										
Sales to customers	¥151,417	¥74,694	¥56,624	¥28,026	¥ 16,831	¥327,592	¥ 2,644	¥330,236	¥ —	¥330,236
Intersegment sales and transfers	15,355	19	3,691	207	37	19,309	—	19,309	(19,309)	—
Total sales	166,772	74,713	60,315	28,233	16,868	346,901	2,644	349,545	(19,309)	330,236
Segment income (loss)	¥ 23,536	¥11,623	¥ 6,570	¥ (3,732)	¥ 1,024	¥ 39,021	¥ 1,004	¥ 40,025	¥ —	¥ 40,025
Segment assets	¥258,063	¥61,073	¥95,472	¥37,617	¥111,429	¥563,654	¥17,273	¥580,927	¥(40,469)	¥540,458
Other items										
Depreciation and amortization	¥ 3,581	¥ 1,018	¥ 3,248	¥ 1,662	¥ 491	¥ 10,000	¥ 154	¥ 10,154	¥ —	¥ 10,154
Amortization of goodwill	—	5	416	967	—	1,388	113	1,501	—	1,501
Interest income	593	191	214	64	0	1,062	0	1,062	(26)	1,036
Interest expense	5	2	69	636	271	983	0	983	(28)	955
Equity in earnings of unconsolidated subsidiaries and affiliates	740	(8)	2,140	205	290	3,367	818	4,185	—	4,185
Investments in unconsolidated subsidiaries and affiliates	12,030	212	19,193	1,423	13,425	46,283	4,249	50,532	—	50,532
Increase in property, plant and equipment and intangible assets	3,695	3,499	3,604	1,445	1,339	13,582	35	13,617	—	13,617

Millions of yen										
2016										
	Reportable segments						Other* ¹	Total	Adjustment* ²	Consolidated financial statements* ³
	Japan	India	Asia	Africa	Europe	Total				
Net sales										
Sales to customers	¥155,367	¥65,800	¥58,898	¥29,252	¥17,773	¥327,090	¥1,029	¥328,119	¥ —	¥328,119
Intersegment sales and transfers	15,923	18	3,317	101	34	19,393	—	19,393	(19,393)	—
Total sales	171,290	65,818	62,215	29,353	17,807	346,483	1,029	347,512	(19,393)	328,119
Segment income (loss)	¥ 21,470	¥ 9,196	¥ 7,651	¥ (595)	¥ 703	¥ 38,425	¥1,290	¥ 39,715	¥ —	¥ 39,715
Segment assets	¥241,561	¥54,618	¥91,754	¥34,893	¥12,416	¥435,242	¥4,356	¥439,598	¥ (9,400)	¥430,198
Other items										
Depreciation and amortization	¥ 3,749	¥ 1,032	¥ 3,210	¥ 1,281	¥ 468	¥ 9,740	¥ 2	¥ 9,742	¥ —	¥ 9,742
Amortization of goodwill	—	5	417	960	—	1,382	—	1,382	—	1,382
Interest income	53	40	214	506	0	813	0	813	(24)	789
Interest expense	12	9	47	641	274	983	0	983	(19)	964
Equity in earnings of unconsolidated subsidiaries and affiliates	569	—	1,917	197	167	2,850	1,234	4,084	—	4,084
Investments in unconsolidated subsidiaries and affiliates	11,080	—	16,511	2,094	21	29,706	3,865	33,571	—	33,571
Increase in property, plant and equipment and intangible assets	3,266	1,513	3,692	2,252	721	11,444	0	11,444	—	11,444

Thousands of U.S. dollars (Note 1)										
2017										
	Reportable segments						Other* ¹	Total	Adjustment* ²	Consolidated financial statements* ³
	Japan	India	Asia	Africa	Europe	Total				
Net sales										
Sales to customers	\$1,349,648	\$665,782	\$504,715	\$249,808	\$150,022	\$2,919,975	\$ 23,567	\$2,943,542	\$ —	\$2,943,542
Intersegment sales and transfers	136,866	169	32,900	1,845	330	172,110	—	172,110	(172,110)	—
Total sales	1,486,514	665,951	537,615	251,653	150,352	3,092,085	23,567	3,115,652	(172,110)	2,943,542
Segment income (loss)	\$ 209,787	\$103,601	\$ 58,561	\$ (33,265)	\$ 9,128	\$ 347,812	\$ 8,949	\$ 356,761	\$ —	\$ 356,761
Segment assets	\$2,300,232	\$544,371	\$850,985	\$335,297	\$993,217	\$5,024,102	\$153,962	\$5,178,064	\$(360,718)	\$4,817,346
Other items										
Depreciation and amortization	\$ 31,919	\$ 9,074	\$ 28,951	\$ 14,814	\$ 4,377	\$ 89,135	\$ 1,372	\$ 90,507	\$ —	\$ 90,507
Amortization of goodwill	—	45	3,708	8,619	—	12,372	1,007	13,379	—	13,379
Interest income	5,286	1,702	1,908	570	0	9,466	0	9,466	(232)	9,234
Interest expense	45	18	615	5,669	2,415	8,762	0	8,762	(250)	8,512
Equity in earnings of unconsolidated subsidiaries and affiliates	6,596	(71)	19,075	1,827	2,585	30,012	7,291	37,303	—	37,303
Investments in unconsolidated subsidiaries and affiliates	107,229	1,889	171,076	12,684	119,663	412,541	37,873	450,414	—	450,414
Increase in property, plant and equipment and intangible assets	32,935	31,188	32,124	12,880	11,935	121,062	312	121,374	—	121,374

Notes:

*1 The "Other" category includes business activities of subsidiaries and affiliates in the U.S., Mexico and other locations.

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

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

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

India: India, Nepal and other locations.

Asia: Thailand, China, Indonesia and other locations.

Africa: South Africa, Zimbabwe, Namibia and other locations.

Europe: Slovenia, Turkey, Austria, Luxembourg and other locations.

2. Related information

(1) Information by products and services

Millions of yen						
2017						
	Automotive	Industrial	Decorative	Marine and protective	Other	Total
Sales to customers	¥122,803	¥83,449	¥86,671	¥20,793	¥16,520	¥330,236

Millions of yen						
2016						
	Automotive	Industrial	Decorative	Marine and protective	Other	Total
Sales to customers	¥122,897	¥81,889	¥83,221	¥22,441	¥17,671	¥328,119

Thousands of U.S. dollars (Note 1)						
2017						
	Automotive	Industrial	Decorative	Marine and protective	Other	Total
Sales to customers	\$1,094,598	\$743,819	\$772,538	\$185,337	\$147,250	\$2,943,542

(2) Information by geographical segment

Millions of yen							
2017							
	Japan	India	Asia	Africa	Europe	Other	Total
Total sales	¥135,691	¥74,694	¥66,714	¥29,404	¥18,196	¥5,537	¥330,236
Property, plant and equipment	40,119	17,688	22,117	7,691	22,667	282	110,564

Millions of yen							
2016							
	Japan	India	Asia	Africa	Europe	Other	Total
Total sales	¥139,240	¥65,800	¥69,993	¥30,103	¥19,157	¥3,826	¥328,119
Property, plant and equipment	41,034	14,858	22,587	6,780	4,764	1	90,024

Thousands of U.S. dollars (Note 1)							
2017							
	Japan	India	Asia	Africa	Europe	Other	Total
Total sales	\$1,209,475	\$665,781	\$594,652	\$262,091	\$162,189	\$49,354	\$2,943,542
Property, plant and equipment	357,599	157,661	197,139	68,553	202,041	2,514	985,507

(3) Information by major customers

No information is disclosed as there were no customers accounting for 10% or more of the Companies' total net sales for the fiscal years ended March 31, 2017 or 2016.

3. Impairment loss on property, plant and equipment and intangible assets by reportable segment

There were no applicable related items for the fiscal years ended March 31, 2016.

Impairment loss on property, plant and equipment and intangible assets by reportable segment for the fiscal years ended March 31, 2017 was as follows:

Millions of yen										
2017										
	Reportable segments						Other	Total	Adjustment	Consolidated financial statements
	Japan	India	Asia	Africa	Europe	Total				
Impairment loss	¥1	¥—	¥—	¥41	¥—	¥42	¥—	¥42	¥—	¥42

Thousands of U.S. dollars (Note 1)										
2017										
	Reportable segments						Other	Total	Adjustment	Consolidated financial statements
	Japan	India	Asia	Africa	Europe	Total				
Impairment loss	\$9	\$—	\$—	\$365	\$—	\$374	\$—	\$374	\$—	\$374

4. Unamortized balance of goodwill by reportable segment

Unamortized balance of goodwill by reportable segment for the fiscal years ended March 31, 2017 and 2016 was as follows:

Millions of yen										
2017										
	Reportable segments						Other	Total	Adjustment	Consolidated financial statements
	Japan	India	Asia	Africa	Europe	Total				
Unamortized balance of goodwill	¥—	¥3	¥2,654	¥4,670	¥34,052	¥41,379	¥2,837	¥44,216	¥—	¥44,216

Millions of yen										
2016										
	Reportable segments						Other	Total	Adjustment	Consolidated financial statements
	Japan	India	Asia	Africa	Europe	Total				
Unamortized balance of goodwill	¥—	¥8	¥2,610	¥5,039	¥—	¥7,657	¥—	¥7,657	¥—	¥7,657

Thousands of U.S. dollars (Note 1)										
2017										
	Reportable segments						Other	Total	Adjustment	Consolidated financial statements
	Japan	India	Asia	Africa	Europe	Total				
Unamortized balance of goodwill	\$—	\$27	\$23,656	\$41,626	\$303,521	\$368,830	\$25,287	\$394,117	\$—	\$394,117

5. Gain on negative goodwill by reportable segment

There were no applicable related items for the fiscal years ended March 31, 2017 and 2016.

17. Business Combinations

Additional acquisition of subsidiary's shares

(1) Overview of business combination

- 1) Name and business description of the acquired company
Name of the acquired company: KANSAI NEROLAC PAINTS LTD.
Description of business: Manufacturing and sales of paints
- 2) Date of the business combination
April 1, 2016, July 1, 2016 and October 1, 2016
- 3) Legal form of the business combination
Acquisition of shares from non-controlling interests
- 4) Name of the acquired company after the business combination
No change in name
- 5) Other matters regarding overview
Through the business combination, the Company expects to improve cooperative relationships and further develop corporate value and the business efficiency of the Group.

(2) Overview of accounting treatment applied

Pursuant to the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on September 13, 2013), the business combination under common control was treated as a transaction with non-controlling interests.

(3) Purchase price of additional shares and breakdown of acquisition cost

Cash and deposits: ¥5,206 million (\$46,403 thousand)

(4) Details about changes in shareholders' equity by transaction with non-controlling interests

- 1) Main reason for the change in capital surplus
Additional acquisition of subsidiary's shares
- 2) The amount of capital surplus decrease due to the transaction with non-controlling interests
¥4,498 million (\$40,093 thousand)

Business combination through acquisition

(1) Outline of the business combination

- 1) Name and business description of the acquired company
Name of the acquired company: U.S. Paint Corporation
Description of business: Manufacturing and sales of automotive parts and industrial paints
- 2) Primary reasons for the business combination
For the purpose of securing the manufacturing base of automotive parts and industrial paints in the North America region and expanding businesses to Japanese and foreign users
- 3) Date of the business combination
August 16, 2016
- 4) Legal form of the business combination
Share acquisition through payment in cash
- 5) Name of the acquired company after the business combination
U.S. Paint Corporation
- 6) Percentage of voting rights acquired

Percentage of voting rights held before the business combination:	—%
Percentage of voting rights additionally acquired at the date of business combination:	51.04%
Percentage of voting rights held after the business combination:	51.04%
- 7) Primary reasons for deciding on the acquiring company
The Company was decided on as the acquiring company because it proposed to buy the shares in exchange for cash.

- (2) Period of the acquired company's financial results included in the consolidated financial statements of the Company
 Since the date of the business combination was August 16, 2016, the business results of the acquired company for the period from August 16, 2016 to December 31, 2016 is included in the consolidated financial statements of the Company.

(3) Acquisition cost and breakdown by class of consideration

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for acquisition	Cash	¥5,247	\$46,769
Total acquisition cost:		¥5,247	\$46,769

(4) Description and amount of major acquisition related costs

Consultant fees: ¥26 million (\$232 thousand)

(5) Amount of goodwill, reason for recognizing goodwill and amortization method and period

1) Amount of goodwill

¥2,613 million (\$23,291 thousand)

2) Reason for recognizing goodwill

Goodwill is recognized for the difference between acquisition cost and the Company's share on the acquired company.

3) Amortization method and period

Straight-line method over 10 years

(6) Amount of assets and liabilities acquired on the date of the business combination

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥1,245	\$11,097
Non-current assets	7,172	63,927
Total assets	¥8,417	\$75,024
Current liabilities	¥ 417	\$ 3,717
Non-current liabilities	2,840	25,314
Total liabilities	¥3,257	\$29,031

(7) The amounts allocated to intangible fixed assets other than goodwill, breakdown by component and the weighted average amortization period by component

Trademarks: ¥1,508 million (\$13,441 thousand) (non amortization)

Developed technology: ¥927 million (\$8,263 thousand) (10 years)

Customer relationships: ¥4,469 million (\$39,834 thousand) (20 years)

(8) Estimated amounts that would affect the consolidated statements of income for the year ended March 31, 2017, assuming that the business combination had been completed on the commencement date of that year

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥2,332	\$20,786
Operating income	474	4,225
Income before income taxes and non-controlling interests	467	4,163
Net income attributable to owners of the parent	169	1,506

	Yen	U.S. dollars (Note 1)
Net income per share	¥0.65	\$0.01

(Calculation method for the estimated amounts)

The estimated amounts that would affect the consolidated statements of income were calculated as the difference between net sales and profit and loss accounts calculated assuming that the business combination had been completed on the commencement date of the year ended March 31, 2017.

The information above has not been audited.

Business combination through acquisition

(1) Outline of the business combination

1) Name and business description of the acquired company

Name of the acquired company: Annagab S.A. and its 38 consolidated subsidiaries (Helios Group)

Description of business: Owning shares of the Helios Group, which engages in the manufacture and sales of paints

2) Primary reasons for the business combination

For the purpose of a full-scale entry into the European market and expanding businesses in the market

3) Date of the business combination

March 31, 2017

4) Legal form of the business combination

Share acquisition through payment in cash

5) Name of the acquired company after the business combination

Annagab S.A.

6) Percentage of voting rights acquired

Percentage of voting rights held before the business combination: —%

Percentage of voting rights additionally acquired at the date of business combination: 100.00%

Percentage of voting rights held after the business combination: 100.00%

7) Primary reasons for deciding on the acquiring company

The Company was decided on as the acquiring company because it proposed to buy the shares in exchange for cash.

(2) Period of the acquired company's financial results included in the consolidated financial statements of the Company

Since the date of the business combination was March 31, 2017, the business results of the acquired company is not included in the consolidated statements income of the Company.

(3) Acquisition cost and breakdown by class of consideration

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for acquisition	Cash	¥42,734	\$380,907
Total acquisition cost:		¥42,734	\$380,907

(4) Description and amount of major acquisition related costs

Consultant fees: ¥744 million (\$6,632 thousand)

(5) Amount of goodwill, reason for recognizing goodwill and amortization method and period

1) Amount of goodwill

¥34,981 million (\$311,801 thousand)

The amount of goodwill is calculated provisionally, as the purchase price allocation has not been completed.

2) Reason for recognizing goodwill

Goodwill is recognized for the difference between acquisition cost and the Company's share on the acquired company.

3) Amortization method and period

Goodwill will be amortized using the straight-line method over an estimated period in which the investment effects will be revealed.

The amortization period is currently under calculation.

(6) Amount of assets and liabilities acquired on the date of the business combination

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥29,716	\$264,872
Non-current assets	23,462	209,127
Total assets	¥53,178	\$473,999
Current liabilities	¥10,929	\$ 97,415
Non-current liabilities	33,888	302,059
Total liabilities	¥44,817	\$399,474

The amount of assets and liabilities acquired is calculated provisionally, as the purchase price allocation has not been completed.

(7) Purchase price allocation

The Company provisionally accounted for the business combination based on the relevant information available as of March 31, 2017, because the purchase price allocation has not been completed.

(8) Estimated amounts that would affect the consolidated statements of income for the year ended March 31, 2017, assuming that the business combination had been completed on the commencement date of that year

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥44,576	\$397,326
Operating income	4,325	38,551
Income before income taxes and non-controlling interests	1,400	12,479
Net income attributable to owners of the parent	656	5,847

	Yen	U.S. dollars (Note 1)
Net income per share	¥2.53	\$0.02

(Calculation method for the estimated amounts)

The estimated amounts that would affect the consolidated statements of income were calculated as the difference between net sales and profit and loss accounts calculated assuming that the business combination had been completed on the commencement date of the year ended March 31, 2017.

The information above has not been audited.

18. Subsequent Events (Year ended March 31, 2017)

Transition to defined contribution pension plans

Effective April 1, 2017, the Company has transferred part of the defined benefit plans to defined contribution pension plans, and "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1) is applied.

Income before income taxes and non-controlling interests due to this transition is expected to increase by ¥760 million (\$6,774 thousand) for the year ending March 31, 2018.

Introduction of a performance-based stock compensation for Board Directors

The Company resolved at its meeting of the Board of Directors held on May 12, 2017 to introduce a performance-based stock compensation plan (hereinafter, the "Plan") for Board Directors (excluding Outside Board Directors; hereinafter the same shall apply), Managing Executive Officers, Senior Executive Officers and Executive Officers (hereinafter collectively, "Board Directors, etc.," excluding non-residents in Japan) as a new incentive plan that replaces the existing long-term incentive plan, and submitted a proposal for introduction of the Plan to the 153rd Ordinary General Meeting of Shareholders held on June 29, 2017 (hereinafter, the "Meeting"), which approved the proposal.

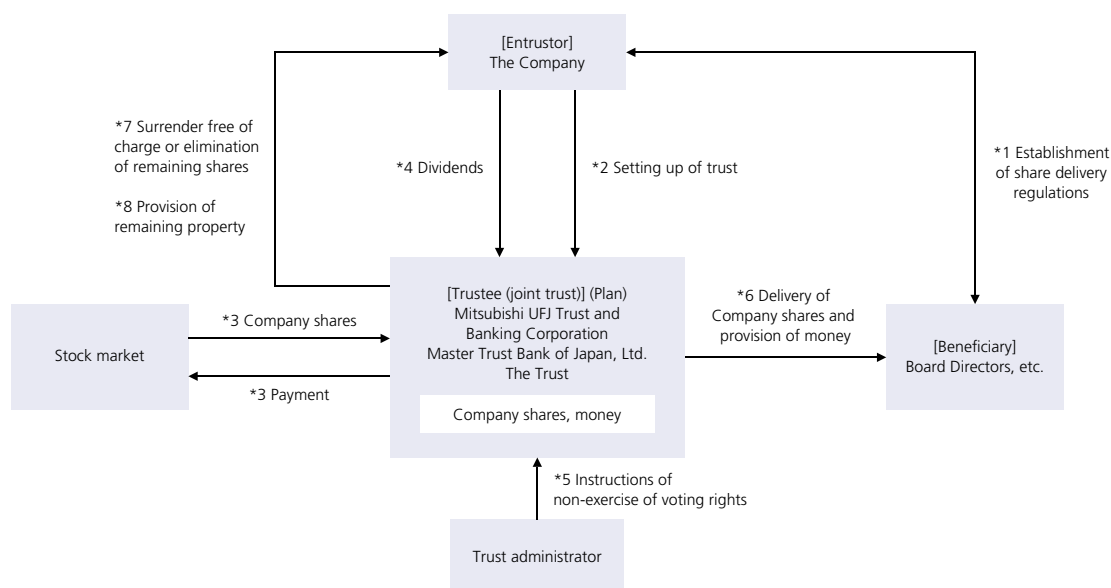
(1) Purpose of introducing the Plan, etc.

The Company is introducing the Plan for Board Directors, etc. as a transparent and objective remuneration plan for officers' that is highly linked with the Company's performance for the purpose of further raising awareness of helping improve the Company's medium-to-long-term business results and increase corporate value, in addition to awareness of corporate management that emphasizes shareholders.

The Company has established an Evaluation Committee (chaired by an Outside Board Director) consisting of Representative Directors, Outside Board Directors and Outside Audit & Supervisory Board Members as a facility for discussing officers' remunerations. The Plan's introduction has been discussed by the Evaluation Committee.

The Plan adopts a scheme called the Board Incentive Plan ("BIP") trust (hereinafter, "BIP Trust"). A BIP Trust is a plan that delivers and provides (hereinafter, "delivers/delivery, etc.") Company shares as well as money in an amount equivalent to Company shares converted into cash (hereinafter, "Company Shares, etc.") to Board Directors, etc. according to the relevant Board Director, etc.'s position and his/her achievement of business performance targets, as with performance shares and restricted stock in Europe and the United States.

(2) Outline of the Plan [Structure of the Plan]



*1 The Company establishes share delivery regulations relating to the details of the Plan at the Board of Directors' meeting.

*2 The Company contributes money that will be the funds for compensation to Board Directors, etc. within a range approved by the Meeting, and establishes a trust (the "Trust"), with Board Directors, etc. who meet beneficiary requirements as the beneficiaries.

*3 Following the instructions of the trust administrator, the Trust acquires Company shares from the stock market using money contributed in *2 as capital. The number of acquired shares to be delivered, etc. by the Trust to Board Directors, etc. will be within the range approved by the Meeting.

*4 Dividends on Company shares in the Trust will be paid as with other Company shares.

*5 Voting rights on Company shares in the Trust will not be exercised throughout the trust period.

*6 During the trust period, a certain number of points, stipulated to 4) below, will be granted each year to Board Directors, etc. according to their position and achievement of performance targets. Company Shares, etc. will be delivered, etc. to Board Directors, etc. who meet certain beneficiary requirements according to their accumulated number of points at the time of retirement, stipulated to 2) below, of the relevant Board Director, etc.

*7 If any shares remain at the expiry of the trust period due to the non-achievement of performance targets during the target period, the Company plans either to continue the use of the Trust as the Plan or a similar incentive plan by changing the trust agreement or making additions to the trust, or have the relevant remaining shares be surrendered free of charge from the Trust to the Company, and eliminate them by resolution of the Board of Directors.

*8 The remaining property after being distributed to beneficiaries upon termination of the Trust is scheduled to belong to the Company within the range of trust expense reserves, which is trust money less share acquisition funds. Furthermore, the portion exceeding the trust expense reserves is planned to be donated to organizations with no conflict of interests with the Company or its Board Directors, etc.

*If there are no more Company shares in the Trust due to delivery, etc. of Company Shares, etc. to Board Directors, etc. who meet certain beneficiary requirements, the Trust shall be terminated before the trust period expires. The Company may contribute additional money to the Trust within the range approved at the Meeting as funds to acquire Company shares subject to delivery, etc. to Board Directors, etc.

1) Outline of the Plan

The Plan shall apply to three fiscal years that correspond to the target period of the Company's medium-term management plan (hereinafter, the "Target Period"), and delivers, etc. Company Shares, etc. according to the relevant Board Director's position, and achievement, etc. of business performance targets for each fiscal year at the time of the Board Director's retirement. However, the target period of the Trust that is set up in 2017 is two fiscal years from the fiscal year ending on March 31, 2018 to the fiscal year ending on March 31, 2019 (hereinafter, the "Initial Target Period"), which is the remaining period of the current medium-term management plan. If the Trust is continued as per 3)b. below, the three fiscal years that correspond to the subsequent medium-term management plan shall be set as the target period.

Officers' remuneration under the Plan consists of a "fixed portion," which grants a certain amount of points every fiscal year, and a "performance-based portion," which grants points according to the achievement of business performance targets of every fiscal year during the period subject to the medium-term management plan. The "fixed portion" aims to further raise awareness of corporate management that emphasizes shareholders, while the "performance-based portion" aims to provide an incentive for Board Directors, etc. to be more aware of contributing to improving the Company's medium-to-long-term business results and increasing corporate value. The ratio of the "fixed portion" and the "performance-based portion" is half of the stock compensation base amount that is determined by position, respectively.

2) Persons subject to the Plan (beneficiary requirements)

Board Directors, etc. may receive from the Trust the delivery, etc. of Company Shares, etc. equivalent to the accumulated number of points (defined in 4) below) following the designated beneficiary confirmation procedures, on condition that the Board Directors, etc. satisfy the following beneficiary requirements upon their retirement (includes cases where a Board Director, etc. retires due to his/her death; hereinafter the same shall apply).

The beneficiary requirements are as follows:

- a. The person has been in office as a Board Director, etc. during the target period (including persons who became a Board Director, etc. after the starting day of the Plan)
- b. The person has retired as Board Director, etc.
- c. The person is a resident of Japan
- d. The person did not retire voluntarily or was not engaged in illegal activities during his/her term in office, or did not resign or was not dismissed due to a serious violation of office or internal regulations
- e. Other requirements deemed necessary to achieve the objectives of a performance-based stock compensation plan

3) The trust period

a. The trust period of the Trust

The trust period is from August 10, 2017 (Plan) to the end of August 2019 (Plan).

b. Continuance of the Trust

The Trust may be continued at expiration of the trust period by changing the trust agreement or making additions to the trust. In such cases, the trust period will be extended for a further three years. For each extended trust period, the Company makes an additional contribution up to the upper limit of the trust money that was approved at the Meeting, and continues to grant points to Board Directors, etc. during the extended trust period. However, when making such additional contribution, if there are any remaining Company shares (excluding Company Shares, etc. equivalent to the points granted to Board Directors, etc. that have not yet been delivered, etc.) and money (hereinafter, "Remaining Shares, etc.") in the trust assets on the last day of the trust period before the extension, the sum of the value of the Remaining Shares, etc. and the additionally contributed trust money shall be up to upper limit of the trust money approved at the Meeting. The trust period is not limited to being extended only once, but may be extended again subsequently.

c. Treatment of termination of the Trust (extension of trust period that does not accompany additional contribution)

If the trust agreement is not changed or additions to the trust are not made at the time of expiry of the trust period, points will not be granted to Board Directors, etc. thereafter. However, when a Board Director, etc. who may satisfy the beneficiary requirements at the time is in office, the trust period of the Trust may be extended up to 10 years until said Board Director, etc. retires and the delivery, etc. of Company shares is completed.

4) Company Shares, etc. delivered, etc. to Board Directors, etc.

The Company grants points that were computed based on the formula detailed below to Board Directors, etc. who are in office on the last day of each fiscal year (including Board Directors, etc. who retire on the same day due to the expiry of their term of office) during the trust period (the first year is the fiscal year ending March 31, 2018) at the designated time after the end of said fiscal year. The granted points are accumulated each year. Company Shares, etc. are delivered, etc. according to the Accumulated Number of Points upon the retirement of the Board Directors, etc.

Points that are granted to Board Directors, etc. are computed by aggregating the fixed portion that is equivalent to half of the stock compensation base amount by position that is predetermined according to the position of the Board Director, etc. (hereinafter referred to as the "Fixed Base Amount") and the remaining half, which is the performance-based portion (hereinafter referred to as the "Performance-Based Base Amount"), multiplying it by the performance-based coefficient and dividing it by the closing price of the Company shares at the Tokyo Stock Exchange on July 1 (or the following business day if this day is not a business day; July 3, 2017 for the Initial Target Period) of the first year of the target period of the Trust (hereinafter referred to as the "Underlying Share Price").

One point is equivalent to one Company share, with fractions of less than one point rounded down. However, when a stock split or reverse stock split of Company shares is carried out during the trust period, the number of Company shares per point will be adjusted according to the split ratio and reverse split ratio, etc. of Company shares.

(Formula for computing points of the fixed portion)

Fixed Base Amount / Underlying Share Price (Fractions after the decimal point are rounded down.)

(Formula for computing points of the performance-based portion)

Performance-Based Base Amount / Underlying Share Price × performance-based coefficient* (Fractions after the decimal point are rounded down.)

*The performance-based coefficient changes within a range from 0 to 150% based on the degree of achievement of targets such as EBITDA, etc. in each fiscal year.

5) Method and timing of delivery, etc. of Company Shares, etc. to Board Directors, etc.

Board Directors, etc. who meet beneficiary requirements are delivered Company shares (shares less than a unit are rounded down) equivalent to a certain percentage of the Accumulated Number of Points that are computed based on 4) above at the time of retirement of the relevant Board Director. Company shares equivalent to the remaining Accumulated Number of Points will be converted into cash within the Trust. Money equivalent to the amount of the conversion into cash will be provided to the relevant Board Director.

If a Board Director, etc. who meets the beneficiary requirements is deceased during the trust period, Company shares equivalent to the Accumulated Number of Points computed at that time will be converted into cash within the Trust. Money equivalent to the amount of the conversion into cash will be provided to the heir of the relevant Board Director by the Trust. If it has been decided during the trust period that a Board Director, etc. who meets the beneficiary requirements will become a non-resident of Japan, Company shares equivalent to the Accumulated Number of Points computed at that time will be converted into cash within the Trust, and the money equivalent to the amount of conversion into cash will be promptly provided to the relevant Board Director by the Trust.

6) The maximum trust money contributed to the Trust and the maximum total number of points granted to Board Directors, etc. in the Trust

The total amount of trust money contributed to the Trust during the trust period and the total number of points granted to Board Directors, etc. in the Trust are subject to the following upper limits.

a. Upper limit of trust money contributed to the Trust: ¥190 million (for two years)*

(However, when continuing the Trust as per 3)b. above, the upper limit shall be ¥270 million [for three years].*)

* The sum of share acquisition funds and trust fees and expenses for the Trust.

b. Upper limit of the total number of points granted to Board Directors, etc. during the trust period of the Trust:

The maximum total number of points per year that Board Directors, etc. may be granted is 40,000. The number of shares that Board Directors, etc. can be delivered, etc. by the Trust is subject to the upper limit of the number of shares equivalent to such points. Therefore, the maximum number of shares that the Trust acquires during the Initial Target Period to be delivered, etc. to Board Directors, etc. (hereinafter, "number of acquired shares") is the number of shares equivalent to such maximum number of points granted per year multiplied by two, the number of years of the trust period (80,000 shares). If the Trust is continued as per 3)b. above, the maximum number of acquired shares during the target period is the number of shares equivalent to said maximum number of points granted per year multiplied by three, the number of years of the trust period (120,000 shares).

7) Method of acquiring Company shares by the Trust

The initial acquisition of Company shares by the Trust is planned to be made from the stock market up to the maximum amount of trust money and the maximum number of acquired shares stated in 6) above.

8) Exercise of voting rights on Company shares in the Trust

To secure neutrality in business management, voting rights on the Company shares in the Trust (Company shares before delivery, etc. to Board Directors, etc.) will not be exercised during the trust period.

9) Treatment of dividends on Company shares in the Trust

Dividends on Company shares in the Trust will be accepted by the Trust and applied to trust fees and trust expenses of the Trust.

10) Treatment of remaining shares and remaining dividends upon expiration of the trust period

Any remaining shares at the expiration of the trust period due to the non-achievement of performance targets during the target period or others shall be subject to delivery, etc. to Board Directors, etc. if the Company continues using the Trust as the Plan or a similar incentive plan. If the Trust will be terminated due to expiration of the trust period, the Trust shall surrender the remaining shares free of charge as shareholder return to the Company, which plans to eliminate them by resolution of the Board of Directors.

Furthermore, while any remaining dividends on Company shares in the Trust at the expiration of the trust period will be used as share acquisition funds if the Trust continues to be used, if the Trust will be terminated due to expiration of the trust period, the portion exceeding the trust expense reserves, which is trust money minus share acquisition funds, is planned to be donated to organizations with no conflicts of interest with the Company or its Board Directors, etc.

19. Additional Information (Year ended March 31, 2017)

Acquisition of shares of Sadolin Group

The acquisition of shares of Sadolin Group companies (Sadolin Group) through Kansai Plascon East Africa Proprietary Limited (KPEA), a wholly owned subsidiary of Kansai Plascon Africa Limited which is consolidated subsidiary of the Company, to make them a consolidated subsidiaries was approved at the Board of Directors' meeting held on January 26, 2017.

(1) Primary reasons for the acquisition

The Company plans to actively promote entering new markets and fields in addition to business expansion and strengthen the existing market in the Company's medium-term management plan in which the Company is currently promoting accelerating globalization as a prioritized measure.

In particular, Africa is one market expected to expand with respect to long-term demands of coating materials due to an increase in use of coating materials per person with economic growth, in addition to population growth. East Africa is defined as an important region which is highly expected to increase business expansion due to its high economic growth.

The Sadolin Group companies are excellent and occupy top market share in the coating materials segment in the East African community. The Company believes this share acquisition will enforce business basis in the whole of Africa including East Africa and contribute to the Kansai Paint Group's medium-term business performance.

(2) Outline of Sadolin Group

1) Names and countries of Sadolin Group

Shalvik Investments Limited	Bailiwick of Guernsey
Sadolin Paints (Uganda) Limited	Uganda
Sadolin Paints (Tanzania) Limited	Tanzania
Sadolin Paints (E.A.) Limited	Kenya

*Shalvik Investments Limited is owning shares of 85% of Sadolin Paints (Uganda) Limited and 80% of Sadolin Paints (Tanzania) Limited respectively.

2) Description of business

Manufacturing and sales of decorative and industrial paints

3) Recent achievement

2016 results are as follows:

Net sales approx. ¥9,100 million (\$81,112 thousand)

Operating income approx. ¥1,400 million (\$12,479 thousand)

(3) Outline of the acquisition of shares

	Shalvik Investments Limited	Sadolin Paints (Uganda) Limited	Sadolin Paints (Tanzania) Limited	Sadolin Paints (E.A.) Limited
1) Sellers of shares	Individual shareholders	Jeanal Limited	Individual shareholders	Pluto Holdings Limited and other shareholders
2) Number of shares	10	75 thousand	10,000 thousand	4,250 thousand
3) Acquisition cost	Undisclosed *1	Undisclosed *1	Undisclosed *1	Undisclosed *1
4) Shareholding ratio after the acquisition	100.0%	92.5% *2, 3	90.0% *2, 3	85.0% *3

*1 As a result of consultation, the acquisition costs are undisclosed.

*2 The shareholding ratio after the acquisition is through Shalvik Investments Limited which is the acquired company of this acquisition and KPEA.

*3 By acquiring additional shares within 2 years from the stock transfer date of this acquisition, the shareholding ratio of all Sadolin Group companies will be 100%.

(4) Legal form of the business combination

Share acquisition through payment in cash

(5) Primary reasons for deciding on the acquiring company

KPEA was decided on as the acquiring company because it proposed to buy the shares in exchange for cash.

(6) Method of procuring funds

The funds for the acquisition will be appropriated by borrowings.

(7) Schedule

1) Stock transfer contract date: February 7, 2017

2) Stock transfer date: Around July 2017(scheduled)

(8) Impact on consolidated achievement

The impact on consolidated achievement of the Kansai Paint Group for the fiscal year ending March 31, 2018 due to this acquisition of shares is minor.



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of KANSAI PAINT Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KANSAI PAINT Co., Ltd. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 7, 2017
Osaka, Japan

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

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The Corporate Report 2017 of Kansai Paint Co., Ltd. has been certified with the following marks
as a printed document showing consideration for the environment.



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