Prosper Together
Enriching our living world through the power of Science + Imagination

We prosper with absolute integrity and fairness by fulfilling our obligations and maximizing our commitments to all stakeholders (consumers, customers, communities, employees, suppliers, governments).

Powerful Partnerships
Our unique approach between our partner companies is based on respect, trust, empowerment, and accountability. These partnerships form a powerful catalyst for innovation and growth.

Science + Imagination
The unlimited power of Science + Imagination, leading to ground-breaking technology and useful innovation that preserve, enhance and enrich the world.

Why do we exist?
Enriching our living world through the power of Science + Imagination

Purpose
Our Shared Identity

Nippon Paint Group positions Purpose as a guiding philosophy that defines the shared identity of the Group, while respecting the autonomy of our partner companies based on their own Missions, Visions, and Values. Based on our shared values, diverse people at our partner companies around the world will form strong bonds and collaborate to achieve Maximization of Shareholder Value (MSV).
What do we aim to achieve?

MSV Story

Nippon Paint Group is a unique Japan-based global company with MSV as its sole mission. Based on Asset Assembler model, we seek to create wealth by maximizing the residual shareholder value that remains after fulfilling our obligations to customers, suppliers, employees, society, and other stakeholders.
MSV Story

How are we going to achieve MSV?

Using Asset Assembler model based on Trust in our partner companies around the world, we will implement autonomous and decentralized management that combines the delegation of authority and accountability and build up assets (earnings, brands, talent, etc.) by expanding our existing businesses and aggressively engaging in M&A.

Autonomous and decentralized management based on strong trust in partner companies

How
Expanding into adjacencies without limiting our operations to the paint and coatings area (Paint++) — We are pursuing a strategy of pushing out the frontiers of our business areas over the medium to long term. Through aggressive M&A, we will build up assets not only in existing business areas but also in areas beyond paint, to achieve MSV.
# Value Creation Model for Achieving MSV

Aiming for Maximization of Shareholder Value (MSV) based on Asset Assembler model of accelerating growth through both existing businesses and M&A

## Our Business Model

Our medium- and long-term growth model as an Asset Assembler

### INPUT

- Financial and non-financial assets

### OUTCOME

- Financial and non-financial assets

### Human resources/organizations

- Creating environment and developing management
- Promoting Diversity & Inclusion
- Formulating Purpose and Global Code of Conduct
- Promoting employee engagement

### Technologies

- Fostering open innovation with universities and research institutions
- Promoting joint research with automobile manufacturers and other stakeholders
- Strengthening and deepening partnerships with Wuthelam Group

### External partner

- Promoting autonomous and decentralized management
- Promoting Diversity & Inclusion

### Customer base

- Promoting marketing and advertising activities
- Increasing visibility among consumers
- Formulating new strategies for the future
- Promoting engagement with financial institutions and small suppliers

### Brands

- Fostering new brands and brand alliances
- Promoting brand value and maintaining brand equity
- Fostering new brands through joint marketing activities
- Promoting engagement with financial institutions and small suppliers

### Financial base

- Ensuring financial disciplines
- Prioritizing debt finance and maintaining leverage capacity
- Issued new shares through third-party allotment
- Promoting engagement with financial institutions and small suppliers

### Nature/environment

- Action to combat global warming
- Reducing environmental impact by developing water-based products

## The five strengths underpinning Asset Assembler model

1. Focused on paint and adjacencies with significant market opportunities
2. Attractive risk-return profile of paint and adjacency arena
3. An assembly of talented management and strong brands
4. Japan domicile enhanced competitive strengths
5. Advanced governance

## Materialsity supporting Asset Assembler model

- Climate change
- Resources and environment
- Safe people and operations
- Diversity & Inclusion
- Growth with communities
- Innovation for a sustainable future

## Purpose

- Enriching our living world through the power of Science + Imagination
- Celebrating our living world through the power of Science + Imagination

## Trust

- Aiming for Maximization of Shareholder Value (MSV) based on Asset Assembler model of accelerating growth through both existing businesses and M&A

## Maximized of Shareholder Value

- Maximation of EPS (earnings per share)
- Maximation of PER (price-to-earnings ratio)

## Going beyond paint and into adjacencies

- Relentlessly pursuing growth based on Asset Assembler model

## ESG Statement

- Global Code of Conduct
- Climate change
- Nature and environment
- Resources and environment
- Safe people and operations
- Diversity & Inclusion
- Growth with communities
- Innovation for a sustainable future

## Paint++

- Purpose
- Trust
- Human resources/organizations
- Technologies
- Nature/environment
- Closing number of employees (overseas ratio)
- Employee satisfaction level
- Engineering talent
- New Product Sales Index (NPSI)
- Number of sales locations in China
- Number of countries/regions where Nippon Paint Group has the No.1 market share in decorative paints
- Brand award from a Chinese brand evaluation institution
- Awarded the Gold Brand for six consecutive years (Wall Paint Category)
- Net D/E ratio
- CO2 emissions in Japan (Scope 1 and 2)
- ESG indexes adopted by GPIF
- Selected as a constituent stock in all five indexes

## Financials and non-financial assets

- Consolidated number of employees (overseas ratio)
- Employee satisfaction level
- Engineering talent
- New Product Sales Index (NPSI)
- Number of sales locations in China
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The path toward sustainable growth – development of Asset Acsembler model and evolution of our growth strategy

Reforms of cost structure implemented in Japan
April 2009
Kenji Sakai appointed President & CEO

Survival Challenge Program launched
February 2014
Consolidation of the Asian JVs announced
October 2014
Transition to the holding company structure

Capturing demand in the high growth Asian markets
April 2015
Domestic business restructuring, separation of operating companies by lines of business
Teruhiko Tado appointed President & CEO
December 2016
Acquisition of U.S. Dunn-Edwards announced

Solid regional and business portfolio established
January 2018
Increase of Outside Directors based on a shareholder proposal submitted by Wuthelam Group
February 2019
Appointment of Masaaki Tanaka as Executive Chairman of the Board, Representative Director of the Board announced
April 2019
Acquisition of Australian DuluxGroup and Turkish Bank Boya announced
September 2019
Appointment of Masaaki Tanaka as President & CEO announced
March 2020
Transition to a Company with a Nominating Committee, etc.

Relentlessly pursuing growth based on Asset Acsembler model
January 2021
Completed the full integration of the Asian JV and acquisition of the Indonesia business
April 2021
Yusuhito Watanabe and Wee Siew Kim appointed as Representatives, Executive Officers & Co-Managing Directors
November 2021
Full integration of the Chinese automotive coatings JV announced

Medium- and long-term management strategy
Inorganic Growth
Eyeing the potential for non-continuous growth including through M&A

Organic Growth
Further solidify our strong growth platform

Our Long-Term Vision
Ensuring sustainable growth

A three-year milestone towards our long-term goals
Regional and business strategy
Further solidify our strong growth platform and proactively address new challenges

Sustainability strategy
Expand business opportunities through ESG Initiatives for sustainable growth

M&A strategy
Aggressively pursue new partners to join our Group, taking advantage of the growth potential of the paint market and stability of cash flows

Financial strategy
Use our strong cash generating capacity to strengthen our financial base and secure funds for growth with M&A and business investment

Revenue/Stock price

<table>
<thead>
<tr>
<th>Year</th>
<th>Overseas</th>
<th>Japan</th>
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</thead>
<tbody>
<tr>
<td>2009/3</td>
<td>216.5</td>
<td>426.0</td>
</tr>
<tr>
<td>2010/3</td>
<td>227.4</td>
<td>439.5</td>
</tr>
<tr>
<td>2011/3</td>
<td>233.3</td>
<td>442.6</td>
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<td>605.3</td>
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<tr>
<td>2016/3</td>
<td>627.7</td>
<td>792.0</td>
</tr>
<tr>
<td>2017/3</td>
<td>772.6</td>
<td>998.3</td>
</tr>
</tbody>
</table>

Medium-Term Plan

Survival Challenge Program I & II
(Released in May 2009)

Survival Challenge Program III
(Released in May 2015)

N-20
(Released in May 2018)

Basic strategy

- Reform the cost structure / expand sales and profit of existing businesses / create new markets
- Business sustainable growth and the profitable business structure in Asia / reinforce the earnings base in North America

- Build a foundation to become “dominant” in China, the most important market
- Significantly change the business structure to develop business based on Asia and increase the ratio of decorative paints, which have high growth potential and profitability

- Strengthen the businesses in existing segments
- Accelerate expansion of the portfolio
- Improve earning capacity
- Enhance the structure of “Global One Team”

Medium-Term Plan (FY2021-2023)
(Released in March 2021)

2024–

Nippon Paint Holdings Integrated Report 2022

Nippon Paint Holdings Integrated Report 2022
Chapter

Message from Management

015 Letter to Investors about the Integrated Report 2022
017 Message from Co-President Wakatsuki
021 Message from Co-President Wee
025 Maximization of Shareholder Value (MSV)
027 Asset Management Report
031 Speedy Corporate Actions

PHOTO
Australia / Flinders Street Station (External Works Project), Melbourne. Dulux Colour Award Winner
Message from Management

It has been over a year since we became Co-Presidents. Since our appointment, we have pursued our sole mission of MSV by leveraging our partnerships based on strong Trust and guided by Purpose of Nippon Paint Group, “Enriching our living world through the power of Science + Imagination.” Wee Siew Kim focuses mainly on maximization of EPS (earnings per share) through revenue growth and earnings expansion. Yuichiro Wakatsuki concentrates on PER (price-to-earnings ratio) maximization by properly raising expectations of capital markets. Working closely together, we have taken numerous corporate actions without delay throughout the period.

As a result, revenue in FY2021, first year of our Medium-Term Plan (FY2021-2023, “MTP”), reached a record high despite the pandemic. Growth was attributable to higher sales volumes and a price/mix improvement, coupled with positive effect of exchange rate movements and consolidation of the Indonesia business. We expect to achieve revenue exceeding the final year revenue target of 1,100 billion yen in FY2022, the second year of MTP. Operating profit in FY2021 was not at a satisfactory level. However, there was meaningful profit improvement excluding one-off items with significant reduction in expenses compared to the initial budget while transitioning to a smaller headquarters at the holding company. Taking into consideration the quantitative and qualitative progress during the first year of MTP, we remain committed to the operating profit target of 140 billion yen in the final year. Nippon Paint will make a groupwide effort for achieving our targets through revenue growth and improvement in margins.

Our achievements in the first year of MTP also reaffirmed the strengths of our Asset Assembler model for accelerated growth through both existing businesses and M&A. Nippon Paint Group is pursuing autonomous growth through collaboration and cooperation among Group partner companies in each region based on autonomous and decentralized management. This management structure is underpinned by the delegation of authority and accountability based on Trust with our partner companies around the world. Every day we appreciate the value of having excellent and trustworthy partners who are well versed in their local markets and MSV. We shall continue our collaboration and support to those partners to achieve our common mission.

Our stock price, which is the outcome of MSV, has increased by 683% (see the bottom chart), over the past 10 years, outperforming the TOPIX chemical sector average and competitors. As a unique Asset Assembler, we will remain committed to MSV.

We appreciate the continuous support and guidance from our investors.

August 31, 2022

Yuichiro Wakatsuki
Director, Representative Executive Officer & Co-President

Wee Siew Kim
Director, Representative Executive Officer & Co-President

Historical stock price of NPHD

*1 Source: FactSet (as of June 30, 2022), Bloomberg
*2 NPHD stock price, average of competitors (average value), and the TOPIX chemical sector average are indexed with the closing price on June 29, 2012, as 100.
Financial and Corporate Information
Pursuing maximization of PER by executing a management strategy based on Asset Assembler model

Yuichiro Wakatsuki
Director, Representative Executive Officer & Co-President

PROFILE
Yuichiro Wakatsuki began his career at The Industrial Bank of Japan, Limited (currently Mizuho Bank, Ltd) and Schroders Japan Limited, and in 2000 joined Merrill Lynch Japan Securities Co., Ltd. (currently Bank of America Securities). In 2008, he led the company’s M&A advisory services, including M&A strategy and fund procurement of clients, as the Head of Japan Mergers and Acquisitions, Head of Japan Investment Banking, Director, and Vice Chairman. In 2018, he joined Nippon Paint Holdings and in 2020 was appointed Senior Managing Corporate Officer and CFO, overseeing corporate planning, finance & accounting, public relations, investor relations, and M&A. He was appointed Representative Executive Officer & Co-President of Nippon Paint Holdings on April 28, 2021 and Director, Representative Executive Officer & Co-President in March 2022.

Message from Co-President Wakatsuki

Pursuing the maximization of PER by building up excellent M&As

Focus on maximization of PER through appropriate allocation of limited resources
Securing more control over my time allocation—this is one of the biggest changes I have earned since I became Co-President. I deliberately abandoned unnecessary meetings and inefficient tasks. This allowed me to create an environment to focus more of my time and energy for PER maximization which is my primary mission.

While feeling the pressure of delivering MSV, which is reflected in the stock price every day, I was able to execute numerous corporate actions without delay for the future growth of EPS and PER. Major actions include transfer of European automotive coatings business and India businesses to Wuthelam Group, acquisitions of Cromology and JUB in Europe, company split into Nippon Paint Holdings (NPISH), the holding company, and Nippon Paint Corporate Solutions (NPICS), a Japanese focused functional company, and international secondary offering of shares.

Following our appointment as Co-Presidents, concerns towards Co-President setup slowing down our decision making came to my attention. I believe the outcome was to the contrary and close communication with my partner Wee Siew Kim with MSV as a common basis for judgment has further upgraded and accelerated our decision making.

The offering helped us build a global base of investors who recognize the value of our growth strategy from a long-term perspective. Unfortunately, our stock price declined temporarily through the process despite no issuance of new shares/no dilution. However, I believe this secondary offering was a necessary step for our medium- and long-term growth.

Assembling excellent talent and brands through M&A, building on organic growth
Following our appointment as Co-Presidents, I, with Wee Siew Kim and the board members, have held extensive discussions about the ideal business model. We raised emphasis on the autonomy and accountability at every partner company while maintaining a small headquarters. Our goal is to achieve strong growth with limited risk by building up M&A deals in the attractive market of paint and adjacencies. This is no change to our existing strategy but rather a crystallization of our business model in pursuit of our sole mission of MSV. We decided to call it Asset Assembler model.

The paint and adjacencies markets are very localized with different features in each markets, while also having an attractive risk-return profile. In consideration of such features, we believe delegating more authority to the partner company management who are well-versed in the local markets and making agile decisions shall contribute more to MSV, rather than having the holding company direct and control partner companies worldwide in a centralized manner.

Under such model, every partner company fully exploits Nippon Paint Group’s worldwide resources, such as technical capabilities, powerful distribution network, purchasing power, and financing capabilities, while raising their motivation to use their own initiatives for accelerated growth. This concept is unique and different from the typical Western global standardization and cost reduction models.

We believe our successful acquisitions of DuluxGroup and Batek Boya could increase the likelihood of other excellent companies attracted to join our Group, enabling us to further build up talent and brands through M&A. While we will naturally require every partner company to be accountable and deliver the results, which is expected anyway be it a listed or private company, our partner companies under our umbrella can enjoy benefits that bring out their strengths and

Message from Management

Our Philosophy and Long-Term Management Strategy
Corporate Governance
Personal and Corporate Sustainability

Historical PER of NPID

NPID
27.9x (+15.9x)
AVG. of competitors (Source: Bloomberg)
20.1x (+4.8x)

Average of competitors (Source: Bloomberg)
21.8x (+7.4x)

The TOPIX chemical sector average
12.6x (+1.0x)

The TOPIX chemical sector average
10.0x (+0.1x)

Source: Bloomberg

1) Source: FactSet as of June 30, 2022, Bloomberg
2) PER (for the next 12 months) is calculated by the stock price on each day divided by EPS for the next 12 months on each day
3) Figures converted as Wuthelam Williams, MSIG, SBI Paints, VFP Industries, Accupaint, Berger Paints India, Doffa, MHI/Hiscox, Toyo Paint, JSW Paint, and PPG Paint
Management teams with Integrity based on Trust

In January 2022, Nippon Paint Group completed a corporate split in which functional units in Japan were spun off from the holding company (NPHD) into the newly established NPCS. The aim of this split was to separate functions as a listed company and functions related to the Japan segment, which were both previously performed by NPHD. This is one of the corporate actions we have taken based on Asset Assembler model. As a result, NPHD’s activities as a holding company are concentrated on functions such as evaluating the performance of partner companies, determining succession plans, M&A, finance and accounting, and investor relations. The newly launched NPCS will perform functions necessary for supporting and conducting business activities in Japan.

NPCS operates at the same level as partner companies in Japan and does not intend to “control” the Japan operations. Establishing a supervisory company has the risk of creating another bureaucracy which keeps expanding on its own. For this reason, as Co-President of NPHD, I was concurrently as the President of NPCS and will manage the allocation of costs and expenses at NPCS from the total optimization perspective. Group operations overseas will be managed based on three segments: NIPSEA Group, DuluxGroup, and U.S. Budget management is basically implemented by the core company of each segment. The holding company will perform the functions of checking and monitoring the operations of each partner company.

As described above, Asset Assembler model respects the autonomy of each partner company and is based on autonomous governance by respective Executive Committees and the Boards. Wee Siew Kim and I concurrently serve as Directors of the core companies, which raises the effectiveness of governance of those companies. Our “Trust” towards every partner company underpins Asset Assembler model. Trust is not what is given but is something that one must earn by fulfilling his/her accountability and results delivered.

As a corporate executive, I place great importance on Integrity. Not that I force Integrity upon each and every management of partner companies. However, I cannot fully trust corporate managers who do not have Integrity. In that sense, Nippon Paint Group has continued to grow autonomously based on Trust. Simply put, we are a Corporate Group with Integrity.

Material issues for sustainability (Materiality) identified from a global perspective.

Global Team Leaders are experts selected from our partner companies globally. They will lead sustainability initiatives required by laws and regulations and social customs in each region and market. The Global Team Leaders directly report strategies and proposals to Co- Presidents, who will report to the Board of Directors as necessary. As a result, our sustainability initiatives are supervised by the Board of Directors. Sustainability initiatives are not only essential to earn the Trust of investors but will also contribute to EPS and PER by encouraging autonomous activities of each partner company and reinforcing the link with our businesses.

On the governance front, we are taking actions to continuously strengthen governance in order to gain the Trust of investors involved with our business activities. Taking into account our shareholder composition where our major shareholder, Wuthelam Group, holds 58.7% of our stock, we nominated the Lead Independent Director as the Board Chair to coincide with the launch of the Co-President setup. In addition, the Board of Directors now has eight Independent Directors out of 11 board members. In this manner, we are taking actions to ensure the protection of the interests of minority shareholders.

Wuthelam Group is our important partner that has built a deep bond with us over 60 years. More than anything, we share the common mission of MSV with Wuthelam. I believe that having our major shareholder and the Directors and Executive Officers united across the board by MSV means a great deal for achieving growth in the medium and long term.

Our Medium- and Long-Term Management Strategy

This is one of the corporate actions for sustainability based on Asset Assembler model. In the new strategy, we have four Global Teams (Environment & Safety, People & Community, Innovation & Product Stewardship, and Governance), that directly report to Co-Presidents, based on governance, Asset Assembler model, and medium- and long-term management strategies for achieving MSV.

At the same time, I believe we need to constantly evolve as an Lean and Agile Corporate Group that can grow steadily in any environment in order to continue to make investments and achieve growth over the medium and long term. I am confident that with all the excellent and trustworthy partner companies, we will enable our transformation. In Japan, we will stimulate changes in the mindset of all employees and create a new corporate culture without being restricted by our conventional procedures as we continue to be driven by our insatiable appetite for growth.

Let us continue to strive for MSV by delivering clear outcomes to investors. We are driven to exceed your expectations.

As reported many times, Nippon Paint Group is pursuing MSV as its sole mission. We have already put in place advanced and effective

Governing bodies

Trust is not “what is given” but is “something that one must earn”
Message from Co-President Wee

A shining beacon through chaotic times

Wee Siew Kim

Director, Representative Executive Officer & Co-President

PROFILE

Wee Siew Kim was appointed as the Representative Executive Officer & Co-President on April 28, 2021 and as a Director of Nippon Paint Holdings in March 2022. He is concurrently the Group Chief Executive Officer of NIPSEA Group, a wholly-owned subsidiary company of the Nippon Paint Group. Previously, he was Deputy CEO and President (Defence Business) of Singapore Technologies Engineering Ltd. He started to work with Singapore Technologies in 1984 as an engineer at Singapore Aircraft Industries Pte. Ltd., the predecessor company of Singapore Technologies Aerospace Ltd. He was educated at the Nanyang Technological Institute, followed by the Imperial College of Science and Technology in London where he received a Bachelor of Science (Aeronautical Engineering) (Hons) degree. This was followed by an MBA at Stanford University.

While the world has emerged from the pandemic, supply chain disruptions and the conflict between Ukraine and Russia have impacted businesses globally. Inflation is now at its worst in over four decades and a looming recession threatens business profitability. Despite this, the Group has continued to steadily sail through the year by maximizing earnings-per-share (EPS) through our firmly established Asset Assembler model. By remaining vigilant and steadfast, the company increased EPS by 7.4% in FY2021 to 29.41 yen and we are on track towards achieving our final year target in the Medium-Term Plan (FY2021-2023). All-in-all, our EPS has increased by 239% over the past 10 years, which significantly outperforms the TOPIX chemical sector average and other competitors (See the bottom right chart).

In my first year as Co-President, the Group has achieved record revenue despite these challenges, and we have achieved the same level of operating profit as FY2021 by raising selling prices and reducing SG&A expenses to mitigate raw material price inflations. One of our success factors is our ability to spot opportunities in adjacent industries and implement a hugely successful Asset Assembler strategy. Nippon Paint Group’s Asset Assembler model is unique in that it maintains the acquired company’s autonomy. We value the years of experience that the senior management in these existing teams have, as they were integral to growing the business in the markets that they operate in. We also looked at acquisitions focused on related industries with the aim of maximizing shareholder value by expanding our reach into new but still familiar territories.

The adjacency arena presents enormous opportunity and allows us to hedge our bets by diversifying our product range. We now have water-proofing materials, adhesives, floor coatings and fillers (SAF) amongst other product offerings. Strengthening our portfolio into these complimentary products is a sound strategy that leverages our existing manufacturing, marketing, and distribution channels, which means maximizing our market potential.

This gives us an additional construction chemicals market potential of USD90 billion in addition to the paint and coatings segment, which is valued at around USD174 billion.

From pandemic to endemic: Transforming our business outlook

While we have many areas to be proud of this year, there are segments of the business that need to be revitalized for us to reach our goals in the coming years. One of the key areas we will focus on is the marine coatings business. In FY2021, this segment recorded an operating loss of around 1.9 billion yen, primarily coming from Japan and Korea. In general, the shipping industry has seen many peaks and troughs, which can present a volatile situation for all related businesses. Having said this, we believe that we have a good strategy in place to facilitate a turnaround in the key markets where the marine coatings sector has the highest potential.

Setting sails to revitalize our marine coatings segment

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To start, we restructured the operations and expanded our product line to include a wide range of products that meet the needs of the shipping industry. We also strengthened our sales team and expanded our distribution network to reach new and existing markets. In addition, we implemented a new pricing strategy to ensure that we remain competitive in the market.

This year, we have seen a significant increase in demand for marine coatings, and we expect this trend to continue in the future. We will continue to invest in research and development to ensure that we remain at the forefront of innovation in the industry.

Historical EPS of NPHD

- Average of competitors (mean value) $3.04 (+27%)
- The TOPIX chemical sector average $3.31 (+12%)
- Average of competitors (mean value) $0.42 (33%)
- NPHD $0.27 (+239%)

* Source: FactSet as of June 30, 2022. Bloomberg

1) Competitive Paint Market Overview in 2021: Sherwin-Williams, PPG Industries, Valspar, Benjamin Moore, Nippon Paint

Mr. Shiotani has a proven track record and we are confident that his leadership and ability will bring a positive transformation to the NPMC business. In his expanded capacity, he will ensure the implementation of best practices for cost management and sales distribution are aligned with the industrial coatings business with a laser focus on improving the business financially.

Apart from Japan, we also made changes to the Korean operations, revamping the management team, business and sales models to areas that are more profitable and provide financial stability.

This meant shifting our balance in Korea from new ship building deals to more maintenance and repairs where the financial prospects are better. The changes made are already bearing fruit and we are expecting the Korean business to return to an operating profit in FY2023.

To further strengthen the global marine coatings business ecosystem, we broadened our supply chain and marketing activities, shifting away from a narrow, country-focused mindset to one that maintains a flexible approach. This new global perspective allowed us to further push out our advanced product technologies like AQUATERRAS, FASTAR, A-LF-Sea, AQUAFAST, A-LF-Sea, and Construction Material Industry Sdn Bhd. In his expanded capacity, he will ensure the implementation of best practices for cost management and sales distribution are aligned with the industrial coatings business with a laser focus on improving the business financially.

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Building customer trust with collaborations and consolidations

There have been many views regarding our exposure to the real estate sector in China, especially with current economic and geopolitical conditions prompting many to be skeptical about its growth prospects. Notwithstanding this, NIPSEA Group continues to be resilient and flexible while sticking to our mission to ensure growth and maximum shareholder value. In China, our strong performance is a testament to our ability to thrive in a highly competitive market. We continue to have strong market share in this region and see the potential for GDP-driven growth contributed mainly by the decorative paints market and dominant market share in main Tier 1 and 2 cities. Even as on- and off-lockdown persisted, the renovation and DIY sector continued to eke out growth as consumers worked on refreshing their surroundings. Specifically in the DIY sector, the country saw an increase in demand through new products including the eco-friendly Kids’ Paint and Eco-essence paint, indicating a need for paints that are beneficial for the environment and are also asthma and allergy friendly. We also see encouraging prospects in the Tier 3 and 4 cities, where our teams have already commenced a detailed market analysis of trends to determine the correct approach and business strategies for implementation. We are leaving no stone unturned to ensure that we have the right strategies in place to meet the needs of clients and consumers in these different cities as living conditions can vary from city to city.

Having said this, we are aware of the public sentiment on the Chinese real estate market and remain vigilant of any developments. The key here is that we have a highly adaptable team, ready to shift according to consumer sentiments to ensure continued business sustainability in this segment. As the market requirement changes, we can flexibly deliver differentiated offerings to our business clients in China through collaborations with strategic construction vendors and project service vendors. With our scale and reach, we offer to the market the convenience of having a one-stop solution provider in which we endeavor to meet customers’ paint and coatings needs. Aside from the above, our research and studies reveal that there will be continued demand for houses, driven by the population upsurge in urban areas and the further upturn in economic activities as urbanization progresses in different parts of China. As such, we view downturns to be temporary and are confident of the medium to long-term growth potential in the Chinese market.

New economic power houses

Being a global company means we can capture the potential and act on opportunities worldwide. In this respect, we see growth prospects around the world. For example, in Indonesia our continued marketing push and expanding distribution network have produced promising results. The market is valued at around USD 2 billion and has grown at 17-18% annual rate. Under the current government and new policies put in place, we see more potential in the future having achieved a growth of 50% in GDP in 2021.

There are also several large projects that have been launched in the country including the recent announcement of Nusantara, Indonesia’s new green and smart capital in Kalimantan that will be developed in stages through to 2045. Prudent price management in times of recession and inflation cycles in Indonesia also helped to maintain sound financials in this region. This, coupled with a healthy market environment, means that Indonesia remains as one of our more profitable markets. For continued success, the team will invest in advertising to drive brand top-of-mind recall and preference. We will also ensure a wider distribution of Computerized Colour Matching (CCM) machines and increase product penetration in all product segments in our CCM stores. Another expansion tactic is to capitalize on the trend of digital transformation and a shift towards more technology-driven sales channels. Technology and data tracking have helped us determine a strong demand for online e-commerce sales channels, especially in Indonesia, where it can be challenging to navigate the country’s main islands and smaller cities.

For this, we will be establishing new channels to enable more online purchasing and inquiries. We plan to open more depots or stock points and strengthen our sales team to further widen our geographical coverage in the country. This will help support both our customers and other sales or dealer distribution channels more effectively. Likewise, as it is with our other global markets, we will also expand product offerings. We see huge potential for us to market our other popular products in Indonesia, especially in the non-paint segment. We are highly confident that Indonesia will continue to perform strongly.

Business acceleration through adjacencies

While times are uncertain and there remains to be an abundance of challenges that all businesses will face, we are confident that our continued execution of the unique Asset Assembler model will bring positive results in the coming year. There is strength in numbers and we are definitely benefiting from the various acquisitions and mergers that have been completed over the last few years. For instance, our non-paint business in Malaysia was expanded through the introduction of Selley and the acquisition of Vitral Technical and Construction Material Industry Sdn Bhd. The Selley SAF premium brand gave us an avenue to increase our innovative offerings to a new group of customers including key retail partners. Beyond Malaysia, these acquisitions provided a new range of products to the NIPSEA Group market helping close deals that required quality yet budget-conscious options as well.

Through deft execution of Asset Assembler model, we aim to achieve our mission of Maximization of Shareholder Value

These successes would not have been possible without the retention of expertise from the DuluxGroup and Botek Boys groups that have been introduced to the NIPSEA Group team. We also completed the acquisitions of Cromology and JUR, which not only led to further expansion of our decorative paints segment but also expanded our distribution network exponentially in the European region. Looking to the future, we will continue to look out for more adjacent and complimentary businesses. This is a key engine of growth and can work to accelerate our group’s financial successes in the future.

Moving forward with an autonomous partnership agenda

Through deft execution of Asset Assembler model, we aim to achieve our mission of Maximization of Shareholder Value. However, we will maintain that this model can only work if we continue to inspire autonomous business execution and growth among partner companies while providing a framework that leverages every partner company’s strength. Having autonomous and decentralised management will take us to greater heights as each partner company fully benefits from this Nippon Paint Group business model.

After all, only through embracing diversity and encouraging everyone to do so can we leverage the benefits of teamwork and realise employee potential. Hence, we are constantly advocating for our teams to share positive examples, benefits, success cases and more with each other in the spirit of learning and improving. As we come full circle, it gives me great pride to share that despite the unpredictable happenings through the past year, we have managed to achieve our medium-term plan revenue a year in advance while maintaining our 2023 operating profit target and will continue to remain focused on achieving our business objectives through revenue growth and margin improvement.
Our sole mission
Maximization of Shareholder Value (MSV)

Nippon Paint Group is pursuing MSV as its sole mission. We will aim to create wealth by maximizing the residual shareholder value that remains after fulfilling our obligations to customers, suppliers, employees, society, and other stakeholders.

The diagram above shows the stakeholder relationship for profit and loss statement items—customers for revenue, suppliers for operating expenses, employees for personnel expenses, financial institutions for interest expenses, and governments for taxes. Fulfilling our obligations to each stakeholder group is the primary premise for MSV. Fulfillment of obligations includes not only legal contracts but also social and ethical obligations, as well as the concept of sustainability.

MSV entails maximizing the residual value that remains after fulfilling obligations to all stakeholders as a way of rewarding shareholders that make an investment with an awareness of the associated risks. A prerequisite is to fulfill those obligations to stakeholders that have upper limits, and shareholder value will be the residual value that remains after fulfilling those obligations. MSV strictly pursues the maximization of medium- and long-term shareholder value, rather than short-term maximization.

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**Growth since the acquisition (FY2014)**

Since becoming our consolidated subsidiary in FY2014, NIPSEA Group has achieved growth that significantly outperformed the market and competitors by leveraging the following strengths:

1. Strong brand recognition,
2. Competitive workforce due to a Lean for Growth (LFG) culture,
3. Competitive technologies.

**Betek Boya**

Betek Boya has achieved revenue growth and market share gains that are significantly greater than before the acquisition. This is because the acquisition has allowed the company to benefit from Nippon Paint Group’s knowhow in growing markets and the Nippon Paint brands. In addition, Betek Boya repaid all of its loans with high interest rates by utilizing Nippon Paint Group’s low-cost financing capability. Repaying loans allowed Betek Boya to allocate cash generated to large expenditures for marketing and other activities. As a result, revenue increased by 29% and operating profit by 17.6% compared with the amounts at the time of the acquisition two years ago.

**Status of assets (partner companies) continuing on an autonomous growth trajectory**

<table>
<thead>
<tr>
<th>NIPSEA Group (Asia)</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2021 operating results</td>
<td>Revenue increased from the previous year as a result of the new consolidation of the Indonesian business, coupled with strong market growth and selling price increases in the decorative paints business at NIPSEA China. Revenue also increased from the previous year in Asia. Excluding Nippon Paint China due to the progress with selling price increases in every region, despite the impact of the pandemic in some regions. As a result, revenue in NIPSEA Group increased by 36.2% to ¥379.1 billion. Operating profit increased by 12.1% to ¥77.5 billion on higher revenue, including revenue growth from the new consolidation and the impact of exchange rate changes, despite the significant negative effect of the higher prices of raw materials.</td>
</tr>
<tr>
<td>Growth since the acquisition (FY2014)</td>
<td>NIPSEA China remained the market leader in both the DIY and Project businesses as the market shares increased to 29% and 9%, respectively.</td>
</tr>
<tr>
<td>reporter's estimate</td>
<td>OP margin 11.5% -3.8pt +1.8pt</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NIPSEA China (China)</th>
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</thead>
</table>
| FY2021 operating results | Automotive coatings revenue increased from the previous year due to flow-through of selling price increases implemented to respond to raw material price increases, although automobile production remained unchanged from the previous year due to shortage of semiconductor chips and disruptions of parts supply due to the pandemic. The decorative paints business achieved high revenue growth in the first half of the year following the pandemic downturn in the previous year and strong market growth continued in the second half. In addition, selling prices were increased during the year. As a result, our DIY revenue increased by 35.9% and Project revenue increased by 29% from the previous year. The industrial coatings business achieved revenue growth due to strong demand for coatings, coupled with strong demand for general industrial coatings and primer coatings. Consequently, revenue increased by 41.4% to ¥379.1 billion year.

Operating profit increased 18.2% to ¥77.5 billion despite higher revenue, due to the deterioration of the raw material cost contribution ratio and recording a provision for potential credit losses. |
| Growth since the acquisition (FY2014) | NIPSEA China has consistently achieved strong growth and steadily increased its market share every year, led by an excellent management team dedicated to the Lean for Growth (LFG) spirit and based on the following strengths: (1) High recognition of the Nippon Paint brands. (2) Extensive distribution network that provides nationwide coverage. (3) Strong base of supply chains and competitive technologies. (4) Comprehensive capabilities such as capital strength and broad product lines. As a result, revenue increased by 96.4% and operating profit by 77.8% compared to the amounts when NIPSEA China was acquired. |
| reporter's estimate | OP margin 9.5% -6.9pt -1.0pt |

| Nippon Paint Holdings Integrated Report 2022 |

<table>
<thead>
<tr>
<th>FY2021</th>
<th>YoY comparison</th>
<th>Growth since the acquisition</th>
<th>Revenue / Operating profit (bn yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>¥379.1 billion</td>
<td>+41.4%</td>
<td>+96.4%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥73.9 billion</td>
<td>-18.3%</td>
<td>+77.8%</td>
</tr>
<tr>
<td>OP margin</td>
<td>9.5%</td>
<td>-6.9pt</td>
<td>-1.0pt</td>
</tr>
</tbody>
</table>

| Nippon Paint Holdings Integrated Report 2022 |

| FY2021 results | Revenue increased by 35.9% from the previous year to ¥49.2 billion yen despite the impact of the weak Turkish lira against major currencies. This growth was the result of the expansion of dealer coverage, as increases in the market share with dealers as a result of aggressive sales and marketing activities, and selling price increases. Dr. local currency base, which excludes the effects of exchange rate fluctuations, revenue was up 60.3% from the previous year. Operating profit increased by 53.1% to ¥7.5 billion yen despite higher raw material prices because the strong revenue growth absorbed the higher cost of raw materials and negative effects of exchange rate movements. Betek Boya’s market share increased to 34% as the company raised its No. 1 market position. This accomplishment was attributable to successful activities such as the multi-brand strategy and aggressive marketing activities. |
| Growth since the acquisition (FY2014) | Since becoming our consolidated subsidiary in FY2014, NIPSEA Group has achieved Growth since the acquisition (FY2014) | Since becoming our consolidated subsidiary in FY2014, NIPSEA Group has achieved growth that significantly outperformed the market and competitors by leveraging the following strengths: (1) Strong brand recognition, (2) Competitive workforce due to a Lean for Growth (LFG) culture, (3) Strong base of supply chains and production locations, and (4) Competitive technologies. The strong growth at NIPSEA Group has driven earnings growth of Nippon Paint Group. In addition, NIPSEA Group has supported the operations and management of Betek Boya and PT Nipase by sharing the group’s broad expertise and technologies built up in emerging-markets over the last 60 years. Due to this support, these two companies have grown faster than their acquisitions by NPMH. As a result, revenue has increased 145.0% following the acquisition and operating profit has increased 191.1%. |
| reporter's estimate | OP margin 15.2% +1.6pt +3.6pt |

<table>
<thead>
<tr>
<th>Market share (decorative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIY</td>
</tr>
<tr>
<td>Project</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY2021</th>
<th>YoY comparison</th>
<th>Growth since the acquisition</th>
<th>Revenue / Operating profit (bn yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>¥49.2 billion</td>
<td>+35.9%</td>
<td>+70.6%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥7.5 billion</td>
<td>+53.1%</td>
<td>+124.1%</td>
</tr>
<tr>
<td>OP margin</td>
<td>15.2%</td>
<td>+1.6pt</td>
<td>+3.6pt</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market share (decorative)</th>
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<tbody>
<tr>
<td>34%</td>
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</tbody>
</table>

**Note:**

1. The earnings for FY2021 and thereafter have been adjusted retrospectively following the classification of the European automotive coatings business and the Indian business as discontinued operations after they were transferred to Wuthelam Group (announced on August 10, 2021) and a change in accounting policy regarding cloud computing agreements (beginning with FY2021).
2. Earnings comparison with the amounts at the time of acquisition are estimates because there are cases where accounting policies applied or assumptions used to estimate the market are different.
3. The earnings for FY2020 and thereafter have been adjusted retrospectively following the classification of the European automotive coatings business and the India business as discontinued operations.
4. Segment basis (after elimination of internal transactions and after PPA).
**Financial indicators** FY2021*1

<table>
<thead>
<tr>
<th></th>
<th>FY2021*1</th>
<th>YoY comparison*2</th>
<th>Growth since the acquisition*3</th>
<th>Revenue</th>
<th>Operating profit</th>
<th>OP margin*4</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Nipsea (Indonesia)</td>
<td>¥39.5 billion</td>
<td>+30.4%</td>
<td>+30.4%</td>
<td>2020</td>
<td>10.2</td>
<td>30.3</td>
</tr>
<tr>
<td></td>
<td>2021</td>
<td>11.8</td>
<td>39.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunn Edwards (USA)</td>
<td>¥51.7 billion</td>
<td>+11.2%</td>
<td>+15.8%*5</td>
<td>2017</td>
<td>374.6</td>
<td>44.6</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>46.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>46.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>51.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DuluxGroup (Australia, Europe)</td>
<td>¥176.2 billion</td>
<td>+18.8%</td>
<td>+30.7%</td>
<td>2019</td>
<td>12.1</td>
<td>134.9</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>14.3</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>2021</td>
<td>176.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan Group (Japan)</td>
<td>¥164.6 billion</td>
<td>+1.6%</td>
<td>–</td>
<td>2017</td>
<td>10.6</td>
<td>175.9</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>26.6</td>
<td>182.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>23.4</td>
<td>182.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>16.1</td>
<td>162.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2021</td>
<td>10.3</td>
<td>164.6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*1 The earnings for FY2020 and thereafter have been adjusted retrospectively following the classification of the European automotive coatings business and the India business as discontinued operations after they were transferred to Wuthelam Group (announced on August 10, 2021) and a change in accounting policy regarding cloud computing agreements (beginning with FY2021).

*2 Earnings comparison with the amounts at the time of acquisition are revenues between those cases where accounting policies applied at acquisitions used or customers the market are different.

*3 Segment basis (after elimination of internal transactions and after PPA).

*4 NPHD’s estimates

*5 FY2017 earnings of Dunn-Edwards are for 10 months from March, when the acquisition closed, in December 2017. Earnings changes since the acquisition are calculated using FY2018 earnings.

*6 Do It For Me

*7 Volume basis

**Note:** The earnings for FY2020 and thereafter have been adjusted retrospectively following the classification of the European automotive coatings business and the India business as discontinued operations after they were transferred to Wuthelam Group (announced on August 10, 2021) and a change in accounting policy regarding cloud computing agreements (beginning with FY2021).

**Message from Management**

*Our Business Model*

*Our Financial Results*

*Our Corporate Governance*

*Our Environmental and Corporate Sustainability*
Quick decision-making enabled by the Co-President setup

By the Co-President setup

- Quick decision-making enabled leveraging the strengths of the Co-President setup.
- The interests of minority shareholders
- Earnings growth and protection
- Markets, realizing significant growth in the Asian Group allowing us to capture partnership with Wuthelam
- Completed the nearly 60-year Indonesia business JV and acquisition of
- Completed the full operational efficiency in the acquisition
- New board structure instituted
- Share transfer of our European decorative paints and related activities. Following the acquisition and transitioning to a new management structure as a partner company of DuluxGroup
- New business location in Champagné
- Acquisition of full ownership of the Chinese automotive coatings JV announced
- Acquisition of Vital Technical announced
- Acquired Vital Technical, the No. 1 player in Malaysia's sealants and adhesives market, in a bid to promote growth in the adhesives business and improve operational efficiency through collaboration in raw materials procurement and other activities. Following the acquisition closing at the end of March 2022, the company has contributed to EPS accretion from the first year of acquisition.
- Purpose and the New Medium-Term Plan (FY2021-2023) announced
- Five-for-one stock split as of the record date of March 31, 2021, with the goal of reducing the investment unit price for our stock, expanding the investor base, and increasing stock liquidity.

Co-President set-up launched

- Yuchu Watanuki and Wee Siew Kim appointed as Representative Executive Officers & Co-Presidents (The personnel changes follow the resignation of former President & CEO Tanaka and aims to further accelerate global business growth and operational efficiency).
- Secondary offering of shares

Agreed to support the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations

- Determined that the transfer would be reasonable from the perspective of protecting the interests of minority shareholders and achieving MSV, given the potential sale of holdings held as strategic holdings.
- The goal of improving the liquidity of our stock, building a global base of investors that show an understanding of our growth strategies from a long-term perspective and alleviating concerns surrounding the potential sale of our common stock held as strategic holdings.
- Stock split announced

A five-for-one stock split as of the record date of March 31, 2021, with the goal of reducing the investment unit price for our stock, expanding the investor base, and increasing stock liquidity.
Our Business Model

Chapter 02

035 Our Business Model: Asset Assembler
037 Strengths Underpinning Our Business Model
039 Assets Essential for Our Business Model
041 Materiality Supporting Our Business Model
As a unique Japan-based global company with MSV as its sole mission, we will relentlessly pursue growth using Asset Assembler model. Through the expansion of our existing businesses and aggressive M&A, we will build up assets with strong brands and excellent management teams, effectuating accelerated growth with limited risk.
Strengths Underpinning Our Business Model

The five strengths underpinning our Asset Assembler model

1. **Focused on paint and adjacencies with significant market opportunities**

   We are focusing on paint and adjacencies that have significant market size and growth opportunities driven by population growth, per capita GDP growth, and urbanization. We have considerable expertise and knowledge in these areas. The adjacencies market, represented by the sealants, adhesives & fillers (SAF) and construction chemicals (CC) also boasts an attractive market size, and we have established a one-stop platform to supply adjacencies products, in addition to paint products.

   **Global paint demand**
   - 2019-2024 CAGR: 4.2%
   - Around 50% of market share.

2. **Attractive risk-return profile of paint and adjacencies arena**

   Our powerful brands and high market share in the paint and adjacencies markets have raised entry barriers and enabled us to establish a solid leading market position. The paint and adjacencies markets are highly localized, characterized by local production for local consumption with strong local features, allowing us to minimize PMI risk through autonomous and decentralized management. These markets are also characterized by attractive returns with limited risk, where we can expect profit and cash flow generation with some degree of certainty. These characteristics make the paint and adjacencies markets well suited to M&A.

   **Characteristics of the paint and adjacencies businesses**
   - Businesses characterized by local production for local consumption.
   - Customer needs differ across countries and regions.
   - High entry barriers, a small number of top-ranking brands dominate the markets.

3. **An assembly of talented management and strong brands**

   Our focus on paint and adjacencies allows us to create greater-than-expected synergies from strengths brought by an assembly of talented management and strong brands. Management of partner companies have a deep understanding of market features in their operating regions and are well versed in MSV, and with our autonomous and decentralized management, they can fully leverage the strengths of our partner companies in this industry, which is highly localized. We believe this model makes joining Nippon Paint Group more attractive to potential partners as well.

4. **Japan domicile enhanced competitive strengths**

   In Japan, which has a stable currency and safe market, we can finance at low interest rates based on long-term relationships with and strong support from financial institutions. This gives us a unique strength unmatched by our global competitors.

5. **Advanced governance**

   We have established an advanced and substantively effective governance structure with Independent Directors comprising the majority of the Board of Directors. The Board of Directors shares with our major shareholder the achievement of MSV as the top decision criteria, ensuring the protection of the interests of minority shareholders. This constitutes a unique strength in our governance.
Financial and non-financial assets essential for Asset Assembler model

Six categories of capital

<table>
<thead>
<tr>
<th>Human capital</th>
<th>Manufacturing capital</th>
<th>Social and relationship capital</th>
<th>Intellectual capital</th>
<th>Financial capital</th>
<th>Natural capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources/organizations</td>
<td>Technologies</td>
<td>External partners</td>
<td>Customer base</td>
<td>Brands</td>
<td>Finance base</td>
</tr>
<tr>
<td>• Shinya human resources and strong organizational capabilities that enable us to accurately recognize social issues and customer needs and promptly provide effective solutions are essential in the paint market, which is characterized by local production for local consumption as well as a wide variety of users.</td>
<td>• Advanced technologies are essential to create innovations that solve social issues and meet customer needs, thus enabling us to enhance our competitive advantage, as well as enabling stable product supply.</td>
<td>• Collaborations with external partners, including industry-academia co-creation and engagement with investors are essential for providing high-quality products and services to customers around the world and innovating for a sustainable future.</td>
<td>• The strong customer base founded on long-term relationships of trust with customers in each region and business is important for stabilizing earnings and product supply and contributes to improving products and services.</td>
<td>• Customers and consumers place importance on the reliability of products and services. The power that corporate and product brands carry is a resource that is indispensable to operating a wide range of businesses worldwide.</td>
<td>• Achieving sustainable growth requires abundant funds to continue investing in M&amp;A, new technologies, and state-of-the-art production facilities, and hence requires increasing the ability to generate cash flow and a sound financial base.</td>
</tr>
<tr>
<td>• A flexible operational structure and strong organizational capabilities enable us to accurately recognize social issues and customer needs and promptly provide effective solutions are essential in the paint market, which is characterized by local production for local consumption as well as a wide variety of users.</td>
<td>• Sophistication of management, including the autonomous and decentralized utilization of assets based on examples of assets.</td>
<td>• Intellectual capital Manufactured capital Intellectual capital Financial capital Natural capital Social and relationship capital</td>
<td>• Asset Assembler model</td>
<td>• Fully leveraging Japan’s stable currency and financial markets to secure financing.</td>
<td>• Flexibility, resilience, and social capital are essential and important from a sustainability perspective to the Group that operates paint and paint-related businesses.</td>
</tr>
</tbody>
</table>

Examples of assets

- The Group’s human resources who are well-informed about their local markets (59,374 employees; annual turnover: 6.6%)
- Active Diversity & Inclusion initiatives (full-time employees: 25.9%, Global percentage of women in management: 23.5%)
- High level of employee satisfaction (March 2022: 91.4%, DuluxGroup: 80%)
- Local management teams who have a deep understanding of both market features in their respective regions and of MSD
- Group companies operate around the world with unique corporate culture and expertise, as well as strong market presence (RISE Global Group, DuluxGroup, etc.)

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Utilization of assets based on autonomous and decentralized management, creation of autonomous synergies, and effective management (case study)

<table>
<thead>
<tr>
<th>Diversity &amp; Inclusion</th>
<th>Shared people and operations</th>
<th>Climate change</th>
<th>Resources and environment</th>
<th>Innovation for a sustainable future</th>
<th>Climate change</th>
<th>Resources and environment</th>
<th>Growth with communities</th>
<th>Innovation for a sustainable future</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sharing success cases and expertise of Group partner companies around the world, such as the 2015 DuluxGroup initiative to achieve appropriate human resource allocation and more sophisticated organizational structure and management.</td>
<td>• Sharing technology through interactions among engineers of the technology development center and Group partner companies around the world.</td>
<td>• Sharing global state-of-the-art production technologies and experiences.</td>
<td>• Sharing technology and products developed in Japan through the international technology agreement among the Group and developing countries.</td>
<td>• Strengthening relationships with customers by providing medical consultation on color and color-related technology products.</td>
<td>• Deploying the Nippon Paint brand overseas, which is proof of asset assembler model and global task force.</td>
<td>• Securing global business growth by actively investing in M&amp;A and state-of-the-art production facilities and deploying Australian Selleys brand products in Asia.</td>
<td>• Reducing environmental impact by developing highly competitive products, such as water-based and environmentally friendly wood coatings.</td>
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</table>

Major recent external evaluations

- Selected as a constituent of the MSCI Japan Empowering Women Index (WIM) for the third consecutive year (March 2022)
- Received the GREENWAVE Technology Award (April 2021) for ADJUSTERRA pigment technology
- Received the Environmental Technology Award (April 2021) for technology to develop high-quality heat shield coatings for road surfaces (May 2021)
- Received the Grand Prize in the Environmental Category of the 38th Good Painting Color (SPC) Environment Color Competition (January 2021)
- Awarded the Special Excellence Award (Quality Management) from Toyota Housing Corporation for 11 consecutive years (April 2021)
- Awarded the No.1 rank in the ‘most important’ category by the top 500 Chinese real estate developers for 11 consecutive years (March 2021)
- Selected as a leading company in the paint industry by a government official and as one of the top sales paint brand partner in the ‘2022 Survey of Chinese Home Furniture Consumption Trends and Survey of Industry Leading Companies’ (May 2021)
- Selected for the China Building Materials Association’s Floor Coating Industry Chapter (CFA) “Chinese Floor Coating Industry Top 10 Brand Annual Award” for two consecutive years (March 2021)
- Awarded the Gold Brand in the China Brand Index (C-BPI) (April 2021)
- Selected as a constituent of the S&P/JPX Carbon Efficient Index for five consecutive years (March 2021)
- Selected for the first time as a constituent of the FTSE4Good Japan Sector Relative Index (April 2021)
- Selected for the first time as a constituent of the FTSE4Good Global Sustainability Index and FTSE4Good Japan Sustainability Index (April 2021)
- Selected as a constituent of the SCOPM Sustainability Index for the sixth consecutive year (April 2021)
- Selected for the first time as a constituent of the MSG Japan ESG Select Index (July 2021)

Corporate Governance

Nippon Paint Holdings Integrated Report 2022

Nippon Paint Holdings Integrated Report 2022
Materiality Supporting Our Business Model

Materiality supporting Asset Assembler model

We will aim for MSV by using sustainability activities centered on initiatives on materiality that support Asset Assembler model.

Nippon Paint Holdings is pursuing MSV as its sole mission and believes, first and foremost, that the fulfillment of obligations to customers, suppliers, employees, society, and others is the major premise for accomplishing these goals. Initiatives for key sustainability issues (materiality), identified in 2020 from a global perspective, require the fulfillment of our obligations and a direct linkage to our businesses, such as identifying new business opportunities and tapping into new markets. Furthermore, these initiatives are also expected to prevent expenses from increasing and reduce business risks by complying with future laws and regulations while responding to supply chain issues ahead of competitors.

Nippon Paint Group continues to use initiatives that are directly linked with business activities and based on a thorough understanding of materiality-related risks and opportunities from a medium- to long-term perspective. In accordance with Asset Assembler model, we are linking these initiatives to the creation of innovations that support the growth of existing businesses. We believe that these initiatives to achieve MSV will result in revenue growth and higher expectations for our value (maximization of EPS/PER).

The materiality identification process

We identified materiality by creating a list of material issues which society requires us to address. This process included international ESG guidelines such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) as well as items required by ESG research organizations. We then performed a quantitative evaluation of the issues and verified their significance from two perspectives: the level of importance to stakeholders and the level of importance to Nippon Paint Group’s businesses. In addition, we used external experts to receive objective opinions on the potential items of materiality and created the final proposal through discussion and agreement with overseas partner companies.

We deliberated on the final proposal at the then ESG Committee meeting in July 2020 and obtained final approval at the Board of Directors meeting in August. To incorporate global risks, the discussions also included chemical sector risk scenarios based on information from Vigeo Eiris Controversy Risk Assessment and other reports. Peer companies in the global chemical sector and forward-thinking Japanese companies were also referred to.

We interviewed various stakeholders and Independent Directors to gather their opinions on the potential items of materiality and created the final proposal through discussion and agreement.

We deliberated on the final proposal at the then ESG Committee meeting in July 2020 and obtained final approval at the Board of Directors meeting in August.

Materiality map

- Maximation of Shareholder Value (MSV)
- Asset Assembler model
- Sustainability
- Materiality (material issues)

Materiality Relevant SDGs

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Relevant SDGs</th>
<th>Explanation of materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change</td>
<td></td>
<td>Climate change is beginning to have a serious impact on our lives every year. To mitigate the impact of climate change, we will work to reduce greenhouse gas (GHG) emissions and minimize business risks caused by climate change.</td>
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<tr>
<td>Resources and environment</td>
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<td>Effective use of resources such as water, energy, and raw materials, and prevention of environmental pollution are important matters for sustainable business. We will advance these efforts throughout life cycle of products.</td>
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<tr>
<td>Safe people and operations</td>
<td></td>
<td>As a chemical manufacturer, we still believe that accidents and health damage caused by handling chemical substances are major risks. We will ensure the safety of employees and everyone involved in our business, and will educate and make investments to minimize risks.</td>
</tr>
<tr>
<td>Diversity &amp; Inclusion</td>
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<td>Respect for the people around us and active acceptance of diverse values are important for our sustainable growth. We place great importance on the diversity of employees and other people involved in the business and respect human rights.</td>
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<tr>
<td>Growth with communities</td>
<td></td>
<td>We will invest in communities through our value chain and to achieve sustainable business growth based on market growth, brand strengthening and good relationships with local communities.</td>
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<td>Innovation for a sustainable future</td>
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<td>In today’s society, problems that are difficult to solve with past methods are becoming more and more apparent. We will strengthen our innovation output with active utilization of partnerships.</td>
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</tbody>
</table>

For more information about our framework for sustainability initiatives and the identification of KPIs, see “Sustainability Strategy” on page 7.

Materiality identification process

1. Preliminary list
   - Materiality list of 70 items that is our obligation to address based on international ESG standards and guidelines for disclosure and reporting derived from 11 ESG rating agencies and organizations. We then considered the list down to a preliminary list of 32 items.
   - Internal questionnaire
   - The newly-established then ESG Committee met in April 2020 and deliberated on the materiality identification process. Also, we distributed a questionnaire to the 20 Directors, 10 Independent Directors, and the then ESG Promotion Department for their opinions on the items in the preliminary list.
   - Incorporating global risks
   - To incorporate global risks, the discussions also included chemical sector risk scenarios based on information from Vigeo Eiris Controversy Risk Assessment and other reports. Peer companies in the global chemical sector and forward-thinking Japanese companies were also referred to.
   - Internal discussion
   - Based on the weighting of importance for manufacturers and for Nippon Paint Group we identified six groups of items of materiality for business sustainability. During the process, we placed particular importance on discussion and engagement with overseas partner companies.
   - Stakeholder opinion
   - We interviewed various stakeholders and Independent Directors to gather their opinions on the potential items of materiality and created the final proposal through discussion and agreement.
   - Evaluation
   - We deliberated on the final proposal at the then ESG Committee meeting in July 2020 and obtained final approval at the Board of Directors meeting in August.

For more information about our framework for sustainability initiatives and the identification of KPIs, see “Sustainability Strategy” on page 7.
### Materiality Supporting Our Business Model

#### Materiality Relevant SDGs

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Risks</th>
<th>Opportunities</th>
<th>ESG agenda</th>
<th>ESG action examples</th>
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<tbody>
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<td><strong>Climate change</strong></td>
<td><strong>Risks</strong></td>
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<td>Enforcement/change of policies</td>
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<td>Adaptation to climate change, including introduction of a carbon tax</td>
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<td>Impact on production and shipment from extreme weather, such as typhoons and heavy rainfall, that are becoming increasingly common in recent years</td>
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<td>Changes in customer behavior toward transition to a decarbonized society</td>
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<td><strong>Opportunities</strong></td>
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<td>Expansion of the market for environmentally friendly products, such as products contributing to carbon neutrality</td>
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<td>Development of new businesses through research and development</td>
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<td>Reduction of GHG emissions (GHG)</td>
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<td>Identification of risks and opportunities</td>
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<td>CO2 reduction (Scope 1 &amp; 2)</td>
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<td>Calculation of Scope 3 emissions</td>
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<td>Disclosure based on TCFD</td>
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<td>Impact on business activities from depletion of energy and water resources</td>
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<td>Tightening of regulations on wastes and increase of waste disposal cost</td>
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<td>Changes in customer needs related to raw materials</td>
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<td>Expansion of the market for environmental products</td>
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<td>Enhanced competitiveness by advancing recycling technologies, improving resource efficiency, and utilizing diverse raw materials</td>
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<td>Management of waste, water resources, environmental pollution, and environmental pollutants</td>
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<td>Establishment of global policy statement for waste materials and water</td>
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<td>Establishment of KPIs for each partner company based on the global policy</td>
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<td>Executive summary of relevant SDGs</td>
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<td><strong>Safe people and operations</strong></td>
<td><strong>Risks</strong></td>
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<td>Significant impact on operations if a major accident occurs at a production site</td>
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<td>Impact on safety assurance due to changes in manufacturing processes accompanying substantial increases in production</td>
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<td><strong>Opportunities</strong></td>
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<td>Improving workplace safety and hygiene by sharing best practices and education plans from around the world</td>
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<td>Improving employee motivation and Company competitiveness for acquiring human resource talent</td>
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<td>Disaster (fire accident) prevention and process safety</td>
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<td>Fatality and injury prevention</td>
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<td>Establishment of a global policy statement for safety of our people and operations</td>
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<td>Difficulty of securing human resources that satisfy diversity requirements with a decrease in the university graduated population</td>
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<td>Slowing of business activities that reflect diversity in customer needs</td>
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<td><strong>Opportunities</strong></td>
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<td>Securing diverse and competent human resource talent as a global business</td>
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<td>Creating wealth for companies, workers, and local communities by creating diverse and inclusive organizations</td>
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<td>Increase the percentage of senior management posts for female leaders</td>
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<td>Improvement of employee engagement</td>
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<td>Gender diversification for the Board of Directors and senior management</td>
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<td>Visualization of human capital management</td>
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<td>Implementation of human rights risk assessment</td>
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<td>Significant damage to the corporate brand if the company is not perceived as a corporate citizen by local communities</td>
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<td>Damage to the public image of the paint industry caused by inappropriate activities oriented toward the local community</td>
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<td>Improving public awareness of the corporate brand through value chain investment in communities</td>
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<td>Promoting the sound growth of communities through social contribution activities to increase the positive public view of our Group</td>
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<td>Strategic implementation of social contribution activities</td>
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<td>Establishment of the NIPPON PAINT Group Global Outreach Program to enhance social contribution activities</td>
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<td>Establishment of the 3E (Education/Empowerment/Engagement) action policy through business activities as a priority area</td>
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<td>Significant hindering to future corporate earnings owing to inability to adapt to changes caused to slow response to new markets</td>
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<td>Expansion of market for products that contribute to controlling and conserving energy</td>
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<td>Products and services that address social issues that are significantly important to society and help boost corporate earnings in the Long-term</td>
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<td>Promotion of open innovation</td>
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<td>Establishment of the definition of sustainable products and services</td>
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<td>Strengthen management of chemical substances and development of alternative products to respond to sustainability requirements in the future</td>
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<td>Development of products that benefit society and are environmentally friendly</td>
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<td>Promotion of open innovation</td>
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Chapter 03

Our Medium- and Long-Term Management Strategy

047 Q&A with Co-President Wakatsuki on Our Medium- and Long-Term Management Strategy
051 Progress of the Medium-Term Plan (FY2021-2023)
  054 Actions for Profit Margin Improvement:
  Raw Material Price Increases and Our Responses
055 Value Creation Achievements (Financial and Non-Financial Highlights)
059 Analysis of Regional and Market Environment
  061 [Feature Article] Medium- and Long-Term Business Strategy
    That Reflects Regional Characteristics and Structural Changes in Markets
  061 Growth Strategy for Rapidly Growing Repainting Market in China
  065 Growth Strategy Deployment in High-Growth Countries
    (Indonesia and Türkiye)
  067 Strategy for Mature Markets (Australia, New Zealand, PNG and Europe)
  071 Q&A with Co-President Wee about Actions for Improving
    the Profitability of the Japanese Businesses
  074 Strategy for Next-Generation Technologies in the Transforming Automotive Industry
077 Sustainability Strategy
  079 Environment & Safety
  087 People & Community
  091 Innovation & Product Stewardship

PHOTO
Japan / Rainbow Bridge
**Q&A with Co-President Wakatsu on Our Medium- and Long-Term Management Strategy**

**Aiming to achieve MSV by executing our medium- and long-term management strategy based on Asset Assembler model**

Nippon Paint is implementing its medium- and long-term management strategy based on Asset Assembler model for pursuing MSV. On this page, Yuichiro Wakatsuki, Director, Representative Executive Officer & Co-President, explains the approach and direction of this unique management strategy along with the competitive advantages concerning M&A, financial and capital management strategy.

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Q1

Please explain Group management strategy based on Asset Assembler model.

Yuichiro Wakatsuki
Director, Representative Executive Officer & Co-President

We are implementing a strategy of expanding businesses by going beyond paint and coatings into adjacencies (Paint+s) over the medium and long term. (See "Message from Co-President Wakatsu" on page 17.) Our goal is to maximize EPS and PER by leveraging this unique business model that sets us apart from competitors. Asset Assembler model is a model in pursuit of MSV which gives us a competitive advantage to accelerate growth at our existing businesses and newly acquired companies, which are different from the Western-style cost-cutting synergies model. This has resulted in accelerated earnings growth at these companies prior to joining our Group.

Generally speaking, not a few overseas M&A deals by Japanese companies result in impairment losses a few years after the acquisition. However, all our acquisitions after FY2019, when we started to conduct M&A in a more aggressive manner, have delivered better-than-expected results. This is due to the successful leverage of the five strengths underpinning Asset Assembler model. To let me explain the key points of our M&A. The paint and coatings industry is characterized by sustained growth potential and very stable cash flow generation. In addition, companies can procure funds at lower interest rates in the current financial market in Japan compared to prior years. As a result, the market environment for M&A is very favorable.

The decorative paints market, which accounts for more than 50% of the total paint market, is characterized by local production for local consumption. As a result, the financial cost. As a result, we decided that the performance of the major companies based on our risk management contributed to MSV. Distant location to be carefully examined. We always consider the potential to deliver strong growth. Another aspect is that we are confident that the company has ample growth strategy for each region and business, and focus on the paint and adjacency arena, 3 An assembly of talented management and strong brands. Japanese domicile enhanced competitive strengths. 4 Advanced governance. We will leverage these strengths for maximizing EPS and PER. (See "Strengths Underpinning Our Business Model" on page 17.) For information about specific actions and the growth strategy for each region and business, see [Feature Article] Medium- and Long-Term Business Strategy That Reflects Regional Characteristics and Structural Changes in Markets on page 61.

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Q2

Please explain the competitive advantages and strengths of the M&A strategy of Nippon Paint.

Asset Assembler model is structured to produce synergies for growth at both existing businesses and newly acquired companies, which are different from the Western-style cost-cutting synergies model. This has resulted in accelerated earnings growth at these companies prior to joining our Group.

Generally speaking, not a few overseas M&A deals by Japanese companies result in impairment losses a few years after the acquisition. However, all our acquisitions after FY2019, when we started to conduct M&A in a more aggressive manner, have delivered better-than-expected results. This is due to the successful leverage of the five strengths underpinning Asset Assembler model.

Let me explain the key points of our M&A. The paint and coatings industry is characterized by sustained growth potential and very stable cash flow generation. In addition, companies can procure funds at lower interest rates in the current financial market in Japan compared to prior years. As a result, the market environment for M&A is very favorable.

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Key points of the M&A strategy

<table>
<thead>
<tr>
<th>Targets</th>
<th>Business segments: Paint decorative/industrial and adjacencies</th>
<th>Geographic: Not Limited</th>
<th>Potential target: Strong corporate/product brand and excellent management team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundamentals of paint and adjacencies markets e.g. population growth and urbanization create enormous growth opportunities</td>
<td>No restrictions in terms of geography and industry. Growth contribution to MSV. Excellent management and tenure to be carefully examined.</td>
<td>Continue to build up assets leveraging strengths of our autonomous and decentralized business</td>
<td></td>
</tr>
<tr>
<td>Our Strengths</td>
<td>Financial soundness</td>
<td>Ability to finance in Japan, with stable currency</td>
<td>Full access to Nippon Paint Group's platform</td>
</tr>
<tr>
<td>Stable cash generating ability and strong financial position</td>
<td>Low interest rate borrowing, safety and stability of the stock market</td>
<td>Sharing assets, products, and technologies within the Group</td>
<td></td>
</tr>
<tr>
<td>Financial Discipline</td>
<td>Contribution to EPS</td>
<td>Sustainable leverage capacities</td>
<td>Debt financing prioritized, equity-based capital raising remains an option</td>
</tr>
<tr>
<td>Aim to achieve EPS accretion in Year 1 after acquisition</td>
<td>Secure financial efficiency in consideration of EPS contribution to future M&amp;A's</td>
<td>EPS accretion also a main factor in equity financing</td>
<td></td>
</tr>
</tbody>
</table>

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*Return on invested capital (after one-off expenses) | **Weighted average cost of capital
Q&A with Co-President Wakatsuki on Our Medium- and Long-Term Management Strategy

geopolitical risks including inflation risk and the financial crisis. As a result, we decided that the acquisition involved risk but that the expected returns would be greater in the medium and long term. Betek Boya’s operating performance is impacted by the recent inflation and the weak Turkish lira, but its market share is nevertheless increasing. So, we are confident that the company has ample potential to deliver strong growth. Another key point is that our financial disciplines require an acquired company to deliver EPS accretion starting in the first year. We never use optimistic assumptions that would rationalize acquisition synergies, hoping that the company can achieve EPS accretion three years after the acquisition.

Now, let me turn to the question about the pros and cons of delegating the management of operations to local management. As mentioned in “Letter to Investors about the Integrated Report 2022” on page 15, the Co-Presidents delegate authority to local management, which is accompanied by responsibility for delivering outcomes. Before delegating authority, we perform a study to confirm that we can Trust them based on their track records and consumption. An overview of the successful companies to pursue autonomous growth is as shown in the diagram.

We believe it is essential to secure stable funds through our financial strategy in order to maximize the benefits of Asset Assembler model that aims to accelerate growth through both existing businesses and M&A. We are therefore focusing on the management of a sound balance sheet by ensuring financial discipline and building an optimal capital structure. The key elements of our financial discipline are: 1) Prioritizing debt financing, 2) Maintaining sufficient leverage capacity, and 3) Enhancing engagement with financial institutions and rating agencies, and 4) Equity-based capital raising. We are also focusing on the management of a sound balance sheet by ensuring financial discipline and building on

Please give your thoughts about financial strategy that drives Asset Assembler model.

We view our Japan domicile gives us the ability to obtain funds at our interest rates to satisfy our strong demand for financing procurement as we pursue our aggressive M&A strategy. Accordingly, we prioritize debt financing over equity capital raising. Maintaining sufficient leverage capacity is essential to continuing to procure funds at low cost, which requires us to maintain our earnings growth and grow our existing businesses and M&A. Equally important is highly profitable earnings evaluations from the understanding of financial institutions and rating agencies. The use of debt financing and leverage will contribute to maximizing EPS through M&A. Equity-based fund-raising remains an option assuming the deal is EPS-accretive, and by selecting the optimal combination of financing methods, the company will pursue unleveraged growth without setting any upper limit. We review the status of assets as necessary in accordance with change in the market environment to ensure a sound balance sheet and the efficient utilization of assets. Taking into consideration the impact of the pandemic, we are reviewing business terms in every region and business to improve our Cash Conversion Cycle (CCC). In addition, we are taking actions to respond to future credit risk collection by recording a provision for possible credit loss on the trade receivables of some real estate developers following the deterioration of conditions in the Chinese real estate market. Every year we examine whether or not it is reasonable to continue to hold cross-shareholdings, and we disposed of some of cross-shareholdings in FY2021. Our property, plant and equipment, goodwill, and other assets are increasing every year as we continue to reinvest in our manufacturing facilities and to aggressively execute M&A deals for future growth. At the same time, we have been taking measures to improve our asset efficiency and profitability, such as the transfer of the European automotive coatings business and the India businesses and the structural reform of the Japanese businesses and the marine coatings business. In addition, we are reducing the risk of impairment losses on goodwill by minimizing P&L risk through autonomous and decentralized management and building up excellence mergers and acquisitions. As regards to the liability situation, we are prioritizing debt financing to secure the funds for growth by engaging in M&A and other investment activities. Accordingly the net debt/EBITDA ratio, which indicates financial leverage is expected to increase by about four times at the end of FY2022, from 3.4 times (after adjusting for one-off items) at the end of FY2021 before the completion of the Cromology acquisition. (See “Progress of the Medium-Term Plan (FY2021-2025)” on page 51). Basically, all our loan covenants and other terms and conditions) involves an average maturity of 5 years and an average before-tax interest rate of 0.4%, which means that they comprise an extremely low interest debt composition. We will continue to procure finance at low interest rates and long-term maturities. We will also continue to pursue an optimal capital structure as well as to obtain highly positive evaluations from financial institutions and rating agencies, in order to maintain sufficient leverage.

Based on our judgment that we need to restructure the financial base to achieve further growth through M&A, we issued new shares through a third-party allotment in FY2021, thereby increasing capital. EPS accretion starting in the first year of acquisition is an important criterion for our judgment on M&A deals. Another key point is capital efficiency where we place emphasis on achieving ROIC that exceeds WACC.

The focus of our equity policy is to raise total shareholder return (TSR) through earnings per share (EPS) growth by prioritizing growth investments while maintaining financial discipline. As part of our effort to raise TSR, our policy is to maintain steady and consistent dividend payments with a target dividend payout ratio of 30% while taking full account of factors including the trend in earnings and investment opportunities available. In FY2021, we paid an annual dividend of ¥10 per share, including the special dividend of ¥1 per share to commemorate the 140th anniversary of the foundation of the company.

As of the end of December 2021

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Equity</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>¥138.8 bn</td>
</tr>
<tr>
<td><strong>Trade and other receivables</strong></td>
<td>¥226.9 bn</td>
</tr>
<tr>
<td><strong>Assets held for sale</strong></td>
<td>¥3.9 bn</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td>¥301.7 bn</td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>¥652.7 bn</td>
</tr>
<tr>
<td><strong>Other intangible assets</strong></td>
<td>¥300.2 bn</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥1,955.1 bn</td>
</tr>
</tbody>
</table>

**Assets** and **Liabilities**

**Cash and cash equivalents**

**Trade and other receivables**

**Assets held for sale**

**Property, plant and equipment**

**Goodwill**

**Other intangible assets**

**Total Assets**

**Total Liabilities**

**Bonds and loans payable**

**Interest-bearing debt**

**Prioritize debt financing and maintain the leverage ratio under the limit set by our debt terms and conditions**

**Equity**

**Capital” and “Retained earnings”

**Refinancing financial base to prepare for growth investment, such as M&A (capital increase issued new shares issuance through a third-party allotment)**

**Prioritize prudent and responsible capital expenditure (the “A” rating from Moody’s)**

**Stable financial prosperity capability in yen low interest rate/maturity long-term**

Our Medium- and Long-Term Management Strategy

Message from Management

Our Medium- and Long-Term Management Strategy

Corporate Governance

Financial Statements

Page 049

Nippon Paint Holdings Integrated Report 2022

Page 050

Nippon Paint Holdings Integrated Report 2022
Aiming to achieve our FY2023 revenue and operating profit targets through revenue growth and margin improvement

Building the foundation of Asset Assembler model

In the first year of our three-year Medium-Term Plan (FY2021-2023), we made progress on the establishment of Asset Assembler model for accelerating growth through the existing businesses and M&A. While accelerating autonomous growth of Group partner companies, we are aggressively pursuing growth through M&A in the paint and adhesives businesses. At the same time, we are developing the foundation for even faster growth, as well as clarifying roles and reinforcing governance with the smaller headquarters at the holding company. We will continue to relentlessly pursue growth over the medium and long term based on Asset Assembler model.

Financial plan for FY2021-2023 (Billion yen)

<table>
<thead>
<tr>
<th>Financial Plan</th>
<th>FY2021-2022 Forecast</th>
<th>FY2023 Targets*1</th>
<th>FY2023-2025 CAGR Targets*4</th>
<th>FY2024 CAGR Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>998.3</td>
<td>1,100.0</td>
<td>10.0%+</td>
<td>In the high single digits</td>
</tr>
<tr>
<td>Operating profit</td>
<td>87.6</td>
<td>140.0</td>
<td>25.0%</td>
<td></td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>8.8%</td>
<td>175.0</td>
<td>20.0%</td>
<td></td>
</tr>
<tr>
<td>EBITDA*2</td>
<td>120.4</td>
<td>105.0</td>
<td>25.0%</td>
<td></td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>12.1%</td>
<td>105.0</td>
<td>25.0%</td>
<td></td>
</tr>
<tr>
<td>Profit attributable to owners of parent*2</td>
<td>67.6</td>
<td>45.00</td>
<td>25.0%</td>
<td></td>
</tr>
<tr>
<td>EPS (yen)</td>
<td>29.41</td>
<td>34.49</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*1 EBITDA: Operating profit + depreciation and amortization + impairment loss + negative goodwill

*2 EPS: Earnings per share

FY2021-2022 revenue

Revenue reached a record high in FY2021 despite the pandemic, due to higher selling volumes and an improved price mix, coupled with the effects of exchange rate fluctuations and new consolidation of the Indonesia business. Our strong performance in FY2021 reaffirmed the strengths of our high market share in all operating regions globally and our business model that respects the autonomy of Group partner companies. In FY2022, we forecast revenue growth of around 20% based on continued autonomous growth and contributions from M&A. Our plan is to achieve our Year 3 revenue target in the Medium-Term Plan of 1,100 billion yen one year early.

FY2021-2022 operating profit

We were unable to achieve a satisfactory operating profit in FY2021 due to raw material price increases and supply chain disruptions. However, we effectively achieved operating profit growth after excluding one-off items, backed by solid earnings growth in Australia, Türkiye, and Asia except China. Along with the contribution from the newly consolidated Indonesia business, there were also significant savings of headquarters expenses compared with the initial plan as we moved towards the smaller headquarters at the holding company. For FY2022, we forecast around 30% operating profit growth from efforts to improve margin by increasing selling prices and reviewing SG&A expenses, on top of the effects of higher revenue.

FY2021-2022 revenue analysis

<table>
<thead>
<tr>
<th>FY2021-2022 revenue analysis (Billion yen)</th>
<th>FY2021-2022 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results 2*</td>
<td>998.3</td>
</tr>
<tr>
<td>Growth rate</td>
<td>10.0%+</td>
</tr>
<tr>
<td>FY2022 Results (Tanshin basis)</td>
<td>998.3</td>
</tr>
<tr>
<td>FY2022 Growth rate</td>
<td>10.0%+</td>
</tr>
<tr>
<td>FY2021-2022 revenue analysis (Billion yen)</td>
<td>FY2021-2022 Forecast</td>
</tr>
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<tr>
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</tr>
<tr>
<td>FY2022 Growth rate</td>
<td>10.0%+</td>
</tr>
</tbody>
</table>

*1 Figures for FY2020 onwards have been retrospectively adjusted due to the classification of the European automotive coatings businesses and the India business as discontinued business following EBITDA: Operating profit + depreciation and amortization + impairment loss + negative goodwill

*2 EPS: Earnings per share
Towards FY2023 – Year 3 of the Medium-Term Plan

We assume that we can achieve organic growth with operating profit margin in the high single digits to low teens in FY2022 and growth with operating profit margin in the Year 3 operating profit target in the Medium-Term Plan of 140 billion yen even without an additional M&A deal, thanks to a significant contribution from margin improvement in FY2023, achieved through selling price increases.

Illustration of FY2021–2023 operating profit (Billion yen)

<table>
<thead>
<tr>
<th>FY2021 (Tanshin basis)</th>
<th>FY2021 (after one-off expenses)</th>
<th>FY2022 Forecast</th>
<th>FY2023 Medium-Term Plan target</th>
</tr>
</thead>
<tbody>
<tr>
<td>87.6</td>
<td>94.5</td>
<td>115.0</td>
<td>140.0</td>
</tr>
</tbody>
</table>

Road map for achieving operating profit improvement of ¥25.0 bn from FY2022 to FY2023

- p. 1: +15% revenue +0.5pt OP margin (+10% revenue) = ¥1,320.0 bn
- OP margin = ¥1,20.0 bn
- +1pt OP margin = ¥192.0 bn
- +1pt OP margin = ¥192.0 bn
- +1.0pt OP margin = ¥192.0 bn

+ e. 2: +15% revenue +0.5pt OP margin (+15% revenue) = ¥1,380.0 bn
- OP margin = ¥1,30.0 bn
- +1pt OP margin = ¥192.0 bn
- +1pt OP margin = ¥192.0 bn
- +1.0pt OP margin = ¥192.0 bn

Actions for Profit Margin Improvement: Raw Material Price Increases and Our Responses

In order to achieve our Year 3 operating profit target in the Medium-Term Plan of 140 billion yen, we are taking actions such as strategic price increases and continuous reviews of SG&A expenses to respond to raw material prices that have moved up significantly and remained elevated due to the Ukraine crisis and other reasons. As a result of these actions, the operating profit margin is starting to recover.

Raw material prices

Crude oil and naphtha prices have increased following US and UK bans on Russian oil imports, coupled with continuing disruptions in international logistics and intermittent problems at some factories. Raw material prices increased further during the first half of FY2022.

<table>
<thead>
<tr>
<th>Country</th>
<th>Raw material production and logistics continued to be impacted by production disruptions and China’s zero-COVID policy, coupled with electricity shortages.</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
</tr>
</tbody>
</table>

Our responses in the first half of FY2022

With the high cost of raw materials impacting our operations worldwide, we are continually taking actions such as raising selling prices, procuring alternative raw materials, and reviewing SG&A expenses.

Road map for improving OP margin

Our guidance for FY2022 announced in February 2022 assumed that the Japan naphtha price would remain above ¥60,000 through 3Q FY2022. However, raw material prices have increased beyond our assumptions due to rising crude oil and naphtha prices caused by US and UK bans on Russian oil imports. We will continue to raise selling prices to keep up with raw material price increases, which we expect will result in continuous and gradual improvement of the operating profit margin. However, margin improvements may be delayed depending on crude oil and naphtha market developments. We are well positioned to restore the operating profit margin over the medium and long term through continuous selling price increases.
Value Creation Achievements (Financial and Non-Financial Highlights)

Figures for FY2017 are based on JGAAP and figures for FY2018 to FY2021 are based on IFRS.

### Financial highlights

#### Operating profit / Operating profit margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating profit (Billion yen)</th>
<th>Operating profit margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>75.0</td>
<td>12.4</td>
</tr>
<tr>
<td>2018</td>
<td>86.5</td>
<td>13.8</td>
</tr>
<tr>
<td>2019</td>
<td>78.1</td>
<td>11.9</td>
</tr>
<tr>
<td>2020</td>
<td>87.6</td>
<td>11.3</td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td>8.8</td>
</tr>
</tbody>
</table>

#### Earnings per share (EPS)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings per share (Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>23.15</td>
</tr>
<tr>
<td>2018</td>
<td>28.28</td>
</tr>
<tr>
<td>2019</td>
<td>22.99</td>
</tr>
<tr>
<td>2020</td>
<td>27.38</td>
</tr>
<tr>
<td>2021</td>
<td>29.41</td>
</tr>
</tbody>
</table>

* Calculated assuming that the five-for-one stock split on April 1, 2021 was conducted in January 2017.

#### Free cash flow (Billion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Free cash flow (Billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>-21.4</td>
</tr>
<tr>
<td>2018</td>
<td>24.1</td>
</tr>
<tr>
<td>2019</td>
<td>-260.7</td>
</tr>
<tr>
<td>2020</td>
<td>52.2</td>
</tr>
<tr>
<td>2021</td>
<td>-34.9</td>
</tr>
</tbody>
</table>

#### Revenue (Billion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>805.3</td>
</tr>
<tr>
<td>2018</td>
<td>827.7</td>
</tr>
<tr>
<td>2019</td>
<td>692.0</td>
</tr>
<tr>
<td>2020</td>
<td>772.6</td>
</tr>
<tr>
<td>2021</td>
<td>998.3</td>
</tr>
</tbody>
</table>

#### Operating profit (Billion yen) Operating profit margin (%)

- Operating profit: a record high in FY2021 due to the benefits of acquisitions and growth of the Chinese business. Group operating profit remained at the same level in FY2021 due to higher revenue and the reduction of third costs, despite raw material price increases and a provision for a potential credit loss in China. The operating profit margin in FY2021 decreased from the previous year due to an increase in the raw material cost contribution ratio.

#### Net debt* / Net D/E ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Net debt (Billion yen)</th>
<th>Net D/E ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>72.9</td>
<td>0.14</td>
</tr>
<tr>
<td>2018</td>
<td>89.3</td>
<td>0.17</td>
</tr>
<tr>
<td>2019</td>
<td>310.9</td>
<td>0.56</td>
</tr>
<tr>
<td>2020</td>
<td>309.2</td>
<td>0.54</td>
</tr>
<tr>
<td>2021</td>
<td>429.3</td>
<td>0.45</td>
</tr>
</tbody>
</table>

### Dividends per share*1 / Dividend payout ratio (IFRS)*2

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends per share (Yen)</th>
<th>Dividend payout ratio (IFRS) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>8.4</td>
<td>27.6</td>
</tr>
<tr>
<td>2018</td>
<td>9.0</td>
<td>31.8</td>
</tr>
<tr>
<td>2019</td>
<td>9.0</td>
<td>39.3</td>
</tr>
<tr>
<td>2020</td>
<td>9.0</td>
<td>32.3</td>
</tr>
<tr>
<td>2021</td>
<td>10.0</td>
<td>32.9</td>
</tr>
</tbody>
</table>

*1 Calculated assuming that the five-for-one stock split on April 1, 2021 was conducted in January 2017.

#### Total shareholder return (TSR)

<table>
<thead>
<tr>
<th>Year</th>
<th>TSR (%)</th>
<th>TOPIX (dividends included) (for reference)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>21.2</td>
<td>23.0</td>
</tr>
<tr>
<td>2018</td>
<td>5.7</td>
<td>3.8</td>
</tr>
<tr>
<td>2019</td>
<td>6.8</td>
<td>7.8</td>
</tr>
<tr>
<td>2020</td>
<td>12.3</td>
<td>12.0</td>
</tr>
<tr>
<td>2021</td>
<td>146.9</td>
<td>204.0</td>
</tr>
</tbody>
</table>

#### Return on equity (ROE) / Return on invested capital (ROIC)*

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE (%)</th>
<th>ROIC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>7.6</td>
<td>11.5</td>
</tr>
<tr>
<td>2018</td>
<td>8.8</td>
<td>12.3</td>
</tr>
<tr>
<td>2019</td>
<td>7.6</td>
<td>11.5</td>
</tr>
<tr>
<td>2020</td>
<td>7.8</td>
<td>12.2</td>
</tr>
<tr>
<td>2021</td>
<td>8.8</td>
<td>12.3</td>
</tr>
</tbody>
</table>

* ROE: (Net profit after tax / total net assets) * ROIC: (Operating profit after tax / total equity)

Capital investments in the paint industry are relatively low and positive cash flow is the norm. Free cash flow in FY2017, FY2019, and FY2021 were negative due to the acquisitions of overseas paint manufacturers. However, our operating cash flow has increased consistently every year.

The total shareholder return (TSR) has exceeded TOPIX (dividends included), a comparative benchmark, since FY2019 due to the increase in dividends and the share price. TSR in FY2021 reached 204.0% due to a dividend increase.

Nippon Paint Group has grown steadily through the acquisitions of paint manufacturers in the United States in FY2017 and in Australia and Turkey in FY2019 along with the successful growth of the decorative paints business in China and other Asian countries. In FY2021, we achieved revenue growth for the fifth consecutive year and a record revenue due to the acquisition of the Indonesian business, selling price increases in every region, and the weaker yen.

Our basic policy is to pay stable and consistent dividends and maintain a dividend payout ratio of 30%. Our dividend payout ratio has been above 30% since FY2018. In FY2021, we paid an annual dividend of ¥10 per share including a commemorative dividend of ¥1 per share for the 140th anniversary of the company’s founding. As a result, our dividend payout ratio was 32.9%.

Due to relatively low capital investments in the paint industry, positive cash flow is the norm and our net debt has been consistently negative. However, net debt has been positive since FY2019 due to the loans from financial institutions to finance M&A. The net D/E ratio decreased in FY2021 because of the increase in equity capital as a result of the issuance of new shares through a third-party allotment.

ROE has remained around 8% in recent years after declining in FY2019 because net profit decreased. ROIC has been declining since FY2019 due to lower turnover of invested capital caused by increases in interest-bearing debt and shareholders’ equity. These increases were due to M&A activity in FY2019, FY2020, and FY2021 and the full integration of the Asian JV’s in FY2021.

Earnings per share (EPS) rose or falls roughly in proportion to changes in earnings, such as operating profit. EPS increased in FY2021 due to a significant increase in net profit and a decrease in net expenses through a third-party allotment to procure funds for the full integration of the Asian JVs and the acquisition of the Indonesian business.

Nippon Paint Group has been growing steadily in every region, and the weaker yen. Free cash flow has increased consistently every year.

The net debt / equity ratio has remained relatively low because of the positive cash flow from the norm and the low capital investments in the paint industry.
Non-financial highlights

### Employees / Ratio of overseas employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Overseas</th>
<th>Ratio of overseas employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>908</td>
<td>345</td>
<td>37.9</td>
</tr>
<tr>
<td>2018</td>
<td>831</td>
<td>302</td>
<td>36.2</td>
</tr>
<tr>
<td>2019</td>
<td>780</td>
<td>277</td>
<td>35.6</td>
</tr>
<tr>
<td>2020</td>
<td>728</td>
<td>253</td>
<td>34.9</td>
</tr>
<tr>
<td>2021</td>
<td>700</td>
<td>242</td>
<td>34.6</td>
</tr>
</tbody>
</table>

* The number of employees of NPHD, which was previously included in the Japan segment, has been included in the Consolidated total (common) since FY2021.

### Employee satisfaction level (Japan Group)*

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>76</th>
<th>2018</th>
<th>83</th>
<th>2019</th>
<th>89</th>
<th>2020</th>
<th>89</th>
</tr>
</thead>
</table>

* Surveys by Nippon Paint Labor Union.

### Number of Directors of the Board* / Ratio of Independent Directors on the Board*

<table>
<thead>
<tr>
<th>Year</th>
<th>Directors</th>
<th>Number of Directors of the Board</th>
<th>Ratio of Independent Directors (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>9</td>
<td>7</td>
<td>78.6</td>
</tr>
<tr>
<td>2018</td>
<td>10</td>
<td>10</td>
<td>100.0</td>
</tr>
<tr>
<td>2019</td>
<td>11</td>
<td>5</td>
<td>45.5</td>
</tr>
<tr>
<td>2020</td>
<td>9</td>
<td>11</td>
<td>67.7</td>
</tr>
<tr>
<td>2021</td>
<td>8</td>
<td>8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Number of Directors who were elected at the Ordinary General Meeting of Shareholders held in March 2021. The FY2021 figure is the number of the Directors in office on or after April 28, 2021.

### Awarded the Gold Brand from a Chinese brand evaluation institution

The Group is steadily reducing CO2 emissions in Japan by taking actions, such as conducting energy-saving activities and introducing renewable energy towards the goal of reducing CO2 emissions by 37% in FY2030 compared to the FY2019 level. The Group’s CO2 emissions in Japan (Scope 1 and 2) in FY2021 was roughly unchanged from the previous year despite the recovery of production volume.

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>36,893</th>
<th>2018</th>
<th>36,430</th>
<th>2019</th>
<th>45,714</th>
<th>2020</th>
<th>42,374</th>
<th>2021</th>
<th>42,971</th>
</tr>
</thead>
</table>

* Surveys coverage was six companies until FY2017: Nippon Paint Holdings (NPHD), Nippon Paint (NPTU), Nippon Paint Automotive Coatings (NPAC), Nippon Paint Industrial Coatings (NPIU), Nippon Paint Surf Decorative Coatings (NPSC), and Nippon Paint Marine Coatings (NPMC). The survey coverage from FY2018 is seven companies: NPHD, NPTU, NPAC, NPIU, NPSU, NPMC, and Nippon Paint Materials (NPMJ).

### Award winner for six consecutive years

The Group is steadily reducing CO2 emissions in Japan by taking actions, such as conducting energy-saving activities and introducing renewable energy towards the goal of reducing CO2 emissions by 37% in FY2030 compared to the FY2019 level. The Group’s CO2 emissions in Japan (Scope 1 and 2) in FY2021 was roughly unchanged from the previous year despite the recovery of production volume.

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>396</th>
<th>2018</th>
<th>409</th>
<th>2019</th>
<th>540</th>
<th>2020</th>
<th>500</th>
<th>2021</th>
<th>458</th>
</tr>
</thead>
</table>

* Surveys coverage was six companies until FY2017: Nippon Paint Holdings (NPHD), Nippon Paint (NPTU), Nippon Paint Automotive Coatings (NPAC), Nippon Paint Industrial Coatings (NPIU), Nippon Paint Surf Decorative Coatings (NPSC), and Nippon Paint Marine Coatings (NPMC). The survey coverage from FY2018 is seven companies: NPHD, NPTU, NPAC, NPIU, NPSU, NPMC, and Nippon Paint Materials (NPMJ).

### Number of countries/regions where Nippon Paint Group has the No. 1 market share in decorative paints

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>5</th>
<th>2018</th>
<th>5</th>
<th>2019</th>
<th>8</th>
<th>2020</th>
<th>8</th>
<th>2021</th>
<th>8</th>
</tr>
</thead>
</table>

Nippon Paint Group has held the top market position in Japan for many years. The aggressive expansion of the ASEAN business since 1967 has also steadily increased the number of countries and regions where the Group has the largest market share. The acquisition of DuluxGroup and Botex Boya has also established us as the leader in the paint markets of Australia and Türkiye since FY2019.

### Ratio of water-based paints in the decorative paints business (Global)*

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>82.3</th>
<th>2018</th>
<th>83.8</th>
<th>2019</th>
<th>86.7</th>
<th>2020</th>
<th>87.5</th>
<th>2021</th>
<th>89.9</th>
</tr>
</thead>
</table>

* Calculated as water-based paint shipments divided by total paint shipments in units of 10,000 tons. Data for four companies: Nippon Paint (NPTU) and NIPSEA (beginning in FY2016), Dunn-Edwards (beginning in FY2017), and DuluxGroup (beginning in FY2019).
The global paint market has strong local features and huge growth potential over the medium and long term.

### China — Decorative paints market

**No change in medium- and long-term growth potential**

Paint demand in China is expanding as urbanization increases. The urbanization rate in China increased from around 50% in 2016 to between 60% and 70% in 2021, and is expected to continue to advance gradually (See Figure 3). Per capita paint consumption is still around one-third of the level of advanced countries. Consumption is expected to climb consistently at a GDP+ growth rate in line with the increase in disposable income as China's middle class grows (See Figure 2).

**Rapidly expanding repainting demand**

In China, the real estate market gained momentum with housing reforms in 1998. Since then, an enormous number of private housing units have been built. Private houses that were built in large numbers in the late 1990s are aging. As a trend, repainting demand has been growing rapidly (See Figure 3). In response to this situation, the Chinese government announced a plan in 2020 to repair, reform and redevelop old urban residential communities in 39,000 locations with 7 million households nationwide. In addition, the government established the goal of completing the renovation of residential communities built in 2000 or earlier by the end of 2025. The government has asked residents to renovate the interiors of their houses and replace home electric appliances. Backed by the present situation concerning existing houses and a push by the government for renovations, repainting demand is expected to continue to climb. Based on our estimates, repainting demand for existing houses is around one-third of total paint demand for housing in China and paint demand for new houses is around two-thirds.

**Strong growth continues driven by GDP growth, urbanization and government economic stimulus policies**

The urbanization rates in Indonesia and Türkiye increased from 51% and 74%, respectively, in 2015, to 57% and 77%, respectively, in 2021. In addition, the urbanization rates in these countries are expected to increase further, similar to the situation in China, to 68% and 86%, respectively, in 2030 (See Figure 1). In Indonesia, paint demand is expected to grow further driven by the government’s stimulus measures, including infrastructure investments accompanying the capital city consolidation project. In Türkiye, market growth is expected to continue despite the high inflation caused by the depreciation of the Turkish lira against major currencies. In addition, renovation and repair demand is expected to increase with GDP growth (See Figure 2).

**High-growth countries (Indonesia and Türkiye) — Decorative paints market**

Strong growth continues driven by GDP growth, urbanization and government economic stimulus policies. The population of Türkiye has been growing steadily (See Figure 4 and 5). In line with this trend, growth is projected in the premium market, on top of growth already taking place in the economy and standard markets. In addition, we expect growth of per capita paint consumption in these countries.

### Mature countries (Australia and Europe) — Decorative paints market

**Expecting market growth driven by the recovery of the housing market and GDP growth**

The population of Australia has been growing steadily (See Figure 6). Private dwelling commencements declined in Australia and Europe in 2020 due to the pandemic but a recovery has started as a result of government stimulus, albeit disrupted by supply constraints (See Figure 7). Generally speaking, demand for decorative paints has a higher correlation to GDP growth than to private dwelling commencements as these mature markets are biased to existing home renovation and repair. Considering that GDP growth is expected to continue in Australia and Europe, we expect that solid growth will continue in the decorative paints market over the medium term (See Figure 2).
Growth Strategy for Rapidly Growing Repainting Market in China

1. Growth opportunities and potentiality of repainting market in China

China’s property market has entered the era of stock housing. Under the influence of the “Domestic Not Speculates” policy, China’s Property Market has plateaued. In 2021, China’s property development investment made up 21.2% of total fixed asset investment, down by two percent points from 2020. In terms of construction scale, from 2005 to 2015, Compound Annual Growth Rate (CAGR) of property development investment was 20.8%, CAGR of project commencement was 8.5%, CAGR of housing transaction was 8.8%, and CAGR of project completion was 6.4%. From 2016 to 2021, these 4 indicators dropped respectively to 7.5%, 3.5%, 2.7% and -0.9%. It is estimated that in the next two decades, annual transaction volume of new property will drop to below 10 billion, down 40% from its current level.

Sustained policy control has led to a decline of new property transaction volume, and consequently increasing the proportion of stock housing gradually in the property market. It is estimated that stock property housing will reach 350M units by 2023, and 420M units by 2030. As a key indicator of the arrival of stock housing era, since 2013, Resale Housing has made up over 40% of China’s total housing transactions. In 2021, Resale Housing transaction was 44.1% of the total transaction.

China’s Tier 1 cities have crossed over into Era of Stock Housing. Beijing’s resale housing transactions are close to 70% of total property transaction, while in Shanghai it stands at 60%, while in Shenzhen and Guangzhou they are at approximately 50%. For Tier 2, 3 & 4 cities, resale housing transactions have made up over 30% of total property transactions and are also steadily increasing.

The 1998-2008 period was known as the Golden Decade of China’s property market. Judging from the repair and maintenance cycle of 10-15 years, a large amount of stock housing has reached or exceeded the ‘Refurbishing’ threshold. Repainting of stock housing is set to overtake new property to become the key support for demand for home decoration. By 2025, it is estimated that renovation of stock housing will make up 12% of total demand of housing renovation. By 2030, this ratio will rise to over 50% of total renovation.

Stock housing era, coupled with government policies, pushes repainting to highs

In 2021, China’s State House issued a Guide on Upgrading of Aged Housing Estates in Cities and Townships, which categorized the upgrading of aged housing estates into an initiative of social security housing and entitled it for subsidies from central government. The 14th 5 Year Plan, formulated in 2021, stipulates that housing estates completed before the end of 2020 will be upgraded within the 14th 5 Year Plan period. "City Upgrading" has been escalated to be a national strategy.

The 219,000 housing estates targeted for upgrading are estimated to have 400M in construction area and bring about investment of 4 trillion RMB. The resulting market potential for construction materials will amount to 240B RMB, of which 40B will be in construction paint and coatings.

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Eric Chung is the CEO of Nippon Paint China, currently heading all its business units in Greater China. He held managerial roles in two subsidiary companies of Master Kong Holdings Co. Ltd. before joining Nippon Paint China in 2007. Armed with a clear business vision, he has spearheaded company’s transformation in areas of corporate strategy, image, branding and product technology. He has also executed Nippon Paint China’s strategy, streamlining operation from paint manufacturer to a provider of overall coating solutions. Under his leadership, Nippon Paint China has achieved more than double digit growth for the past 10 consecutive years.
2. Business strategy that responds to the Chinese repainting market

Nippon Paint China adopts “Refresh and beautify the living spaces” as its corporate mission, and has a vision “To construct with technology a most valuable eco-system, to become the leader in paint and coating total solutions.”

It is also in the value system of Nippon Paint China, to Enable Customer’s Achievements, to Lead through Innovation, to Cooperate for Winning, and to Encourage Drive to Succeed.

As the leader of China’s paint and coatings industry, Nippon Paint China is actively responding to China government’s 14th 5 Year Plan, and drive the contribution of paint and coatings industry in City Upgrading.

Retail Strategy

Focus on core business & core cities, strive for sustained growth
1. Focus on Art paints, to satisfy demand in consumption upgrade and individualized needs
2. Focus on high-potential cities, enhance efficiency to ensure high-yield

Uplift existing renovation model (Refresh)
1. Leverage on E channel: deep exploration of homeowners’ needs, increase penetration of renovation through Refresh
2. Improve on Net Promoter Score (NPS)
   1. Close-loop management of post-sale services, with enhanced service standards and delivery standards, setup supplier management and appraisal system

Multi-faceted innovation to drive growth
1. Business model innovation: Explore partnership system and find growth drivers
2. Eco-system innovation: form alliances in renovation with fellow producers of construction materials, collaborate with leading companies
3. Product innovation: develop product solutions for key scenarios in renovation, such as bathroom, window, balcony, exterior wall, sunroom, basement, rooftop

Project Strategy

Organization: form Upgrade project team
1. Form Upgrade project team, to coordinate strategies, plans and execution of upgrading, to streamline process of product offering, solutions, delivery and quality assurance

Channel: establish regional centers of competency and Upgrade partners
1. Establish centers of competency in sales regions, to develop technical and application expertise in supporting Upgrade
2. To recruit Upgrade partners & jointly manage project leads, promotion and development

Provide scenario-based products and solutions
1. Cloud-based, digitalized & smart systems for complete management of Upgrade projects
2. Establish partnership in Upgrade
3. Scenario based products & solutions
**Growth Strategy Deployment in High-Growth Countries (Indonesia and Türkiye)**

**Market features and characteristics in high-growth countries (Indonesia and Türkiye)**

The Indonesian and Turkish markets have proven resilient, having endured the impact of the COVID-19 induced recession and are now emerging as one of the top players in their respective regions. These countries are similar in many ways. They boast a sustainable middle-class youth population – Indonesia’s median age (as of 2021) is 31.1 whereas Türkiye is 31.2. This in turn has facilitated the growth of a strong middle class to sustain aggregate supply amid a boom in the retail and e-commerce economy. It is unsurprising since both countries have high levels of internet penetration – Indonesia at 75.7% and Türkiye at 92% – and e-commerce is booming in both the internet economy, especially e-commerce.

In the same context, compared to previous year, e-commerce volume rose by 69% in Türkiye and the ratio of e-commerce to general commerce was 17.7%. On the other hand, Indonesia’s 202 million strong internet users contributed US$70 billion to the country’s GDP in 2021 with e-commerce volume rising by 69% in Türkiye (11%) – and rising post-pandemic. In 2021, compared to previous year, e-commerce volume rose by 69% in Türkiye and the ratio of e-commerce to general commerce was 17.7%. On the other hand, Indonesia’s 202 million strong internet users contributed US$70 billion to the country’s GDP in 2021 with e-commerce volume rising by 69% in Türkiye (11%) – and rising post-pandemic.

**Growth strategy in Indonesia**

Indonesia remains a vibrant market, and PT Nippon is optimistic about our strategic growth outlook and focuses on delivering consistent results in this market. In line with the aspiration, our growth strategy is nested in three aspects – strategic industries, technological capacity and social media marketing.

One of the main areas for opportunities in the industrial segment is in automotive manufacturing. As more Indonesians recover from the economic effects of the pandemic, the return to the normal will be coupled with a spike in our production, and parts manufacturing. Taking advantage of this trend, Nippon Paint’s development of automotive coatings for the Indonesian market has started.

In terms of product marketing, a new range of aluminium paint products has been launched. The line of automotive paint products features aActor” series available in both black and white, and the premium “Premium Silver” series, which is designed to cater to the premium segment of the market. The launch of these products is expected to drive acceptance of our premium segment and increase brand awareness. Here is an opportunity to strengthen our position as a leading brand in the automotive segment.

Our continued commitment to sustainability is evident in our efforts to reduce our carbon footprint. In the automotive segment, the company is working towards improving fuel efficiency and reducing emissions. In addition, Nippon Paint is actively involved in various sustainable initiatives, such as the development of biodegradable paint products and the use of renewable resources in our production process. These efforts reflect our commitment to environmental sustainability and responsible business practices.

**Growth strategy in Türkiye**

Leveraging its continued excellence in the Turkish market, Betek Boya remains steadfast in expanding its footprint in the market and delivering value to our stakeholders. To that end, our goals are focused on expanding the External Thermal Insulation Composite System (ETICS) sector, developing a centric approach to business and synergizing with investments in industrial coatings.

In addition, ETICS, which contributes up to one third of our revenue from paint, is ripe for further expansion into the Turkish market. With its 22.5 mm sqm annual ETICS supply in 2021, one third of our revenue from paint, is ripe for further expansion into the Turkish market. With its 22.5 mm sqm annual ETICS supply in 2021, one third of our revenue from paint, is ripe for further expansion into the Turkish market. With its 22.5 mm sqm annual ETICS supply in 2021, one third of our revenue from paint, is ripe for further expansion into the Turkish market.

Betek Boya, in the solid market leader, four times more efficient than competitors in the Turkish market and also has a leading position in Euro region, and ETICS is also growing in the coming months. The increase in demand for thermal insulation will skyrocket, leaving a huge gap in the market. Betek Boya has the expertise and the capacity to fill this gap. The company has invested heavily in infrastructure and is well-equipped to meet the growing demand for thermal insulation products.

**Message from Management**

Budi Fianto Buna, President Director, PT Nippon Paint and Chemicals

Budi joined PT Nippon Paint and Chemicals Indonesia in 1970 and has been the President Director since 1990. Prior to that, Budi, who began his career as an HR & Payroll Executive, rose through a succession of leadership roles across areas including sales, marketing and general management. He was one of the principal architects of the company’s growth in the Indonesian market. Under his leadership, both Trade Vote and Industrial Vote divisions secured the number 1 position in a market share for Decorative Industrial and Motorcyle coating businesses. Budi obtained his degree in 1970 from a private university in Indonesia.

Tayfun Küçükoğlu, General Manager, Betek Boya

Tayfun Küçükoğlu is the General Manager of Betek Boya Group. He has held various roles within Betek Boya where he was a founding member in 1988 and is currently a part of the board of directors since 1990. He also co-founded and helped make Fili Boya the market leader in 2001. He is acting as a prajma for member of the ETICS category in Türkiye. Küçükoğlu is part of the founding committee at the Paint Manufacturers Association (BOSAD) established in 2023. Küçükoğlu is also a member of the Board of Heat, Water, Sound and Fire Insulators Association (IZODER). Other positions he has held include being the Chairman of the Board of Directors at MSAD (Construction Materials Industry Association) since 2020.
DuluxGroup aims to continue delivering consistent, profitable growth by focusing on three strategic growth pillars:

1. Extending DuluxGroup’s market leading positions in the Pacific
   From its heritage dating back to 1918, DuluxGroup has evolved to become a leading marketer and manufacturer of premium branded products that enhance, protect and maintain the places and spaces in which people live and work. This is expressed in our core purpose - “Imagines a Better Place.”

   DuluxGroup has invested in and leveraged its market leadership position and regional scale in well-structured market segments to deliver consistent and profitable growth.

   In Australia and New Zealand, approximately 75% of DuluxGroup’s business is comprised of Dulux paint & coatings and the Fisher’s, Selleys, adhesives & fillers businesses. They are complemented by other home improvement segment businesses Yates, B&D Group and Lincoln Sentry, which are each strong value propositions.

   DuluxGroup has also operated in Papua New Guinea and with the addition of Admil silicone sealants and growing technical capability for Selleys with the addition of “Paint Spot” outlets to Dulux's retail network, generating increased participation in the premium segment.

2. Focus on well-structured markets and consumer-led insights, innovation and marketing
   DuluxGroup’s track record of consistent delivery has been underpinned by putting customers and consumers at the heart of everything it does, and by an evolving strategic focus on whereby we:

   a. Leverage and continue to invest in our core capabilities across our market leading business particularly:
      - our premium brands,
      - consumer-led insights, innovation and marketing, and
      - growth through our retail and trade customer channels by focusing on service and experience.

   b. Focus on well-structured markets and market segments that deliver consistent growth and strong returns, with an emphasis on the relatively stable existing home renovation and maintenance markets, typically 60% of Group revenue.

3. Focus on product categories that are premium branded – where consumer trust, quality, continuous innovation and supply chain excellence drive competitive advantage.

   Organic growth will be driven by ongoing investment in the fundamentals that have underpinned success to date. More specifically:

   - generating increased participation in the renovation and repair market through strong marketing and innovation, including increased do-it-for-me services to consumers;

   - increasing consumer engagement through digital platforms;

   - promoting omni-channel and optimization of logistics for the trade/professional market; and

   - focusing on premium brands, innovation and customer service with key retail partners

   In the last three years, growth in DuluxGroup’s existing businesses has been complemented by a number of bolt-on, earnings-accrue, acquisitions in ANZ.

   Recent examples include extending Dulux’s reach into direct trade customer channels with the addition of “Paint Spot” outlets to Dulux’s retail network, generating technical capability for Selleys with the addition of Admil silicone sealants and adhesives, and Dulux’s growing presence in the roof restoration systems market with the acquisition of GBS Roofing Supplies.

   Future bolt-on opportunities will continue to be focused on enabling the core strategies of DuluxGroup’s strategic business units while contributing to overall earnings growth.

   To support growth, we will continue to invest in skills, capability and leadership development in our engaged, motivated and committed workforce enabled to deliver on our growth ambitions.

Dulux has been voted the most trusted paint brand in
Australia for the last 10 years in a row.*
* Reader’s Digest 2020

DuluxGroup has been operating in the Pacific (Australia, New Zealand, Papua New Guinea and Europe) since 1918, where it replicates its core Dulux and Selleys offers.

DuluxGroup’s largest product market, decorative paints, historically grows volume at approximately 1% per year, and market leader Dulux has consistently grown value ahead of that, on an average of 5% a year over the past two decades. With strict margin and cost discipline, DuluxGroup has a strong track record of flame-through to profit, with year-on-year EBIT growth over many years.

Success underpinned by investment in and, and focus on, the fundamentals

1 Extending DuluxGroup’s market leading positions in the Pacific

The past two decades. With strict margin and cost discipline, DuluxGroup has a strong track record of flame-through to profit, with year-on-year EBIT growth over many years.

Success underpinned by investment in and, and focus on, the fundamentals

1. Extending DuluxGroup’s market leading positions in the Pacific

2. Focus on well-structured markets and consumer-led insights, innovation and marketing

3. Focus on product categories that are premium branded – where consumer trust, quality, continuous innovation and supply chain excellence drive competitive advantage.

4. Continue to foster our strong culture, which is reflected in world-leading employee engagement levels and is underpinned by our Values and Behaviors and also recruiting, developing and retaining a diverse and talented workforce.

Organic growth supported by value

generating M&A

Organic growth will be driven by ongoing investment in the fundamentals that have underpinned success to date. More specifically:

- generating increased participation in the renovation and repair market through strong marketing and innovation, including increased do-it-for-me services to consumers;

- increasing consumer engagement through digital platforms;

- promoting omni-channel and optimization of logistics for the trade/professional market; and

- focusing on premium brands, innovation and customer service with key retail partners

In the last three years, growth in DuluxGroup’s existing businesses has been complemented by a number of bolt-on, earnings-accrue, acquisitions in ANZ.

Recent examples include extending Dulux’s reach into direct trade customer channels with the addition of “Paint Spot” outlets to Dulux’s retail network, generating technical capability for Selleys with the addition of Admil silicone sealants and adhesives, and Dulux’s growing presence in the roof restoration systems market with the acquisition of GBS Roofing Supplies.

Future bolt-on opportunities will continue to be focused on enabling the core strategies of DuluxGroup’s strategic business units while contributing to overall earnings growth.

To support growth, we will continue to invest in skills, capability and leadership development in our engaged, motivated and committed workforce enabled to deliver on our growth ambitions.

DuluxGroup continues to focus on the strategic growth of its existing businesses in...
2. Leveraging capability for growth into the mature European paint & coatings market

DuluxGroup established foothold positions in European decorative paints markets with the acquisitions of Craig & Rose in the UK in 2016 and Maimeri Deco in France in 2019, followed by niche acquisitions of French brand Pure & Paint in 2020. With these relatively small-scale acquisitions, DuluxGroup has leveraged its expertise in premium brands and consumer-led marketing and innovation, along with its retail channel management capability, to progressively grow its presence in European Big Box consumer retail, complemented by other channels including online.

Cromology and JUB – a strong platform with scale and capable management to enable growth

The acquisition of major market leaders French-based Cromology and Slovenia-based JUB provides the market position and regional scale needed to drive DuluxGroup and Nippon Paint Group’s growth ambitions in European premium paints markets. They each have premium brands, leading market positions across western and central Europe respectively, capable management teams, local market know-how, strong trade and retail distribution, well-established manufacturing assets and supply chain capabilities.

Cromology and JUB, along with Maimeri Deco and Craig & Rose, provide DuluxGroup a substantial European decorative paints platform from which to deliver ongoing growth in the world’s second largest decorative paints market (after China).

Symmetry with DuluxGroup – consumers, customers and market dynamics

Europe, like Australia, is a mature market where delivering consistent, year-on-year, organic growth is underpinned by ongoing investment in the core fundamentals of premium brands, consumer-led marketing and innovation, customer service and supply chain excellence.

DuluxGroup is the natural owner for Cromology and JUB. They have much in common in terms of their respective consumers (do-it-yourself and DIY), customers (trade/own stores, Big Box and independent) and competitive landscapes. While there are large global decorative paint market players in Europe, DuluxGroup already competes with many of these in ANZ and has done so for many years.

Over time, we see compelling growth opportunities leveraging the product portfolio, technology, marketing and innovation, procurement and customer channel management capability of DuluxGroup along with the global scale and resources of the wider Nippon Paint Group. DuluxGroup’s European “partner companies” – Cromology (UK Maimeri Deco and Craig & Rose) – will drive European decorative paints growth over the medium to long term, including through leveraging DuluxGroup’s core capability, which has delivered above-market, profitable growth in Australia, New Zealand and PNG for decades.

Enabling our European partner companies to drive organic and inorganic growth through:

- **Customer channels** – grow share in trade customer chains (e.g. omni-channel trade fulfillment) and continue to build a meaningful presence in DIY consumer retail (e.g. step-up Big Box presence) over time.
- **Product category extensions** – leveraging the wider DuluxGroup and Nippon Paint Technology and product portfolio, including specialty coatings (e.g. wood, metal, concrete and texture coatings), ETICS and S&F.
- **Geographic extensions** – focusing on advanced markets with similar market and consumer dynamics.

3. Leveraging capability for growth into global sealants, adhesives & fillers segments

DuluxGroup has successfully grown into a paint and filler segment in ANZ, most notably with its market leading fillers and sealants, adhesives & fillers (S&F) business. DuluxGroup is now working collaboratively with NIPREA Group, to help build a material, sustainable and market leading S&F business in Asia through transferring our S&F capabilities including consumer insights, marketing, product, technical and supply chain expertise. We will continue to focus on this collaboration, building on its success to-date.

Further, DuluxGroup aims to grow into global S&F segments in markets where structures are similar to Selleys ANZ experience and where we know we can successfully compete. Given DuluxGroup’s European expansion in paint related distribution networks, we will continue to explore options to add local S&F businesses to generate growth in paint adjacent categories.

In doing so, we will focus on opportunities offering premium established brands, local product, locally compliant technology, strong supply chain capability, distribution reach, management talent and deep S&F experience. DuluxGroup will look to leverage its capabilities, including in Big Box retail, to generate long term sustainable growth.

Cromology

Loïc Derrien
Chief Executive Officer

**PROFILE**

Deliberate. Cromology is at the heart of every emerging, developing and mature European paint market; and estranged manufacturing footprint.

1. Leveraging Cromology’s significant scale to expand the product portfolio using Nippon Paint Group technology and growing its A&D product portfolio, including specialty coatings (e.g. wood, metal, concrete and texture coatings). ETICS and S&F.
2. **Geographic expansion** – focusing on advanced markets with similar market and consumer dynamics.

**Cromology geographic presence and market position**

Cromology is Europe’s fourth largest decorative paint supplier, and is a market leader in Western Europe, where it is the leader in Poland, Italy, France, Spain and Portugal. Via a portfolio of premium brands, broadly marketed through senior company store network, it is well positioned for growth opportunities into other customer channels, as well as an additional product and geographic segments.

**SWOT analysis**

**Strengths**

- Leading market position – top 4 in France, top 3 in Spain, Portugal and Morocco
- Strong brands, backed by strong R&D & capability
- Global manufacturing excellence

**Weaknesses**

- New competitors entering the market
- No specific European market

**Opportunities**

- Leveraging Cromology’s significant scale to expand the product portfolio using Nippon Paint Group and Nippon Paint Group’s S&F capacity
- Expanding into new countries

**Threats**

-现今的全球经济形势, 包括能源市场的能源价格
-仅依靠本地市场

**Performance**

<table>
<thead>
<tr>
<th>Performance</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue**</td>
<td>83.3</td>
<td>64.3</td>
</tr>
<tr>
<td>Operating Profit (ex IFRS16)</td>
<td>15.6</td>
<td>12.2</td>
</tr>
<tr>
<td>Operating Profit (ex IFRS16)</td>
<td>15.6</td>
<td>12.2</td>
</tr>
</tbody>
</table>

**JUB**

Sašo Kokalj
President & CEO

**PROFILE**

Sašo Kokalj joined JUB in January 2013. Since joining, JUB has progressed through a series of key leadership positions and developed a deep understanding of the South East European business. Sašo has a Bachelor’s degree in Engineering and a Master’s degree in Business Administration from the University of Ljubljana, and a Bachelor of Production Management from the University of Maribor.

**JUB geographic presence and market position**

JUB has a leading position in premium paints and ETICS in central Europe, particularly in the former Yugoslavia, and in strengthening its position in other central European countries, particularly in paints, leading components and ETICS systems.

**SWOT analysis**

**Strengths**

- Strong market position
- Leading brands
- Strong research and development

**Weaknesses**

- Smaller procurement scale
- Difficulties entering new markets

**Opportunities**

- Expanding its position in Big Box retail
- Expanding its ETICS business
- Expanding into new countries

**Threats**

- Growing competition from local and international brands
- High energy prices

**Performance**

<table>
<thead>
<tr>
<th>Performance</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue**</td>
<td>15.6</td>
<td>12.2</td>
</tr>
<tr>
<td>Operating Profit (ex IFRS16)</td>
<td>15.6</td>
<td>12.2</td>
</tr>
<tr>
<td>Operating Profit (ex IFRS16)</td>
<td>15.6</td>
<td>12.2</td>
</tr>
</tbody>
</table>

*Exchange rate applied JUB 1 Academy, 13.89, 12 FY2020 and FY2021 figures. Numbers are rounded to whole financial figures.
Q&A with Co-President Wee about Actions for Improving the Profitability of the Japanese Businesses

Nippon Paint Group regards improving the profitability of the Japanese businesses as one of its management challenges. To tackle this challenge, we are implementing structural reforms based on the Co-President setup along with cooperation from our overseas partner companies. On this page, Director, Representative Executive Officer & Co-President Wee Siew Kim talks about challenges at Nippon Paint Group and the actions to overcome these difficulties.

Q.1 Please explain the reasons and background for the decline in the profitability of the Japanese businesses.

The business landscape of today is very volatile. A global pandemic, international conflicts, disruption in supply chains, inflations and talks of a looming recession all have an impact on business operations. In Japan, the changes that we are seeing in our operations and business can be partly attributed to external factors such as decrease in automobile production and increase in raw material prices. From a management analysis, a fundamental factor that has impacted the business is bunshaka or company splits along different lines of business. In 2015, the concept of splitting the Group into its operating companies based on lines of business (automotive coatings, decorative paints, industrial coatings, and surface treatments) has proven itself beneficial to the Group. However, bunshaka caused partner companies to lose a sense of collaboration and that has affected the business operations in the long run. This also comes with several other considerations such as the capabilities of the partner companies to function independently.

Q.2 What specific actions have you taken to improve profitability in the Japanese businesses?

In contrast to the paint and coatings market overseas where we are seeing continued growth, the Japanese paint and coatings market has shown decline over the past decade. This is especially true in Japan, it therefore becomes important to build a cost and operating structure that is aligned with this mature market, requiring a management approach that might be different from other regions.

To continue the growth of our Japanese business and to stabilize profitability, we are currently looking at two major growth areas. Firstly, for our Japan business we will drive more focus on the marine coatings business and to enable profitability, we are looking to further strengthen the operating results of the NPMC business. We have identified prospects for positive structural changes in April 2021. Taking this into consideration, our immediate task was to restructure the two businesses for a recovery in their profitability and growth potential. In fact, we have reviewed the Japanese operations and merged the industrial and marine coatings businesses placing them under the leadership of Takeshi Shiotani, who will now serve concurrently as the Officer & Co-President of NPMC. Mr. Shiotani has established a proven track record and we are confident that his leadership and strong abilities will bring a positive transformation to the NPMC business.

In his expanded capacity, he will ensure the implementation of best practices for cost management and sales distribution in the industrial coatings business with a laser focus on improving the business financials. Secondly, we have also launched eight task forces to lead discussions and implement reforms after identifying issues to be addressed based on themes such as production, quality, and SG&A expenses, to eliminate the adverse effects of bunshaka. The key theme of the task force is to drastically restructure and streamline the cost structure of the partner companies. We already have the results of the analysis necessary for achieving our goals. As part of Phase 3, every partner company will implement reforms based on the results of analysis, led by project implementation teams set up by the individuals in charge of the partner companies, over the next six to nine months.

The Phase 2 of cost structure reforms, which started in June 2022, has two pillars. First is the consolidation of reviewing some measures implemented with the company split. For instance, agendas under consideration include integrating existing customer billing processes. In the Phase 3 of our cost structure reforms, one of our focus areas will be to build a next generation leadership team for the Japan Group. This will include identifying top performing employees and enabling them to become executives over the next 2-3 years. This will not only introduce new ideas and philosophies within the management teams but will be a big step in introducing cultural reforms in Japan. We are already in process to create a tailored program at Nippon Paint Automobile Coatings (NPAC), where we select candidates for leadership training across areas such as production, quality, sales & marketing, technology, and development and give them the support they need to be future-generation leaders. We will also roll out similar programs across our partner companies to drive further growth for our Japan Group.

Eight task forces for profitability improvements of Japanese businesses

<table>
<thead>
<tr>
<th>Task Force</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPIU Production TF</td>
<td>To improve production efficiency and cost competitiveness</td>
</tr>
<tr>
<td>NPMC Production TF</td>
<td>To improve production efficiency and cost competitiveness</td>
</tr>
<tr>
<td>SG&amp;A TF</td>
<td>To improve sales, marketing, and administrative expenses</td>
</tr>
<tr>
<td>NPIU &amp; NPMC SG&amp;A TF</td>
<td>To improve sales, marketing, and administrative expenses</td>
</tr>
<tr>
<td>NPMC SG&amp;A TF</td>
<td>To improve sales, marketing, and administrative expenses</td>
</tr>
<tr>
<td>NPAC SG&amp;A TF</td>
<td>To improve sales, marketing, and administrative expenses</td>
</tr>
<tr>
<td>Finance TF</td>
<td>To improve financial performance</td>
</tr>
<tr>
<td>Marine coatings business</td>
<td>To improve operational efficiency</td>
</tr>
<tr>
<td>Business TF</td>
<td>To improve business performance</td>
</tr>
</tbody>
</table>

Wee Siew Kim
Director, Representative Executive Officer & Co-President

Operating performance of the Japan segment*1

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Billion yen)</th>
<th>Operating profit** (Billion yen)</th>
<th>Operating profit margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>175.9</td>
<td>17.4</td>
<td>9.9</td>
</tr>
<tr>
<td>2018</td>
<td>182.6</td>
<td>16.2</td>
<td>9.0</td>
</tr>
<tr>
<td>2019</td>
<td>182.6</td>
<td>12.8</td>
<td>6.9</td>
</tr>
<tr>
<td>2020*1</td>
<td>162.0</td>
<td>8.3</td>
<td>5.1</td>
</tr>
<tr>
<td>2021*2</td>
<td>164.8</td>
<td>10.3</td>
<td>6.3</td>
</tr>
</tbody>
</table>

*1 Figures for FY2021 are based on JGAAP and figures from FY2018 to FY2021 are based on IFRS
*2 FY2017 operating performance is not comparable with other figures as it includes adjustments as a result of the split of NPMC. We refer to note 1 on page 53 of the annual report.
[Feature Article] Medium- and Long-Term Business Strategy
That Reflects Regional Characteristics and Structural Changes in Markets

Q.3 What actions are you going to take to change the corporate culture and employee mindset?

As I have mentioned previously, change is inevitable. For us to move forward, we must embrace change and work towards gaining excellence. In our growth forward, Japan will play a pivotal role in our growth transformation. One key area for transformation within Japan is letting go of conventional management styles, allowing the organization to bring out the diversity and strength of each employee. I am looking forward to seeing how J-LFG will positively steer the ship forward in Japan and to share those successes with the wider Group.

In fact, we have even carved out a Japanese version for future action guidelines and mindset change called J-LFG that localizes the concept of our regional values in a manner that can be implemented to bring about the cultural and mindset changes needed for the Japanese business to achieve its next stage of advancement and innovation. Six months into the implementation of J-LFG, I visited our office and factories in the Japan Group and took the time to speak with the employees there. It gave me great happiness to see that only within 6 months, employees can understand the significance and importance of J-LFG. One of the key concepts of J-LFG is to reduce redundancies and focus on tasks that create value for our customers. This will help us to constantly look forward, increase communication and breakthrough the silos and hierarchy of conventional management styles, allowing the organization to bring out the diversity and strength of each employee. I am looking forward to seeing how J-LFG will positively steer the ship forward in Japan and to share those successes with the wider Group.

Overview of J-LFG

J-LFG (Lean For Growth)

We provide higher added value to our customers than competitors with speed. All employees are committed to positive and lean efforts for Maximization of Shareholder Value (MSV) regardless of the business environment, allocating the extra resources thus created to actions for driving growth.

VITALS – six values and behaviors underpinning LFG

Vigilance: Keep your eye on the prize
Insatiable appetite: Hunger for more
Teamwork: Work as one
Agility: Sense & respond fast
Leanness: Back to basics
Stamina: Can’t stop, won’t stop

Our sole mission

Maximization of Shareholder Value (MSV)

Our shared identity

Purpose

Business Philosophy
Prosper Together
Powerful Partnerships
Science + Imagination

MSV

Strategy for Next-Generation Technologies in the Transforming Automotive Industry

Structural changes in the automotive industry and impact on coatings

Unprecedented transformation taking place in the automotive industry

The automotive industry is undergoing the biggest change ever since its commencement. This change has created numerous business opportunities and prompted paint manufacturers including ourselves to revisit their conventional protocols, application processes, and supply chains. Automotive manufacturing is one of the biggest themes in the industry. To meet increasingly stringent environmental regulations globally, many automobile manufacturers have prioritized environmental impact reductions, including achieving zero CO2 emissions, as a key agenda as they look ahead to 2050. Carbon neutrality initiatives of automobile manufacturers are focused mainly on reducing CO2 emissions from two source emissions from manufacturing and other activities within the company (Scope 1 and 2) and emissions across the supply chain outside the control of the company, ranging from material procurement to sales and the disposal of products (Scope 3). Procuring alternative energy and simplifying manufacturing processes are some of the measures that are being considered in order to reduce Scope 1 and 2 emissions. In the past application process, they are looking to shorten the process and using alternative coating technologies to replace current coating applications.

To reduce Scope 3 emissions, the automotive industry is economizing and increasing the efficiency of resources by shifting to new energy vehicles (electrification) and promoting car sharing services in order to reduce CO2 emissions throughout the whole process of sales, use, and disposal of the vehicles.

In addition, a paradigm shift is occurring in the industry, often represented by Connected, Autonomous, Shared, and Electric (CASE) and Mobility as a Service (MaaS). These shifts are expected to change the structure of the automotive industry demonstrated by new entrants from outside the industry in addition to current major players.

Changes in the paint and coatings spurred by evolution in the automotive industry

The automotive coatings industry is undergoing a significant transformation in line with changes in the automotive industry. The emergence of new needs are opening up numerous business opportunities. In other words, the future growth of paint manufacturers, including ourselves, will depend on whether we can break away from our conventional thinking and provide new value to our customers.

Carbon neutrality initiatives in the automotive industry are requiring paint manufacturers to respond to such moves. In expanding our business opportunities, it is critical how quickly we serve our customers and help solve the problems they are facing. For instance, existing paint production processes and collection of raw materials, as well as developing environmentally friendly coatings which consume less energy in paint applications, will be crucial.

Overview of CO2 Emissions

This page provides an overview of CO2 emissions in the automobile manufacturing process.

Automobile sales by powertrain type

<table>
<thead>
<tr>
<th>Year</th>
<th>HEV</th>
<th>PHEV</th>
<th>EV</th>
<th>FCV</th>
<th>48V M-HV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>2025</td>
<td>40%</td>
<td>25%</td>
<td>25%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>2030</td>
<td>90%</td>
<td>40%</td>
<td>40%</td>
<td>30%</td>
<td>50%</td>
</tr>
</tbody>
</table>

CO2 emissions in the automobile manufacturing process

* NPHD’s estimates
* Estimated by NPHD based on data from Japan Automobile Manufacturers Association

Our Business Model

Message from Management

NPAC Hirakata Office

Nippon Paint Holdings Integrated Report 2022

073
booth and drying furnaces. Although CASE and Maas have reduced the direct impact on coating methods, such shifts create various growth potential. In the electric vehicle segment, current car manufacturers are expanding their business domains to fit in the new environments while totally different enterprises enter the sector, generating new markets for us to increase our sales and market share.

Automobile manufacturers, which are our existing customers, are pushing out the boundaries of their business beyond automobile manufacturing and into peripheral areas. This often paint manufacturers new business opportunities that are not bound by our conventional business scope. With advancing vehicle performances, the possibilities for value-added by coatings are also expanding. For example, NPAC is developing decorative films that are transparent to light emitted by sensors which are vital for self-driving vehicles and other applications. As the sharing economy grows, we also anticipate a change in users' needs regarding vehicle colors and functionalities such as coatings with vivid colors and coatings that can easily change car body appearance depending on users’ preferences. The possibilities to be exploited are endless. In this environment, providing solutions to emerging needs in the new era as coatings technology specialists will give us the most critical competitive advantage.

Research and development activities at NPAC, aiming towards a global leading company

In the Volatile, Uncertain, Complex, Ambiguous (VUCA) environment, NPAC will continue proactive research and development activities for next-generation technologies. Our aim is to become a global leading company that can provide services and added value as a valuable partner to our customers by both reinventing the technologies we have accumulated over many years and also producing new ideas.

Research and development activities for next-generation technologies

NPAC is speeding up the shift to next-generation coatings, such as environmentally friendly coatings and coatings with anti-stal-property, while also improving our existing products. Our goal is to help create a sustainable society and to respond to customers needs involving CASE and Maas. In addition, core technologies we have accumulated since our founding to develop new coating technologies should provide greater added value to our stakeholders.

Decorative film technology, one of our focus areas, can provide design flexibility that cannot be achieved through conventional coatings. Moreover, this technology is expected to help automobile manufacturers cut back CO2 emissions (Figure 1 and 2). Although our focus with the film technology has been on automotive interior Center Information Displays, film application is now considered to be a possible option in exteriors, which are becoming more multi-functional, as well as non-automotive applications. We see our decorative film as a technology that will allow us to constantly tackle social issues while meeting customer needs. NPAC successfully launched functional decorative films covered with our coatings in February 2022. Further business development will be conducted to sell these films without restricting our scope to these activities to customers within Japan or in the automotive industry in order to make decorative films one of our core businesses. Apart from film, NPAC is also a developer of in-mold coating technology, which is a direct coating process that does not require a paint booth or a drying furnace.

Our business is on a global scale. Therefore a global collaboration platform where our members provide technical assistance and information exchange is one of the key areas we are reinforcing. This enables us to respond more quickly to the needs of our customers around the world.

Automotive production is continuing to decline, due to the influence of the pandemic and parts shortages such as semiconductor chips. The paint industry is also impacted by the ongoing price increases and unstable supply of raw materials and logistics bottlenecks.

Actions for improving profitability

We must rise to the challenge of improving profitability in the current market environment with rising prices of raw materials and sluggish car production. In order for us to become a growing company even in such harsh conditions, productivity improvement and optimization are key areas we are working on.

Against the backdrop of the structural changes in our industry, we must break away from the conventional business approaches. In fact, our operational process improvement is in progress across the company, pushing us to think outside the box. For instance, rigorous improvement activities are underway with the goal of streamlining operations. Examples include a bottom-up initiative where we solicit areas for improvements within the company and launch projects to tackle issues, the realignment of production and sales frameworks from a long-term perspective, and the consolidation of inefficient operations. For issues that require discussions among several divisions over the long term, cross-sectional projects are being formed in which measures for reform are being discussed on a daily basis.

In order to cope with rising raw material prices and manufacturing costs caused by numerous external factors, we are taking actions such as cost reduction activities and implementing an optimal procurement and production system from a global perspective. Our goals are to eliminate concerns about supply challenges and improve profitability. Adjusting selling prices in accordance with market conditions has also been one of our key initiatives.

Strengthening our overseas business infrastructure

In accordance with our strategy to integrate our business entities in Asia, in May 2022, NPAC has completed the integration of all business entities in Asia. Aiming at creating synergies and reinforcing foundation, operations are integrated in China and other Asian countries where we anticipate a rapid growth. As new energy vehicles are increasingly accepted in Asia, we aim to quickly raise our market share by leveraging our extensive distribution and technical network without missing any opportunities that occur in the transformation of the automotive industry.

In the Americas, management structure was changed in April 2022, instituting the post of Chairman, who is responsible for overseeing operations throughout the Americas, including Mexico and Brazil. These measures have established a framework for creating synergies in the Americas while maintaining autonomous management in each country. In 2023, a new factory is slated for completion in Chattanooga, Tennessee, USA. The new factory, which is designed for energy conservation and advanced automation for next-generation manufacturing, will enable us to expand market share through unified activities throughout the Americas, strengthening existing businesses and shifting to local production of electrodeposition coatings.

NPAC aims to improve our global market presence and contribute to our customers’ businesses. By reinforcing our global network, we seek to be the best partner to our customers operating on a global scale.

Aiming to Improve Profitability and Strengthening Our Global Business Structure

Design creation by decorating film

United States, white body color, satin, matte finish, glossy finish

Shinji Takedagawa
Representative Director & President, Nippon Paint Automotive Coatings Co., Ltd. (NPAC)
Sustainability Strategy

Contribution to MSV with a sustainability strategy that has stronger links to business activities

Sustainability strategy linked to materiality

<table>
<thead>
<tr>
<th>Materiality</th>
<th>ESG agenda</th>
<th>ESG action examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change</td>
<td>Reduction of greenhouse gas (GHG) emissions</td>
<td>CO2 reduction (Scope 1 &amp; 2)</td>
</tr>
<tr>
<td>Resources and environment</td>
<td>Waste/water resource consumption/reduction management</td>
<td>Establishment of global policy statements for waste, materials, and water</td>
</tr>
<tr>
<td>Safe people and operations</td>
<td>Health and safety management</td>
<td>Establishment of global health and safety management policies for the company</td>
</tr>
<tr>
<td>Diversity &amp; Inclusion</td>
<td>Gender diversity</td>
<td>Gender diversity for directors/managers</td>
</tr>
<tr>
<td>Growth with communities</td>
<td>Strategic implementation of social contribution activities</td>
<td>Establishment of the NIPPON PAINT Global Outreach Project for social contribution activities</td>
</tr>
<tr>
<td>Innovation for a sustainable future</td>
<td>Development of new products and alternative products for harmful substances</td>
<td>Establishment of the NIPPON PAINT Marine division’s strategy for sustainable products and data collection</td>
</tr>
</tbody>
</table>

Contribution to MSV

- Expansion of materiality-related strategies to include a low carbon footprint
- Sustained growth through investment in human capital
- Development of sustainable communities in collaboration with partners

Activities to determine KPIs

In addition to the risks and opportunities identified for each materiality, our Group formulates sustainability policies and strategies based on the characteristics of every region and market in which it operates as well as on the demands of stakeholders. KPIs are also selected as necessary in line with policies and strategies. Progress toward reaching the KPI targets is monitored.

With regard to climate change initiatives, KPIs are reviewed and established for each country and region to achieve the medium- to long-term targets. At the same time, best practices are shared with partner companies in Japan and overseas to formulate and implement action plans.

Contributing to MSV based on the Asset Assembler model, we updated the sustainability strategy in 2022 by shifting to an autonomous structure with a stronger link with human operations, away from the structure where the headquarters led our sustainability initiatives. Directly under the Directors, Representative Executive Officers & Co-Presidents, four materiality-based global teams have been formed for carrying out sustainability strategies on a Group-wide basis. By having team leaders directly report progress and proposals to the Co-Presidents, and the Co-Presidents, who further submit reports to the Board of Directors whenever necessary, sustainability activities are overseen by the Board of Directors.

At Nippon Paint Holdings Group we aim to conduct our business activities to support and enable sustainable development everywhere we operate. We aim to include the three elements – economic, social, and environmental – in a balanced and integrated manner.

Finding solutions to global sustainability challenges is our responsibility to future generations and is a driving force for our continued growth.

Creating paints and coatings to add color, comfort, and safety to people everywhere has been our mission since the company was founded. We operate. We aim to include the three elements – economic, social, and environmental – in a balanced and integrated manner.

At Nippon Paint Holdings Group we aim to conduct our business activities to support and enable sustainable development everywhere we operate.

- Pursue technologies across the value chain to create sustainability benefits through innovative products and services, and new business opportunities.
- Engage with and work as one with our stakeholders to meet their expectations and together achieve our shared sustainability commitments, responsibilities, and challenges.
- Establish effective governance frameworks to ensure the transparency, objectivity, and fairness of the management of our company and earn society’s trust everywhere we operate.

- Respect, support, and enable our diverse employees and company associates to achieve their full potential and create innovative, sustainable value for all.
- Support the 2030 Agenda for Sustainable Development Goals (SDGs) through a variety of sustainability improvement plans that create new business opportunities and maximize shareholder value (MSV*).

* MSV is defined as maximizing shareholder value that remains after fulfilling our corporate social responsibility.

Goverance

- Maintain the most advanced governance system possible as a listed company, including integrity, internal controls, and risk management

People & Community

- Invest in the well-being of employees and stakeholders
- Build and enable better communities for all our stakeholders
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- Build and enable better communities for all our stakeholders

Innovation & Product Stewardship

- Promote sustainable products
- Drive innovation towards UN SDGs and carbon neutrality

Environment & Safety

- Minimize the carbon footprint
- Ensure the safety of employees and stakeholders
- Invest in the well-being of employees and stakeholders
- Build and enable better communities for all our stakeholders

- Maintain the most advanced governance system possible as a listed company, including integrity, internal controls, and risk management

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- Drive innovation towards UN SDGs and carbon neutrality

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Environmental & Safety

Environmental & Safety

Strengthening climate action through our global team

Brad Hordern
DeltaGroup

Addressing Nippon Paint Group’s most material sustainability impacts is a key imperative and priority for the organization to ensure Maximization of Shareholder Value (MSV). Within the sustainability aspects of environment and safety, the identified priority material impacts are climate change, resources and environment (especially waste and water), and safe people and operations.

During 2021 each Partner Company Group (PCG: Nippon Paint Group companies grouped by region or business) has continued to progress on their individual ambition, targets, and priorities within each of these impact areas. This report includes a small number of newly consolidated Nippon Paint Group metrics for these impacts and while it is pleasing to observe that there was improvement on prior years for most of them, safety performance provided a sobering reminder of the need for improved management of significant risks. Computing 2021 performance with the prior year, this progress includes:

- Climate Change: 8% reduction in Scope 1 and 2 greenhouse gas emissions and 14% reduction in energy consumption
- Resources and Environment: 6% increase in waste generation, 4% increase in waste recovered (recycled, reused), and 4% reduction in water withdrawal
- Safe People and Operations: Three fatalities (versus none in 2020) and 10% reduction in lost workday case injuries

While many of these results are encouraging and provide a strong foundation for further improvement progress in the coming year, the occurrence of three fatalities (one employee, two contractors) in NIPSEA Group reinforces the increased importance of effectively managing safety to protect everyone who works for us. Our sincere thoughts are with their families and work colleagues. Further details and highlights of individual Partner Company Group progress in these impact areas are highlighted in the following pages.

Our priority in 2022 is to work more closely together via a newly established working group comprising senior environment and safety leaders from each PCG. The focus will be on identifying the top risks, opportunities, and improvement priorities across the broader Nippon Paint Group and facilitating sharing of best practice, benchmarking, learning, and action plan implementation to drive meaningful long-term improvement in the identified material impacts. This will include determining where group-wide approaches or standards may be appropriate, together with development of additional performance metrics to enhance our understanding of progress and improve disclosure to the organization’s stakeholders.

Climate change

Climate change is beginning to have a serious impact on our lives every year. To mitigate the impact of climate change, we will work to reduce greenhouse gas (GHG) emissions and minimize business risks caused by climate change.

Climate change is causing serious impacts to our lives in recent years. Recognizing that climate change is a critical social issue that must be addressed sincerely, Nippon Paint Group has established a global policy on climate change and energy in order for the entire Group to mitigate and adapt to its impacts. Our global policy states that we proactively reduce the intensity of energy consumption and increase renewable energy to meet global Net Zero carbon requirements.

Pursuant to this global policy, the Group is now working to reduce in its greenhouse gas (GHG) emissions and minimize business risks caused by the progression of climate change. The reduction of energy used in the paint manufacturing process and proactive use of renewable energy will not only help to combat climate change by controlling GHG emissions, but also make a difference in the issue of energy resource depletion.

Report based on the TCFD recommendations

In September 2021, Nippon Paint Group expressed its support for the final report of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. With the goal of achieving MSV, we are working to enhance climate change-related measures and information disclosure.

Governance

Nippon Paint Group has shifted to an autonomous management structure based on Asset Assembler model with a new sustainability structure launched in 2022 designed to enhance sustainability initiatives with business activities, rather than initiatives led by the headquarters. We have set up four Global Team based on Materiality including climate change directly under the Directors, Representative Executive Officers & Co-Presidents, in order to implement sustainability strategy aligned across the Group globally. The Global Teams will directly report to the Co-Presidents their progress and make suggestions on actions related to climate change. Then the Co-Presidents will report the information obtained from the Global Teams to the Board of Directors as necessary. In this manner, the Board of Directors oversees the Group’s sustainability actions.

Nippon Paint Group’s CO2 emissions reduction target (Scope 1 and 2)

Nippon Paint Group Holdings Integrated Report 2022
Global warming is of interest to society as a whole, including the Group’s major customers. While it entails physical and regulatory risks, global warming can be linked to opportunities to expand our business by addressing its impacts strategically. Specifically, such opportunities include expanding sales of products that improve ship fuel efficiency, help reduce CO2 emissions at automobile manufacturing plants, and mitigate the rise of road surface temperature. For instance, ATSSU-9 ROAD*, which produces a highly reflective asphalt pavement, is expected to contribute to reducing CO2 emissions by counteracting the heat island effect. We have estimated the financial impacts of road pavement coatings, including degree of contribution to earnings, based on the market growth forecast for these coatings.

Risk management
The Global Team that works directly under the Co-Presidents identifies and assesses risks, including their importance, based on the criteria of factors directly related to our operations (the amount of raw materials used, energy, water, and CO2 in the manufacturing processes) and external factors (users’ application-based needs and product feature needs). Once identified and assessed, the Global Team proposes risks and opportunities and their action plans to the Co-Presidents. The Co-President who accounts for and proposes the targets to the Board of Directors. These targets, after approval by the Board of Directors, are set as group-level targets. Group partner companies formulate business plans in line with these group-level targets and action plans. The Audit Committee has identified the effectiveness of responses to ESG and SDGs initiatives as an issue to be addressed based on the effectiveness evaluation, and is deliberating on this agenda from the perspective of MSV.

Metrics and targets
We will accelerate our response to climate change by conducting activities to reduce CO2 emissions based on the net zero targets and the carbon neutral policies of the government of each country and contributing to net zero in our operating regions around the world. As concrete measures, we will focus on reducing emissions intensity in emerging countries, where markets are expanding, by introducing renewable energy and replacing equipment with energy-saving and electrified models.

Interim targets and actions for net zero emissions

**NIPSEA Group**
- Formulated NIPSEA Green Plan 1.0, the movement to advance the agenda on sustainable development – Profit, People, Environment
- Aim to reduce energy intensity by 8% by 2025 against a 2021 baseline, with a yearly reduction target of 2%. Also aim to reduce emissions intensity (Scope 1 and 2) by 15% by 2025, with a yearly reduction target of 4%.
- Use a combination of renewable (hydro turbines and solar panels) and non-renewable (petrol and diesel) sources of electric energy to power both operations-related and non-production related activities.
- Introduced battery-operated forklifts

**DuluxGroup**
- Agreed DuluxGroup targets of 50% renewable energy consumption and 50% CO2 emissions reduction by 2030, plus net zero carbon by 2050
- Commenced development of detailed action plans to achieve the 2030 targets in the first half of 2022
- Commenced pilot program of specialist energy efficiency studies at two factories to identify reduction opportunities
- Achieved a 5% reduction in energy consumption intensity in 2021
- Reduced the CO2 emissions intensity (Scope 1 and 2) by 5% in 2021, achieving the minimum value

**Dunn-Edwards**
- Adopted software in 1H 2022 to track company-wide Scope 1, 2, and 3 emissions in order to achieve true metrics for net zero carbon (Scope 1 and 2) by 2050
- Discussed operating new corporate office on generated renewable energy
- Committed to reducing energy usage through efficient lighting and EnergyStar equipment
- Committed to providing electric vehicle charging resources
- Used renewable energy supplied in each state (at least 30% of energy supplied in California was renewable energy)

**Japanese Group**
- Agreed Japanese targets of 37% CO2 emissions reduction (Scope 1 and 2) by 2030 from 2019 levels, plus net zero carbon from our domestic operations by 2050
- Purchase renewable energy in Japan. 100% renewable energy at Osaka headquarters in FY2021, about 7% of electricity used in Japan in FY2022. Afterwards, increase gradually
- Consider energy-saving and use of renewable energy to reduce the impact of carbon taxes

**Global CO2 emissions and energy consumptions**

Total energy consumption (kilograms per tonne of production) across the Group decreased 14% during 2021, despite a significant increase in production associated with inclusion of recent acquisitions and business sales growth. This improvement was primarily driven by a 2% reduction in NIPSEA Group, who accounts for 52% of the Group consumption, and a 7% reduction in DuluxGroup, who accounts for 8% of the Group consumption. Consumption in other areas of the business was stable. Consistent with the decrease in energy consumption, Scope 1 and 2 greenhouse gas emissions (kilograms per tonne of production) across the Group decreased 8% during 2021. This excludes Dunn-Edwards where emissions data is not currently available; however this is not significant as they account for 1% of the Group energy consumption. All partner company groups have now established Scope 1 and 2 emissions reduction targets which will drive further improvement in coming years. For Scope 3 greenhouse gas emissions, DuluxGroup and the Japan Group continue to determine their annual footprint, while other partner company groups plan to do this in the near future. This will enable consolidated group reporting of these emissions in future, together with an improved understanding of risks, opportunities, and reduction plans across the partner company groups.

**CO2 emissions and energy consumption from operations in Japan (results)**

We continued with production adjustment and working from home arrangements due to the pandemic in FY2021. Compared to the previous year, energy consumption increased slightly following the slight recovery of production volume but CO2 emissions remained roughly unchanged. Scope 3 is becoming more important in understanding business risks and opportunities, so we are refining the calculation method. Processing of sold products (Category 10) and Use of sold products (Category 11) are outside the scope of calculation in accordance with BSRCD’s Chemical Sector Guidance.

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**Greenhouse gas emissions - scope 1 & 2 (Global)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Category 1</th>
<th>Category 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>65</td>
<td>0</td>
<td>65</td>
</tr>
<tr>
<td>2020</td>
<td>50</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>2021</td>
<td>46</td>
<td>0</td>
<td>46</td>
</tr>
</tbody>
</table>

**Energy consumption (Global)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Energy consumption (GJ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0.46</td>
</tr>
<tr>
<td>2020</td>
<td>0.46</td>
</tr>
<tr>
<td>2021</td>
<td>0.38</td>
</tr>
</tbody>
</table>

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* Coverage of Global data: NIPSEA Group, DuluxGroup, Japan Group, and Dunn-Edwards. Scope 1 and 2 Global data is for DuluxGroup. The same applies to Figure 18, 19, and 20.

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*1* Emissions from: Category 11 and 12, all converted as CO2 equivalent. A company can choose to use these categories instead of their own.

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*2* Emissions from: Category 21 and 22, all converted as CO2 equivalent. A company can choose to use these categories instead of their own.
The Group has identified “Resources and Environment” as one of its materiality items. In the paint manufacturing process, we not only comply with all relevant laws and regulations, but also take a proactive approach to preventing pollution.

In 2021, we established (1) a policy on waste and effective use of resources, (2) a global policy for the prevention of environmental pollution, and (3) a global policy for the effective use of water with the Global Working Team (currently, the Global Team) under the then ESG Committee.

**Global policy on waste and effective use of resources**

We proactively reduce waste through a “Reduce, Reuse, Recover” philosophy and comply with laws and regulations in each country/area including managing hazardous waste responsibly.

**Global waste generation (results)**

Total waste generation (kilograms per tonne of production) across the Group increased 6% during 2021, which was primarily driven by improved data capture in NIPSEA Group’s China businesses, together with a 1% generation increase in the Japan Group. NIPSEA Group and the Japan Group account for 80% of waste generation across the Group, while performance across the other partner company groups was steady. Consistent with this generation increase, total waste recovered for recycling and reuse (kilograms per tonne of production) decreased 4%, while DuluxGroup improved waste recovery by 5%.

**Case studies**

**Recovery of waste solvent at DuluxGroup**

The DuluxGroup Rocklea manufacturing site historically created more than 550 kiloliters of waste solvent each year as a by-product of process equipment cleaning, before being disposed of at an external waste processing company for incineration. A new solvent recovery plant was successfully constructed and commissioned in 2018, which enables 90% of the waste solvent to be reused, with the purchase of new cleaning solvents reduced by 25%.

Waste solvent from the factory process cleaning is transferred to the recovery plant’s distillation vessel, which separates the solvent from process residues before it is transferred back to the factory for use as fresh cleaning solvent. Vapor emissions from the distillation process are also fed through a bio-filter, minimizing emissions to the environment.

**Recovery of water and wastewater**

Nippon Paint Group has been carrying out initiatives to prevent environmental pollution as it serves as the foundation of business development and management. In order to address the changing social situation as well as further meet the expectations and demands of stakeholders, the Group is promoting initiatives on a global scale and established a global policy on the prevention of environmental solution. Based on this policy, the Group will strive to prevent pollution of the air, soil, and hydrosphere.

NIPSEA Group, to reduce the amount of Volatile Organic Compounds (VOC) as compared to our current oxidation methods, we are collaborating with research centers to develop non-burn technology through electrolysis. In parallel, to reduce VOC volatilization, we continue to optimize our product composition towards water-based and solvent-free paint products. This involves investing in treatment facilities to improve our technological capabilities in recycling and reusing unavoidable VOC.

**Group policy on the prevention of environmental pollution**

We care for the environment to avoid polluting the air, soil, and water.”

**Recovery of water and wastewater**

**Water risk**

Water resources affect not only the water used in the production process but also the procurement of raw materials. Droughts, floods, and water quality deterioration might also affect our production activities. We will implement specific initiatives, including thorough management and effective use of water consumption and wastewater discharge, reuse of water and water conservation following this policy.

**Group policy on water**

We strive to use water efficiently and manage wastewater responsibly.

**Global water withdrawn (results)**

Total water withdrawn (kiloliters per tonne of production) across the Group decreased 4%, driven by a 24% reduction in DuluxGroup and a 4% reduction in the Japan Group.

**Actions on air and water conservation in Japan**

The Japan Group complies with all laws and regulations pertaining to air and water pollution by establishing its own voluntary reference values and conducting periodic pollution load measurements. In FY2021, the Japan Group was able to reduce VOC discharge by implementing specific initiatives.

**Prevention of air and water pollution**

We set our twenty-five key priorities to address the environmental issues and risks that are important for our stakeholders.

**Water withdrawal (Global)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Withdrawal (KL)</td>
<td>0.69</td>
<td>0.65</td>
<td>0.53</td>
</tr>
</tbody>
</table>
Safe people and operations

As a chemical manufacturer, we still believe that accidents and health damage caused by handling chemical substances are major risks. We will ensure the safety of employees and everyone involved in our business, and will educate and make investments to minimize risks.

The Group has designated Safe People and Operations (occupational safety and health) as one of our materialities. Workplace safety and protecting and promoting the health of all employees is a fundamental part of our corporate management, and all Group companies implement occupational safety and health initiatives.

In FY2021, the Global Working Team (currently the Global Team) set up under the then ESG Committee established a global policy on occupational safety and health. NIPSEA Group ensures that its health, safety, and environmental (HSE) efforts cover the following areas: 1) Raising employee awareness on the importance of health and safety measures; 2) Objective and target setting on key HSE performance indicators (KPIs); 3) Regular reviewing of HSE performance; 4) Resource planning for HSE implementation, maintenance, and improvement; and 5) Availing grievance mechanisms. As actions covering the area 1), NIPSEA Group utilizes a variety of communication tools to raise employee awareness on health and safety measures, as well as the roles and responsibilities of top management, the HSE committee, Heads of Departments, and employees themselves. We also ensure that employees are well-informed on the relevant HSE precautions through workshops and briefings held on subject matters like chemical and PPE safety, machine use, and first-aid treatments. The Dunn-Edwards approach to safety is to assess, analyze, implement, and evaluate. Assess the workplace, analyze the data, draw observations, implement corrective actions, and evaluate the corrective actions. For FY2022, Dunn-Edwards is focusing on three main areas: Vehicle Safety, Factory Safety, and Lifting Safety. For instance, they are focusing efforts to reduce lifting injuries due to the frequency/severity of injuries related to lifting. Efforts include training, mechanical assist devices, and exercises.

Global occupational safety and health

Sadly, there were three fatalities in 2021 compared with none in the prior two years, reinforcing the imperative of ensuring effective identification and management of high-consequence risks in all of our workplaces. The separate incidents occurred in NIPSEA Group and involved one employee and two contractors. Injuries to employees and contractors that resulted in lost workdays (number of cases per 200,000 FTE hours) across the Group decreased 10%. This was driven by a 13% reduction in DuluxGroup and a 9% reduction in NIPSEA Group, with both businesses accounting for 58% of injuries across the group. Dunn-Edwards accounted for 41% and has experienced a significant increase in cases over the last two years, which has been driven by COVID-19 infections in the workplace.

Results of actions for occupational safety and health in Japan

Based on the idea that a business is not viable if it is not safe, the Japan Group puts safety first and foremost and implements measures to prevent injury accidents before they occur. The number of injury accidents decreased in FY2021 compared to FY2020 levels, but the number of accidents that resulted in lost time increased by four. Following the occurrence of one heat stroke case requiring long lost time, the Japan Group has taken actions such as recognizing the risk of heat strokes and reviewing preventive measures throughout the production locations within the Group in order to prevent the recurrence of accident.

Based on risk assessment, which is the basis of occupational safety and health activities, we took steps to prevent disasters and accidents involving getting pinched or caught, contact with hazardous materials, which increased in number in FY2020, as priority targets. In addition disasters and accidents that occurred in Group production locations in Japan and overseas were shared within the Group in order to strengthen accident controls by reviewing production site rules and safety measures and providing education of production site workers.

Supply chain management

Approach to the procurement of raw materials

The Group’s businesses depend on supply of raw materials, equipment, supplies, information services and various other products and services. Maintaining healthy cooperative relationships with suppliers is therefore essential to our sustainable growth. The Group has established and disclosed the procurement policy that is aligned with its basic approach to business transactions. The Group also aims to ensure that all Group employees and its suppliers understand and follow this approach policy. To ensure that procurement activities are performed responsibly, the Group established procurement guidelines based on a policy that further clarifies the definition of the items that must be observed by suppliers and members of the Group. Procurement activities of the Group place priority on quality, cost, and delivery time (QCD) as well as the environment and governance (EG) aspects, with the goal of further emphasizing the sustainability of our supply chains.

NIPSEA Group remains committed to operating as a responsible business that is held to high standards and strives to create a positive impact on sustainable development. Our Supplier Code of Conduct, which outlines clear business conduct expectations for new and existing suppliers, ensures that our business partners uphold the same high standards that we do. The Supplier Code of Conduct covers three main areas (see the chart below). At NIPSEA Group, the Procurement Department evaluates its suppliers on an annual basis. This supplier evaluation exercise includes an environmental assessment to ensure that they meet its required Standard Operating Procedures (SOPs) in managing environmental matters. In the event that suppliers fail short of the expectations NIPSEA Group has of them, the group provides solutions and guidance to help them improve their processes.

NIPSEA Group Supplier Code of Conduct

Business Practices and Ethics

Our standard corporate policies that focus on legal and regulatory compliance such as anti-corruption and fair competition laws

Labor Practices and Human Rights

Our commitment to human rights and equal opportunity in the workplace, amongst others

Environmental Regulation and Protection

Our commitment to protecting and preserving a healthy and sustainable planet

Lost workday case rate - employees & contractors (Global)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lost Workday Case Rate (per 200,000 hrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0.52</td>
</tr>
<tr>
<td>2020</td>
<td>0.51</td>
</tr>
<tr>
<td>2021</td>
<td>0.46</td>
</tr>
</tbody>
</table>

Frequency rate of lost time injury accidents (Japan Group)

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>0.49</td>
</tr>
<tr>
<td>2018</td>
<td>0.94</td>
</tr>
<tr>
<td>2019</td>
<td>0.81</td>
</tr>
<tr>
<td>2020</td>
<td>0.93</td>
</tr>
<tr>
<td>2021</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Number of accidents by employment type (Japan Group)

<table>
<thead>
<tr>
<th>Year</th>
<th>Full time employees</th>
<th>Others (contractors and temporary staff)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>2018</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>2019</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>

Number of workplace accidents (Japan Group)

<table>
<thead>
<tr>
<th>Year</th>
<th>Serious accidents</th>
<th>Non-lost time injury accidents</th>
<th>Lost time injury accidents</th>
<th>Frequency rate of lost time injury accidents (per 1,000,000 hrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3</td>
<td>11</td>
<td>19</td>
<td>0.49</td>
</tr>
<tr>
<td>2018</td>
<td>3</td>
<td>4</td>
<td>7</td>
<td>0.46</td>
</tr>
<tr>
<td>2019</td>
<td>5</td>
<td>11</td>
<td>12</td>
<td>0.94</td>
</tr>
<tr>
<td>2020</td>
<td>3</td>
<td>18</td>
<td>2</td>
<td>0.80</td>
</tr>
<tr>
<td>2021</td>
<td>5</td>
<td>16</td>
<td>11</td>
<td>1.18</td>
</tr>
</tbody>
</table>
We will pursue MSV on the strength of our human capital

Gladys Goh
NIPSEA Group

As a Japan-origin global corporate group operating in 30 countries and regions worldwide, including in China and other parts of Asia, Nippon Paint Group is committed to contributing to Maximization of Shareholder Value (MSV) by leveraging the diversity and strengths of its human capital, as well as fulfilling its obligations to its stakeholders, which is the premise of MSV. The People & Community Team conducts activities around two items of Materiality: Diversity & Inclusion as well as Growth with Communities. Our activities are conducted in each country and region with focus on the three pillars of (1) Increasing the ratio of women in managerial positions, (2) Celebrating diversity, and (3) Building and enabling local communities.

The outcomes of these activities are reflected in our benchmarks such as the ratio of female managers in Group companies, as well as employee satisfaction level which the Group regards as one of the key benchmarks. Employee satisfaction level affects the cost of hiring and retaining human resources and the productivity as it relates to maintaining and increasing employee motivations. Considering these, the Group partner companies are taking autonomous actions according to their own situations.

Human capital for sustained growth

For Nippon Paint Group to grow in a sustainable manner, it is essential that we secure skilled human resources and offer a corporate culture and working environment in which it is comfortable and rewarding to work, thus allowing people to leverage their individuality and capabilities to the fullest. The Group promoted the enhancement of human resources by investing in human capital through the intensification of training programs developed autonomously by each partner company according to the challenges faced. Expanding training programs can expect to lead to improving competitive advantage in hiring new college graduates and mid-career people and reducing the turnover ratio. Accordingly, it is a key initiative for enhancing the human resource portfolio. DuluxGroup offers a comprehensive learning program for everyone from those who are newly appointed to senior leaders to develop the skills they need to operate as global leaders and to foster ongoing learning, building capability along their career journey. They encourage employees to “Own their Growth” and to take the initiative to access the learning that they need to improve their skills and specialist knowledge. DuluxGroup continually revises and improves the curriculum to ensure it remains relevant, effective, and aligned to DuluxGroup’s growth ambitions. The Group currently offers programs such as “Leading in Complexity,” “Commercial Acumen” in partnership with Harvard, and a full Sales Capability and Marketing curriculum.

The NIPSEA Group adopts a group-level learning framework that ensures the holistic development of our employees through upskilling their capabilities and competencies required at different job levels. Training and educational programs are uniquely tailored at the country level depending on the needs identified from our annual training needs analysis. NIPSEA Group’s provision of diverse training and educational programs ranges from technical to leadership upskilling to better equip our employees with the necessary skills in today’s ever-evolving business landscape. In FY2021, we clocked a total of 387,243 hours for our employees, with an average of 11.0 hours per employee.

In Japan Group, we offer training for prospective hires, new employee induction training, follow-up training, training for newly appointed managers, and annual training, etc., to all employees as appropriate to their current career stages and the roles it is hoped they will play. In FY2021, total training hours for selection training and group training by job level at Group companies in Japan reached 32,000 hours. The increase in training hours was the result of expanding and enhancing the target of training programs and training schedules by improving the on-boarding training we offer to new mid-career hires and opening a business college with the goal of strengthening the business literacy of our executives.

Ensuring and enhancing diversity

Assembly of human capital with diversity is one of the primary bases of Asset Assembler model. Nippon Paint Group Global Code of Conduct established in January 2022 states that the Group embraces diversity. In addition, the Group partner companies worldwide implement human resource management with the goal of ensuring and enhancing diversity. The NIPSEA Group is continuously working in Asian countries to improve gender representation in its management team and the Board of Directors. Hiring local talent in countries and regions where we operate businesses not only leads to strengthening the competitiveness for acquiring market share but also contributes to the creation of employment opportunities in local communities. The percentage of people hired from local communities to senior manager positions has reached 57.1%.

DuluxGroup has doubled the number of women in the senior leadership team of all business divisions in the last five years, implementing programs for increasing the ratio of women in each position level, focusing on improving the gender balance in particular among senior managers.

Dunn-Edwards has increased female representation among its leadership ranks from 20% to 30% over the past five years and successfully mirrors the ethnic demographics of each of the diverse communities they operate in.

In Japan Group, we are conducting activities for promoting female employees to managerial positions by taking reference from success cases of the Group partner companies overseas. Specifically, we have been sending female employees selected through internal entry system to external training programs for cross-industrial exchanges. We are working to develop executives by fostering a leadership through collaboration with members in other industries, and by encouraging autonomous career development by providing opportunities to meet a variety of role models. We are also actively promoting the appointment of management and executive personnel with high expertise from outside the company. As of 30 June 2022, two female Director of the Board, one female Executive Officer, and one female Corporate Officers were appointed to Nippon Paint Holdings.

Improvement of employee engagement

Improving employee engagement can lead to excellent human resources to continuously perform at their potential. We regularly monitor and review the employee satisfaction levels of partner companies which newly joined the Group based on Asset Assembler model (cf. success cases at DuluxGroup).

Dunn-Edwards uses employee feedback to drive initiatives targeted at attracting, developing, and retaining a workforce that will provide a competitive advantage. Historically, data shows that the first 2 years of employment, as well as advancement during that time, are the most critical to create a connection with the company. Based on this information, salary, retirement plan (401(k)), and leadership from front line managers are the most important factors. As a result, we have structured compensation, healthcare benefits, tuition assistance, vacation, and retirement plan policies to ensure attractive and competitive offerings in these areas, and we continue to adapt and develop training for career advancement at all levels.

<table>
<thead>
<tr>
<th>Percentage of women</th>
<th>Employees</th>
<th>Managerial post</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIPSEA Group</td>
<td>24.9%</td>
<td>25.1%</td>
</tr>
<tr>
<td>Dunn-Edwards</td>
<td>25.6%</td>
<td>25.7%</td>
</tr>
<tr>
<td>DuluxGroup</td>
<td>34.7%</td>
<td>32.9%</td>
</tr>
<tr>
<td>Japan Group</td>
<td>22.0%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of women in management</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>26%</td>
</tr>
<tr>
<td>2018</td>
<td>28%</td>
</tr>
<tr>
<td>2019</td>
<td>30%</td>
</tr>
<tr>
<td>2020</td>
<td>30%</td>
</tr>
<tr>
<td>2021</td>
<td>30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>14,303</td>
</tr>
<tr>
<td>2020</td>
<td>14,303</td>
</tr>
<tr>
<td>2021</td>
<td>14,303</td>
</tr>
</tbody>
</table>

**Note:** Surveys by Nippon Paint Labor Union
The Group companies in Japan are encouraging men to take childcare leave to support men actively participating in childcare. In addition, the companies have established flexible working systems in step with the life events of their employees, including work-from-home systems and systems allowing paid leave to be taken in hourly increments, shortened working hours, and childcare and nursing care. We have introduced a working from home system in order to respect and assist the work motivation of employees by developing a working environment that allows employees to bring out their full potential without being constrained by working hours and geographic location of employees. As measures to prevent COVID-19 infections, we apply the working from home system to employees without limiting the employees who are allowed to work from home and the frequency of usage. The questionnaire survey of employees of the Group companies in Japan conducted in February 2022 had positive responses, such as working from home systems improving work efficiency by making it easier to schedule a meeting with overseas attendees and the use of web conferencing systems facilitating smooth information sharing and decision making.

Case studies

Employee engagement scores at DuluxGroup

DuluxGroup’s engagement score reached 89% in 2021, which was 8 percentage points higher than the score in the previous survey, which was conducted prior to joining Nippon Paint Group, and is well above industry and high-performance norms. The high engagement score reflects the progress that DuluxGroup people have for their brands, with 97% of employees recommending DuluxGroup products to their family and friends. DuluxGroup employees understand their part in the bigger picture and understand that their job contributes to the business strategic priorities. The continued high scores are driven by leaders at a local level, who are empowered to work with their teams to drive high performance. DuluxGroup enables this by investing heavily in leadership development.

Basic policy for respecting human rights

The Nippon Paint Group has clearly stated in the Nippon Paint Group Global Code of Conduct that we respect the human rights of employees and stakeholders.

Due diligence in human rights

For the past two years, DuluxGroup has published its Modern Slavery Statement in compliance with Australian legislation. DuluxGroup is committed to identifying, assessing and addressing modern slavery risks within its operations and throughout its supply chain. Modern slavery is a serious violation of a person’s basic human rights. DuluxGroup opposes modern slavery in all its forms, and respects and supports the human rights and freedoms of workers within our operations and throughout our supply chain.

The Group companies in Japan utilize self-diagnosis (the UN Global Compact SAQ Survey) provided by UN Global Compact Network Japan to facilitate awareness of supply chain risks, an effort in survey and understand the status of various ESG-related supplier activities. This survey assesses the level of an organization’s initiatives with regard to corporate governance, human rights, labor, the environment, fair corporate activities, quality/safety, information security, supply chains, and coexistence with local communities.

Growth with communities

We will invest in communities through our value chain and to achieve sustainable business growth based on market growth, brand strengthening and good relationships with local communities.

Our mission from the Company’s very beginning has been to create innovative paint and coating solutions that bring colors and joy to people’s everyday lives. The Group will contribute to supporting and promoting sustainable development of communities through its business activities. We have set three priority areas, which we call the “Three Es,” under Nippon Paint Group’s global CSR strategy (NIPPON PAINT Group’s CSR Pillars, “Sustainability”).

Case studies

Global promotion system

In FY2022, we launched a global conference to create closer links among Group companies for closer information sharing and mutual consultation. The conference is the centerpiece of the NIPPON PAINT Group Global Outreach Program designed to enhance social contribution efforts throughout the Group. Based on this program, we have implemented outreach programs in 20 countries across Asia and Europe as well as in Australia, New Zealand, the United States, and Japan. Progress is shared globally to upgrade our initiatives across the Group.

The resources used, results, and impact of our activities are briefly summarized in the following table. In FY2021, the Group used funds amounting to over US$7.08 million for roughly 204 activities that positively affected the lives of some 290,000 people worldwide. In Japan Group, the Group used over ¥120 million for social contribution activities, including some ¥5.22 million in donations to NPBs and other organizations.

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Pillars (focus areas) and examples of social contribution activities

<table>
<thead>
<tr>
<th>Pillars</th>
<th>Description</th>
<th>Example of activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Activities for children and students who are our potential future customers or employees</td>
<td>Industry-University Collaboration Activities with the University of Tokyo (Japan Group); AVDA Awards conducted annually (NPSEA Group: International competition and awards platform for architectural and interior design students who are our future customers); Smiling Mind (DuluxGroup program using color to create mindful spaces at elementary schools); Off the wall Graffiti (Dunn-Edwards: art education program for urban artists through after school programs, events and training curriculum)</td>
</tr>
<tr>
<td>Empowerment</td>
<td>Support activities and vocational training for socially vulnerable people, and activities to find talented individuals</td>
<td>Nippee Fun Farm (Japan Group: support for employment of persons with physical disabilities); Rural Revitalization for Chiyoda Group (NPSEA Group: repainting village external walls); Pet Refuge NZ (DuluxGroup: Helping to build refuge shelters for pets of people who are escaping domestic violence situations); TradeDress (Dunn-Edwards: program aims to increase the number of women in construction and related trades)</td>
</tr>
<tr>
<td>Engagement</td>
<td>Collaborations with local communities and stakeholders, cooperation with NGOs, and disaster relief</td>
<td>Color Way of Life - ART + NPSEA Group: Raising students’ awareness of art and color as well as their culture through painting; Department of Conservation Trail Huts (DuluxGroup: protecting historical buildings and local community assets); Martin Art Museum (Dunn-Edwards: donation for painting a new maechine school for teenagers)</td>
</tr>
</tbody>
</table>

Investment in social contribution activities and its results and impacts

<table>
<thead>
<tr>
<th>Country/region</th>
<th>FY2021</th>
<th>Data collected</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>20</td>
<td>&gt; 204</td>
<td></td>
</tr>
<tr>
<td>Result</td>
<td>7.08 million USD</td>
<td>6,120,000 hours</td>
<td>2,100 participants</td>
</tr>
</tbody>
</table>
Innovation & Product Stewardship

The purpose of Nippon Paint Group is enriching our living world through the power of Science + Imagination. It describes our commitment to creating innovations that bring benefit to the society, by using our technical strengths and intellectual assets, including intellectual property, organizational capability, and technology networks, across Nippon Paint Group. One recent example is that, since the outbreak of COVID-19 pandemic in 2020, the Group has significantly increased investment in anti-viral technology, and developed a range of paint products to address this social challenge.

Our technology mission is to drive and sustain growth and market share in Japan and globally through striving to be a leading technology organization for coatings and its adjacent markets. There are three pillars in our innovation strategy: 1) build adaptive organization; 2) develop core-enabling technology competency; and 3) grow into adjacent and emerging markets. It is the implementation of our Group vision for Maximizing Shareholder Value from a technology perspective. We believe that our technology organization’s culture of being customer-centric, socially responsible and collaborative is the key driver to success.

Important, the technology collaboration and intellectual property sharing among our partner companies around the globe is under the principle of Asset Assembler model, which Nippon Paint Group strategically manages to leverage the business of partner companies. The technology teams of partner companies possess high autonomy to effectively address the needs from their respective markets and customers. On the other hand, in order to drive technology sharing and capability leveraging among partner companies, the Global Technology Council (GTC) was established, to promote technology exchange platforms and cross-PC projects. We have built up adaptive ways to enhance global technology collaborations to enhance added value of intellectual property. The technology teams in decorative paints have formed the global technology community to share best practices and leverage capability in joint technology development projects, helping address the needs from local consumers in each respective country. Our major automotive customers are global accounts, and our technical staff in automotive coatings around the globe were unified and became ONE team in 2021 under Nippon Paint Automotive Coatings (NPAC).

Significance of R&D activities in our paint and paint related businesses in utilizing and adding value to intellectual property

Worldwide there are 3,887 technical staff working in Nippon Paint Group, with 1,171 in Japan. They are our strong innovation power and core competitiveness for achieving sustainable business growth in the marketplace. Our technical staff are working in 50 R&D and technical centers to serve our domestic and global customers and consumers, including our major R&D centers in Tokyo and Osaka in Japan, Shanghai in China, Singapore, Melbourne in Australia, Los Angeles and Cleveland in the US, and France in Europe. In 2021, the total technology related expense in Nippon Paint Group is above 24.3 bn yen. In 2021, Nippon Paint Group has filed 200 new patents, and by 2021 owned 1,000 granted patent rights. Nippon Paint Group has classified its core technologies related to paint and coatings and manages its intellectual property portfolio in 10 categories, which are polymer chemistry, color science, formulation, curing technology, dispersion technology, application technology, process technology, rheology, weathering and corrosion, and measurement science. Subject matter experts are working in core R&D teams in the R&D centers, and collaborating with scientists from the global network of technical centers to support product development across the group.

Nippon Paint Group possesses a broad open innovation network with universities and academic research institutions worldwide. In 2020, the strategic research partnership with The University of Tokyo was initiated, with the University of Tokyo & Nippon Paint joint laboratory established. The partnership aims to create innovative coating technologies in three fields, infectious disease risk reduction, social cost and environment burden control, and contribution to smart society. In Singapore, NIPSEA Group has been collaborating with the research institutes of A*STAR (Agency for Science, Technology and Research) for decades. Recently, NIPSEA Group has strategically joined hands with A*STAR to develop disruptive technologies in the fields of smart surface enabling autonomous driving, and applying artificial intelligence in coating research.

Innovation for a sustainable future

In today’s society, problems that are difficult to solve with past methods are becoming more and more apparent. We will strengthen our innovation output with active utilization of partnerships.

New Product Sales Index (NPSI)

New Product Sales Index (NPSI) is one of the indicators for measuring technology output. In Nippon Paint, we have established well-designed NPSI system with tools, to track the sales revenues generated from new products commercialized in the past three years. New products are categorized ranging from products upgrade by incremental improvement, to new-to-market products by disruptive innovation. NPSI is achieved with joint efforts of technical teams with business and supply chain operation teams, whose strong collaboration brings together our commitment to Maximization of Shareholder Value.

R&D organization

NIPSEA Group started to implement NPSI in 2018. In 2021, Japan Group and NIPSEA Group together have achieved NPSI of 21.1%, and launched 18,000 new products in the same year.
In Nippon Paint, we regard that sustainable features are essential factors for our products to benefit human society and thus achieve long-term business success. We define the product sustainable advantages in the principle of product life cycle and according to the framework of The United Nation’s Sustainable Development Goals (UN SDGs). It is a systematical approach, covering the three main stages of product life cycle, e.g., 1. product production, 2. products in application, and 3. products in service. Furthermore, in each stage, the advantages over the mainstream products in the market are assessed by translating UN SDGs to the attributes of paint and coating products. In the stage of product production, manufacturing efficiency, raw materials, logistics and packaging, are the key aspects for assessment. In the stage of products in application, the advantages are helping customers and consumers when using the products, by reducing energy and materials consumption, emission and chemicals hazards. In the stage of products in service, the products are assessed in product service life, used in clean technologies, contribution to health and well-being, as well as end-of-life treatment. Under those sustainability principles, Sustainability Scoreboard for new product assessment has been developed and started implementation in NPSI systems of partner companies, Japan and China Group. In 2021, of new product sales of Japan Group and China Group together, 38% were contributed from newly developed sustainable advantaged products. Meanwhile, Green Design Review has been developed and started implementation into R&D project management systems of Japan Group and NPSIEA. From our project portfolio of Japan Group and NPSIEA, 40% of R&D projects are in the focus areas of creating sustainable benefits according to the Green Design Review principles.

Management of chemical substances

In 2011, Japan Group launched the chemical substance management system named “Green 360” in order to minimize the impact on environment and human health. The system is developed to manage chemical substances not only from Japanese chemical regulations, but also chemical substances of global concern from international treaties such as REACH regulations. We classify the chemical risks in three categories according to the laws and regulations in the countries where our business operate: prohibited, restricted for new introduction, and avoided for new introduction. The system started in operation in Japan in 2021, and the practice is being introduced to our partner companies outside Japan.

Alkylphenol ethoxylates (APEO) are surfactants and include a subcategory of nonylphenol ethoxylates (NPEO/NPE). These types of nonylphenols (NP) are being regulated by the EPA and REACH. Nippon Paint has been steadily phasing out APEO-containing surfactants. In 2021, we eliminated the use of the nonylphenol compounds in our products in Europe. Dunn-Edwards continues to phase out APEO-containing surfactants through product improvement and ensures that no new APEO-containing raw materials are allowed in the newly developed products.

In addition, we have been substituting the UV absorbers that are being considered as persistent organic pollutants (POPs) in paints and coatings. We are also reviewing all products for Europe by the end of 2023.

In DuluxGroup, managing the risks associated with hazardous chemicals used in the formulation of the products is an important priority for our businesses. We have developed a management approach to ensure that substances with potential for long term health or environmental effects (chemicals of concern) are identified, with their risk evaluated. Improvement actions, such as formulation changes or improved packaging and labelling, are put in place to reduce or eliminate the risk of harm.

Chemicals of concern are identified from information on supplier safety data sheets, regulatory lists such as the European “Substances of Very High Concern” and stakeholder sustainability program listings (e.g., Living Building Challenge Red List). Whenever a new ingredient is proposed for introduction, it is reviewed against the Chemicals of Concern criteria and existing listing. If identified as a chemical of concern, a risk assessment is undertaken to determine if the chemical can be safely used in the specific product and by the intended end-user or if an alternative formulation or an alternative control strategy is needed.

Scientific knowledge, regulations and community concern related to chemicals are constantly evolving. To keep our knowledge up to date, DuluxGroup has also established a process for monitoring and reviewing stakeholder and regulatory reviews of chemical classification so that emerging concerns can be picked up and acted on pro-actively.

The effectiveness of our program is measured by tracking the usage of priority chemicals of concern (in kilograms per 1000 sales) and the proportion of chemicals that had a risk management plan developed. Since 2018, DuluxGroup has had a 17% reduction in the usage of priority chemicals of concern, despite the addition of some new substances to our chemicals of concern list. Some examples of our chemicals of concern initiatives in 2021 include:

- Dulux Protective Coatings: Congard product is now Cobalt and Meko free.
- Dulux Protective Coatings: Formulation of a new toluene-free epoxy primer, Durenal 66.
- Dulux Porter’s: Reformulation away from crystalline silica in its product range.

Innovations in anti-viral paints

In February 2022, Nippon Paint launched PROTECTOMT brand in September 2020, named after the function “PROTECT” – people’s lives from threats of viruses and bacteria. To turn the function “ON” to the surfaces of all things. Since then, we have combined all of Nippon Paint Group’s paints, coatings and surface treatment technologies to offer a range of products for industrial, DIY and household use.

In February 2023, Nippon Paint (NPTU) released “PROTECTOMT Interior Wall VK Coat,” “PROTECTOMT Floor VK Coat” and “Nippon Paint Automotive Coatings released “PROTECTOMT Car Interior VK Coat.” Three of those new products are the PROTECTOMT brand. In addition to the “Interior Wall System” for interior walls, “Floor VK Coat,” a water-based clear paint for floors, is expected to be effective when sprayed containing viruses adhering to floor surfaces. “Car Interior VK Coat,” is expected to have sustained anti-viral function with extended durability, demonstrates new application property to the car interior and can be used to the surface.

In DuluxGroup, the team has been working on anti-viral coating research for a number of years. A coating formulation is being developed to explore the ability of the coating to reduce the risk of infection. This is one of the joint research themes under the industry-academic co-creation agreement signed in May 2020.

It is a joint effort across the globe in Nippon Paint Group to fight against viruses. Nippon Paint China launched “ClearShield” antimicrobial technology, NPSIEA “Vox Clear”, “Health Shield”, in October 2021. The innovative coating products are film using the technology that have color change resistance and good adhesion performance in accordance with Chinese anti-viral coating code. In January 2021, Nippon Paint China released “NPTU®” antimicrobial Killing Plate, which can reduce the bacteria (St. Aureus, E. Coli, etc.) and virus (H1N1, EV71, Human Corona virus 2019nCoV), and can prevent the coating surface, with added functions of HCHO pre-treatment, low VOC, and low odor performance.

In Nippon Paint Malaysia, “VirusGuard” was developed with silver ion technology to persistently inhibit the growth of viruses and bacteria on the coated surface, decreasing the spread of contagious illnesses including, Hand, Foot and Mouth Disease (HFMD), H1N1 as well as COVID-19. Nippon Paint Singapore has also launched “ViroGuard” and “ViroGuard+” coating products, based on the silver and copper technologies, respectively.

Dulux UltraAir®

In response to broader societal concern about indoor air quality, DuluxGroup launched DuluxUltraAir® interior wall paint range. The products have extra deep dirt and anti low chemical emissions. Going beyond low VOC, UltraAir® has achieved GreenGuard Gold certification. This is a third party certification from Verif环境 based on TVOC and formaldehyde emissions, 10,000 chemicals and volatile organic compound (VOC) and demonstrates that UltraAir® helps reduce indoor air pollution. These advanced formulations have also achieved Global GreenTag GreenRate Level A and Platinum Health certification and can contribute to the achievement of green building project certifications such as W3 and Green Star.

Nippon Paint has a verified Environmental Product Declaration (EPD) that quantifies the environmental footprint of the product. The availability of EPDs along with DuluxGroup’s R&D innovation can be a powerful tool to help customers make informed choices and improve the environmental footprint of the products they purchase.

The availability of EPDs along with DuluxGroup’s R&D innovation can be a powerful tool to help customers make informed choices and improve the environmental footprint of the products they purchase. Dulux UltraAir® products have significant appeal across all market sectors.
Chapter 04

Corporate Governance

097 Corporate Governance Structure and Initiatives
103 Nominating Committee Report
105 Compensation Committee Report
107 Audit Committee Report
111 Governance Discussions by Independent Directors
119 Discussions by the Board of Directors
121 Risk Management
123 Directors and Executive Officers

PHOTO
China / Beijing Daxing International Airport
A corporate governance structure that realizes Maximization of Shareholder Value (MSV)

Governance

Strategies for achieving further growth are one of the highest priorities of the Board of Directors.

Since January 2021, we have taken many actions, starting with the full integration of the Asian JVs and acquisition of the Indonesian business, which have been goals for many years, and completion of the transition to the Co-President setup. These actions made it possible to advance the management of Nippon Paint Group to our Asset Assembler model.

The Co-Presidents have successively launched new initiatives to strengthen collaboration among the management teams of partner companies based on mutual trust while respecting the autonomy of each partner company. Nippon Paint Group has generated additional revenue by sharing brands and technologies. In addition, we launched an autonomous sustainability structure for ESG activities at all partner companies and are devoting the group’s management resources to the Japanese segment to improve its profitability. This past year was an evolutionary year for the Board of Directors, making breakthrough reforms as Nippon Paint Group underwent several actions to advance to the next stage of growth.

To support these initiatives, the meetings of the Board of Directors, the Independent Directors, and the Nominating, Compensation, and Audit Committees, which all perform supervisory roles, were “always on”, even outside the meeting hours. In addition, Directors maintained close and extensive communications with the Co-Presidents and other Executive Officers as well as Global Key Persons (GKP), who are local management of partner companies. These actions have allowed us to build a new framework for the Board of Directors to supervise Nippon Paint Group’s growth model as Asset Assembler that is practiced by the Co-Presidents based on proper mutual understanding built on Trust.

The Co-Presidents have prepared the Group to move on to the next stage of growth. With the addition of the Co-Presidents and two new Independent Directors, Peter M. Kirby and Lim Hwee Hua as new members, the Board of Directors must now raise its perspective and provide guidance as needed to properly shape the future of Nippon Paint Group. To perform this role, we need to reform the Board of Directors so that it can shift its focus from dealing with immediate issues to concentrating on discussing and determining growth strategies to enable Nippon Paint Group to achieve more sustainable and further growth.

We are significantly revising the operations of the Board of Directors in order to accomplish our reformation. For example, the Directors held brainstorming sessions to determine a long-term roadmap for achieving MSV and hold offsite meetings to thoroughly examine the feasibility of roadmaps submitted by the Co-Presidents.

As the Board Chair, I will ensure that all Directors make the greatest possible contributions in order to enable NPHD to pursue growth relentlessly based on the Asset Assembler model and to fulfill the Board of Director’s responsibility to protect the interests of minority shareholders.

Corporate governance structure

Five features of our corporate governance structure

1. Ensure the protection of the interests of minority shareholders while sharing MSV as the common objective with the major shareholder
2. Improved effectiveness of the Board of Directors under the leadership of Independent Directors
3. Succession planning with a focus on substance rather than formalism
4. Compensation design that truly contributes to achieving MSV
5. Audit structures that respond to increasing globalization of operations
Corporate Governance Structure and Initiatives

Basic approach to governance

The Company has adopted “a Company with a Nominating Committee,” etc. as its governance structure in order to enhance the transparency, objectivity, and fairness of management, as well as to separate and strengthen the supervision of management and business execution functions. In addition, the Company, based on its “Purpose,” which defines shared identity of the Group, and its “Business Philosophy,” which sets the Group’s guidelines, shall promote its business and engage in ongoing efforts to enhance and strengthen its corporate governance, and thereby, will maximize shareholder value that remains after fulfilling our obligations to customers, employees, suppliers, society, and other stakeholders (Maximization of Shareholder Value (MSV)) including obligations relating to sustainability, as its sole mission.

In order to realize MSV, the Company will respect the autonomy of partner companies based on mutual trust with the Co Presidents and create a management environment as an Asset Assembler in which such partner company can realize its full potential and pursue unceasing growth.

History of governance reform

Since 2014, the Company has increased the number of Independent Directors and delegated authority from the Board of Directors to executive departments in order to separate and strengthen the business execution function and management oversight. To further accelerate this process, we shifted to “a Company with a Nominating Committee, etc.” structure in March 2020.

At present, the Board of Directors of NIP has a majority of Independent Directors, and, following the change in the management structure in April 2021, the Lead Independent Director has been serving as the Board Chair.

Relationship with major shareholder and protection of minority interests

The company shares a philosophy of MSV with Wuthelam Group which has a history of cultivating business partnerships with the Company for over 60 years, and which has taken steps to ensure that the interests of minority shareholders are properly protected.

In addition, the acquisitions of 100% ownership of the Asian JV’s and the Indonesian business in January 2021 simplified our ownership structure, causing the interests of the major and minority shareholders to be perfectly aligned. This created a management structure to pursue MSV while ensuring the protection of the interests of minority shareholders.

In the meantime, the acquisitions have made Wuthelam Group our major shareholder. From the viewpoint of protecting the interests of minority shareholders, when conducting transactions with Wuthelam Group, we ensure appropriate involvement and supervision by the Independent Directors, such as obtaining approval at the Board of Directors with a majority of Independent Directors, and appointing an Independent Director to serve as the Board Chair:

In addition, the Company shall report significant transactions between related parties that exceed a certain amount (such as important transactions between the Company and a major shareholder, competing transactions between the Company and Directors or Executive Officers, self-dealings, and conflicts of interest transactions) to the Board of Directors and disclose them in the “Notice of Convocation of a General Meeting of Shareholders” and “Security Reports.”

Furthermore, when conducting related-party transactions, the Company will make a comprehensive judgment regarding the reasonableness of the transaction, taking into consideration its terms and conditions, profit and cost levels, and other factors, to ensure that the transaction will not harm the interests of the Company or its minority shareholders and obtain the approval of the appropriate decision-making authority.

History of governance reform

2014
- Elected one Independent Director

2015
- Established Corporate Governance Policies
- “Evaluation of the Effectiveness of the Board”

2016
- Abolished anti-takeover measures
- Increased the number of Independent Directors from one to two
- The Compensation Advisory Committee is renamed the Nominating and Compensation Advisory Committee, and began its deliberations on the nomination of candidates for the Directors and Company Auditors

2017
- Changed the composition of the Nominating and Compensation Advisory Committees to designate two of the four members from among the Independent Directors
- Appointed Independent Directors as the Chairperson of the Committees

2018
- Increased the number of Independent Directors from two to five (ratio of Independent Directors: 50%)
- Separation of the Nominating Advisory Committee into the Nominating Advisory Committee and the Compensation Advisory Committee
- Appointed the Nominating Advisory Committee

2019
- Established the Governance Advisory Committee

2020
- Transition from “a Company with Board of Auditors” to “a Company with a Nominating Committee, etc.” structure
- Six out of the nine members of the Board of Directors are Independent Directors (ratio of Independent Directors: 67%)

2021
- Six out of eight members of the Board of Directors are Independent Directors (ratio of Independent Directors: 75%)
- Appointed the lead Independent Director as the Board Chair

2022
- Eight out of eleven members of the Board of Directors are Independent Directors (ratio of Independent Directors: 72%)

Nippon Paint’s sole mission is Maximization of Shareholder Value (MSV). This was undoubtedly the mission for limited liability companies when they first emerged 400 to 500 years ago. Regrettably, this goal is now viewed as hereby.

Where I grow up, profit for shareholders was by default the only purpose of a for-profit company. There was never a need to state explicitly the company’s mission because everyone was born and bred with the same idea. MSV was a given. But upon getting involved in Nippon Paint, to my consternation, shareholder value was anything but the mission of the company. I was therefore forced to coin the language MSV and proselytize the idea. Frankly in spite of the fact that I’m the author of the term, I found it somewhat comical to have to invite my colleagues to receive it.

“Corporate Value Enhancement” is the widely accepted term in Japan. But both “corporate value” and “enhancement” are problematic terms. In reality, you can enhance corporate value while reducing shareholder value at the same time. If your purpose is to just “enhance” corporate value, you might opt for an easier decision that leads to a mere 10% earning boost over a more difficult one that gets 50% boost. This is why I have been advocating that a company should pursue maximization (not enhancement) of shareholder value (not corporate value).

Another concept I would like to clarify is “Stakeholder corporate value). Maximization (not enhancement) of shareholder value (not corporate value)

Keeping back, when I joined the management of Nippon Paint as Director of the board in 2014, I had a tough time getting my colleagues to take shareholder value seriously. Almost all companies advocated shareholder value and the Japanese Corporate Governance Code, which had just started, was at best ambiguous on shareholder value as the objective. Over the years, my colleagues have gradually come to understand and approve of MSV as the only corporate mission and I am grateful that the board members and operational decision makers of Nippon Paint Group are now making decisions based on MSV. In addition, the Asset Assembler model is evolving into the strategy towards this mission. I am glad that a framework for pursuing MSV through the maximization of EPS and PER is taking shape.

The relationship between Nippon Paint as a listed company and Wuthelam as a major shareholder is rarely seen in the world. Nonetheless the interests of the major shareholder and minority shareholders are completely aligned towards the maximization of long-term value. The funding capability of a listed company combined with the strength of a privately owned shareholder has created a more potent growth engine in Nippon Paint. This is clearly a Win-Win relationship as what is beneficial for Nippon Paint is without question good for Wuthelam.

With this in mind, as Chairman and Board Member, to the best of my ability, I pledge to work towards Nippon Paint’s MSV.

Goh Hup Jit Chairman

Message from Chairman

Looking back, when I joined the management of Nippon Paint as Director of the board in 2014, I had a tough time getting my colleagues to take shareholder value seriously. Almost all companies advocated shareholder value and the Japanese Corporate Governance Code, which had just started, was at best ambiguous on shareholder value as the objective. Over the years, my colleagues have gradually come to understand and approve of MSV as the only corporate mission and I am grateful that the board members and operational decision makers of Nippon Paint Group are now making decisions based on MSV. In addition, the Asset Assembler model is evolving into the strategy towards this mission. I am glad that a framework for pursuing MSV through the maximization of EPS and PER is taking shape.

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With this in mind, as Chairman and Board Member, to the best of my ability, I pledge to work towards Nippon Paint’s MSV.
Analysis and assessment of the effectiveness of the Board of Directors

Issues for FY2020 based on effectiveness assessment and initiatives for FY2021

In FY2021, when the Company transitioned to the Co-President structure on April 28, 2021, we took the following actions on the four main issues that we identified for improvement on the basis of our FY2020 effectiveness assessment.

**Issues that require stronger initiatives in FY2021**

**Main initiatives in FY2021**

At the time of the Group’s transformation, when the Co-President structure was launched, we focused on establishing a structure that would enable us to avoid information asymmetry and fulfill our respective roles towards the achievement of MSV, our sole mission, while further separating execution and supervision as “a Company with a Nominating Committee, etc.” structure. In addition, since the meetings would be held remotely due to the pandemic, the duration of each meeting was shortened, and regular Board of Directors meetings, along with regular Board of Directors meetings, were generally held every month. These Group’s key management personnel, were held at the Independent Directors meetings (17 times during the same period), leading to deliberations at Board of Directors meetings based on an accurate understanding of the situation regarding execution.

1) Upgrading the monitoring model

For M&A projects such as DukeGroup’s acquisition of Cramoni and KIJ, the Board of Directors deliberated from the initial consideration stage and provided timely support for the implementation of growth strategies through appropriate risk-taking by the Co-Presidents. In the transfer of the European automotive business and the India businesses to WuxiGroup, a special committee of Independent Directors was established to achieve a high professional and objective decision-making process, thereby expanding the discussion and improving transparency and fairness, as well as protecting the interests of minority shareholders.

2) Enhancement of discussion of important agenda items

We have introduced “Audit on Audit” as the auditing system for the Group, which is rapidly globalizing, establishing an effective auditing system that is in line with the actual conditions of each partner company, which are growing autonomously under the Co-President structure.

3) Further reinforcement of audit

In the transition to the Co-President structure, we have achieved a speedy and smooth Presidential succession. Furthermore, based on the skills matrix, two additional Independent Directors have been appointed, Mr. Peter M. Krzy and Mr. Lim Hwee Hwee, who have management experience in global R&D and investment companies. Also, by appointing both Co-Presidents as Directors, we have evolved to a Board of Directors structure that will contribute to further advancing MSV. Furthermore, by increasing opportunities for direct communication with GUP, we have gained an understanding of the current status of the “human capital” of our senior management and strengthened the foundations for the evaluation of Group management by the Co-Presidents, who take the GUPs.

4) Reinforcement of nominating function

**Overview of evaluation outcome**

Based on the following evaluation by the BJA and the Board of Directors’ discussion that followed in response, the Board of Directors has assessed that the overall effectiveness of the Board of Directors for FY2021 is generally assured.

BJA’s assessment summary

- The Board of Directors has been proactively and positively responding to the evolution of the Company’s management since the transition to the Co-President structure.
- The agenda setting and facilitation by the new Board Chair have greatly contributed to the effectiveness of the Board of Directors.
- By significantly increasing the number of Board Directors meetings and holding them flexibly, deliberation on important matters has been enhanced.
- In order to improve the functions of the Board of Directors, steps are being taken to enhance the composition of the Board of Directors (such as inviting CEOs with experience overseas).
- Some progress has now been made in addressing the issues identified in FY2020, including measures to strengthen the audit function.

**Issues requiring stronger initiatives in FY2022**

1) Enhance Growth Strategy discussions

Further increase opportunities for growth discussions and make the Board of Directors a place to concentrate more on growth discussions.

2) Streamline Board of Directors operations

Improve the timely and effective operations of the Board of Directors and other such proceedings, and focus on discussions of the effectiveness of the Board of Directors meetings.

3) Further contributions by Independent Directors

Assist each Director in contributing more constructively challenging questions to the management team.

4) Strengthen the Board of Directors secretariat functions

Enhance secretarial functions for Directors to further support strategic discussions, and for secretarial functions to respond to the globalization of the Board of Directors.

**Evaluation for FY2021 and issues for FY2022**

**Guidelines for making evaluations**

Target group

- All Directors in FY2021: Representatives, Executive Officers & Co-Presidents
- Managing Executive Officer and GC: 1
- Representative Executive Officers & Co-Presidents: 8
- All Directors in FY2021: 8

Method

- For N/MBA projects such as DukeGroup’s acquisition of Cramoni and KIJ, the Board of Directors deliberated from the initial consideration stage and provided timely support for the implementation of growth strategies through appropriate risk-taking by the Co-Presidents. In the transfer of the European automotive business and the India businesses to WuxiGroup, a special committee of Independent Directors was established to achieve a high professional and objective decision-making process, thereby expanding the discussion and improving transparency and fairness, as well as protecting the interests of minority shareholders.

Content of Questions

1) Status of progress in resolving issues identified in the FY2020 Effectiveness Assessment of the Board of Directors
2) Status of progress in resolving issues identified in the FY2021 Effectiveness Assessment of the Board of Directors
3) Status of progress in resolving issues identified in the FY2022 Effectiveness Assessment of the Board of Directors
4) Status of progress in resolving issues identified in the FY2023 Effectiveness Assessment of the Board of Directors

Evaluation process

Step 1: Distribute questionnaires to Directors
Step 2: Conduct separate interviews with Directors based on the results of questionnaires
Step 3: Summarize and analyze the results of questionnaire and individual interviews
Step 4: Report and deliberate of the effectiveness evaluation at the Board of Directors meetings

Roles of Independent Directors

The Company holds Independent Directors Meetings regularly, chaired by the Lead Independent Director and comprised solely of Independent Directors. Discussions take place that lead to resolutions at Board of Directors meetings and Committee meetings, such as agenda of the meetings of the Board of Directors and the Nominating, Compensation, and Audit Committees, as well as sharing the comprehensive background of agenda on part of business execution and discussion on the Company’s mid-to-long-term direction. In addition, the Lead Independent Director puts together opinions expressed in the Independent Directors meeting as necessary and shares and discusses them with the Chairman, Representative Executive Officers & Co-Presidents, and Executive Officers.

**Policy on cross-shareholdings**

The Company makes a decision every year on the continued holding of cross-shareholders at the Board of Directors based on the policy described below and dismisses or reduces holdings of shares for which the rationality of their holding can’t be recognized.

Cross-shareholding policy

The Company holds shares of other listed companies on Cross-Shareholdings, limited to where it can be determined to be reasonable in consideration of, among others, the necessity of it for business activities (e.g., to maintain and strengthen the relationship with the business partner), the status of the issuer, and the return on the capital cost.

In addition, the Company, based on the above policy and internal standards, exercises voting rights upon making comprehensive judgment, from the perspectives of maximization of corporate value in the medium to long term of the counterparty company of our Cross-Shareholdings and its impact on our Group.

**As asset owner of corporate pension fund**

The Company, to promote stable asset formation for the members of the corporate pension and to secure the soundness of the financial condition of the Company, takes the following actions for management and operation by the Nippon Paint Corporate Pension Fund:

1) The Company systematically secures human resources with the qualities required for management and operation of the corporate pension fund from inside and outside the Group and assigns them to the Nippon Paint Corporate Pension Fund representation, asset management committee member, and secretary (hereinafter referred to as Representatives and other stakeholders).

2) The Company, through the Representatives and other stakeholders, confirms the selection of an investment institution by the Board, the monitoring of the activity status and investment results of the investment institution, and that management of conflicts of interest that arise between the beneficiaries and the Company is performed appropriately and effectively, and voices an opinion when necessary.

**Overview of cross-shareholdings**

The Company holds shares of other listed companies on Cross-Shareholdings, limited to where it can be determined to be reasonable in consideration of, among others, the necessity of it for business activities (e.g., to maintain and strengthen the relationship with the business partner), the status of the issuer, and the return on the capital cost.

In addition, the Company, based on the above policy and internal standards, exercises voting rights upon making comprehensive judgment, from the perspectives of maximization of corporate value in the medium to long term of the counterparty company of our Cross-Shareholdings and its impact on our Group.

Number of shares held for purposes other than net investment and carrying amounts

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of stock issues</th>
<th>Of which, the number of listed issues</th>
<th>Total carrying amount (Million yen)</th>
<th>Of which, the total amount of listed stocks (Million yen)</th>
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<td>2019</td>
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<td>14</td>
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<tr>
<td>2020</td>
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<td>6</td>
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<td>22,704</td>
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<tr>
<td>2021</td>
<td>24</td>
<td>6</td>
<td>30,191</td>
<td>29,268</td>
</tr>
</tbody>
</table>
Nominating Committee Report

Creation of a structure that contributes to MSV in terms of both business execution and supervision

Since April 2021, the Board of Directors established a management structure suitable for pursuing growth through Assembler model. This was accomplished by shifting to the Co-President setup, reducing the number of Executive Officers, and electing non-Japanese Independent Directors and Representative Executive Officers & Co-President as Directors. We are proud of the fact that the Nominating Committee has been able to contribute to the establishment of a structure that will contribute to MSV for further growth in terms of both business execution and supervision.

The committee’s activities are not based on initiatives in accordance with uniform frameworks established in advance, such as a management talent development plan and implementation measures. On the basis of respecting the management autonomy of partner companies based on mutual trust, we are focusing on the examination of human capital issues, such as the character of President and other senior executives and whether they are worthy of trust.

In the future, M&A will add new management talent, resulting in a deeper base of Global Key Persons (GKP) at the Group and the realization of the potential of our human capital more than we can imagine. Each partner company’s external human networks are also valuable assets for finding additional talent. Continuous growth by pursuing Assembler model will greatly expand the possibilities for finding the best and right people from around the world, whether internally or externally. These people will become a talent pool for individuals capable of succeeding Executive Officers including President.

The Nominating Committee will continue to focus on flexibly taking actions, anticipating the next changes and identifying people with the potential to become the next senior executives.

Chairperson
Hisashi Hara (Independent Director)

Committee Members

Number of meetings held: FY2021 (From Mar. 2021 to early March 2022) 2
FY2022 (From early March 2022 to end of June 2022) 2

Main Activities
The Nominating Committee passed a resolution regarding the election and dismissal of Directors for FY2022 to be submitted to the General Meeting of Shareholders, and deliberated and provided responses on the selection of Executive Officers for FY2022.

Roles of the Committee
Decide on the contents of proposals regarding the election and dismissal of Directors to be submitted to the General Meeting of Shareholders, and deliberate on succession plans for Directors, the appointment and removal of the Representative Executive Officer, and President, and other Executive Officers, and their succession plans.

Main activities of the Nominating Committee

Key Reports to the Board of Directors

Required experience/skills

Our approach to the composition and skills of the Board of Directors (Election criteria, diversity, and other elements)

We ensure that the Board of Directors and each of three Committees are comprised of Directors with a suitable background to demonstrate supervisory functions in a sustainable manner in an ever-changing business environment. The Nominating Committee designates candidates, under the following seven areas, as required experience/skills of our Directors to ensure that the Board of Directors is comprised of members that are well balanced in terms of those seven categories (see the table below). In addition, for each Committee, the Board of Directors appropriately makes an appointment considering a higher degree of expertise.

The Nominating Committee emphasizes that the Directors have the “Experience in corporate management” needed to pursue our Asset Assembler model. To date, the Company has implemented mergers and acquisitions to expand its business portfolio and fully integrate its Asian JV’s and has established a Board of Directors structure for the realization of further growth. At the General Meeting of Shareholders in March 2022, four new Directors were elected: Mr. Peter M. Kirby and Mrs. Lim Hwee Hua as Independent Directors, and the two Co-Presidents as Directors who will also serve as the Executive Officers.

With these appointments, “Experience in corporate management” in paint and investment companies has been strengthened with the addition to the existing organizations of those in the Group’s key industries, financial institutions, and auditing and legal firms. At the same time, we have also strengthened “Experience in global business operations” and “Experience in M&A,” which are essential for identifying better assets from a medium- to long-term perspective as well as facilitating the growth of partner companies after M&A.

Also because of “Experience in corporate management,” it is possible to elevate expertise in “Legal/AAE” to GRC (Governance, Risk Management, and Compliance), and “IT/Digital” and “Manufacturing/Technology/ R&D” skills that will allow us to link our growth strategies more organically through more efficient information sharing within the Group and synergies in product development. In addition, our Board of Directors is working to ensure and expand diversity based on a skills matrix, without focusing on specific attributes such as age, nationality, or gender. In the composition of the Board of Directors in FY2022, foreign nationals now account for nearly 40% of the Board of Directors, and the number of women Directors has increased to two, ensuring a diversity of opinions and multifaceted supervisory functions.

Unearthing future management talent and development of growth environment

We recognize that strengthening our Group’s human capital is an important management issue in the face of globalization and drastic changes in the business environment.

We do not recruit and develop future management personnel in a uniform manner. Based on mutual trust between Co-Presidents and the heads of each partner company group (PCG: Nippon Paint Group companies grouped by region or business), we are developing an environment for discovering and growing human resources based on respect for the autonomy of each PCG. This field-based human capital enhancement is appropriate for our company, which is oriented towards the "Assembler" model, and we believe that it will greatly contribute to the realization of MSV.

Based on this policy, the Group’s key management talent are identified as GKP, who are entrusted with formulating and executing succession plans for the senior management of each PCG, monitored and assessed by the Co-President, thereby strengthening the Group’s human capital.

Under the leadership of the Co-Presidents, our Group continuously seeks future management talent, both in and outside the Group, while at the same time creating an environment in which such talent can fully express itself without obstruction.

Twice a year, the Co-Presidents report to their approaches and assessment of respective GKP to the Joint Nominating and Compensation Committee to conduct an open discussion on the Group’s human capital. In addition, the Nominating Committee also focuses on direct communication with each GKP. These efforts lead to properly assessing and recognizing the performance of Co-Presidents as leaders in our Group, and provide the basis for the succession and appointment/dismissal of an appropriate future Representative Executive Officer & President of the Company. Based on the established standards, the President and the Co-Presidents of the Board of Directors and the Nominating Committee, we are “always on” the identification of future management personnel, including our top management, and the strengthening of human capital by developing the growth environment to realize MSV and to achieve future leap forward.

Appointment and dismissal process for management personnel

Executive Officers including Representative Executive Officer & Co-President and Chief Executive Officer of significant subsidiaries or separate company are separately designated by the Board of Directors or resolved by the Board of Directors based on providing responses by the Nominating Committee

GKP (Global Key Persons) are the Groups’ Representative Executive Officers & Co-Presidents

Legal Affairs: The ability to supervise and give advice on regulations and corporate management

IT/Digital: The ability to supervise and give advice on implementation of IT/Digital and creation of new business such as cloud services and Digital

Manufacturing Technology/R&D: The ability to supervise and give advice on manufacturing and R&D

Financial and Corporate Information

Our Medium- and Long-Term Management Strategy

Our Business Model

Message from Management
Pursuit of a compensation plan that will contribute to the achievement of MSV and the more growth in the future

To implement Asset Assembler model adopted by Nippon Paint Holdings, it is essential to create an environment where all management teams of Nippon Paint Group can maximize their performance based on mutual trust under the leadership of the Co-President. To achieve this goal, the optimal solution is not management through a uniform compensation structure. Instead, we must thoroughly and more flexibly examine what types of compensation really contribute to MSV.

We believe that when the total compensation for the Co-President reaches a certain level, their motivation is maximized by being trusted by the Board of Directors and given the heavy responsibility for the Group's fate, rather than the level of compensation. Based on this approach, we set the total compensation for Co-President Wee in FY2022 to the same as in the previous fiscal year. We decided that we did not need to increase motivation by increasing compensation. Regarding the ratio of cash to stock, we determined that replacing the existing cash compensation with stock compensation would not raise the incentive to achieve MSV. Consequently, we decided to make compensation entirely cash. We also repeatedly discussed the balance of compensation under the Co-President setup and decided to pay only cash compensation to Co-President Wakatsuki as well.

The mission of the Compensation Committee is to maximize the motivation of the Co-Presidents for achieving MSV as the sole mission and to further share value with shareholders by rigorously evaluating the performance of the Co-Presidents. We will continue to seek a compensation plan that will support the achievement of MSV and contribute to significant growth of NPIDH.

Compensation Committee Report

Compensation decision-making policy for Officers

At our Company, the Compensation Committee, chaired by an Independent Director, determines the level of total compensation amount and its composition for Directors and Executive Officers. For Global Key Persons (GKPs), who are the key management personnel of partner companies, the decision-making process for the compensation amount is supervised through reports from the Co-Presidents. The Compensation Committee deliberates on and determines the specific level and composition of compensations in a fair and transparent manner based on the "Compensation Philosophy" and the "Design Policies for the Compensation of the Representative Executive Officer & Co-Presidents" (see page 112) set forth by the Compensation Committee by gathering and analyzing objective information such as the social circumstances, comparison of compensations with comparable companies, the market compensation standard, and other factors considering advice from external advisors.

Composition of executive compensation

Composition of Representative Executive Officers & Co-Presidents’ compensation

For the Co-Presidents’ compensation, the optimal mix of cash and stock compensation is settled each fiscal year after determining the total amount of compensation. Specifically, the total amount of compensations for the following fiscal year is redefined each fiscal year from the groundwork after a comprehensive evaluation of the performance of the Co-Presidents from both financial and non-financial perspectives of the previous fiscal year through close communication with the Co-Presidents and GKP. In addition to continuity with past compensations, market and peer benchmarking surveys, and other factors, the composition of cash and stock compensation is also reviewed each time. In this way, the compensations maximize motivation to realize MSV and incentivize further leaps forward.

Composition of Executive Officers’ compensation

Compensation for Executive Officers, excluding Representative Executive Officer & Co-Presidents, consists of "Job-based Compensation," "Performance-linked Compensation," and "Long-term Incentives." The Compensation Committee decides the amount of "Performance-linked Compensation" and "Long-term Incentives" according to the evaluation by the Co-Presidents. "Performance-linked Compensation" is a comprehensive evaluation based on a non-financial assessment in addition to a financial evaluation, in order to provide appropriate incentives through flexible and proper evaluation in a rapidly changing business environment. Non-financial assessment items are based on contributions related to governance, such as group internal controls including risk management, and achievements in diversity, equity and inclusion (DE&I), such as the creation of a highly dynamic work environment and culture for diverse human resources and human resource development. "Long-term Incentives" are cash compensation, determined based on a comprehensive evaluation of long-term sustainability, contribution to the overall optimization of the Group, and expectations for contributions, and paid out in thirds per fiscal year, over a three-year period.

Composition of Directors’ compensation

Compensation for Directors (Independent Director) who do not concurrently serve as Executive Officers consists of "Job-based Compensation," "Allowances for Committee Memberships and Other Roles" and "Long-term Incentives." "Long-term Incentives" are restricted stock compensation. This is intended to promote further value sharing with shareholders toward the realization of MSV as Directors not only supervise the Group’s management as Asset Assemblers, but also assume the role and risk-taking of making important decisions regarding the allocation of management resources entrusted to them by shareholders.
Audit Committee Report

Contributing to MSV by strengthening the audit system in line with Asset Assembler model

Since its establishment in FY2020, the Audit Committee has been working to improve the Group's audit system through "Audit on Audit," where internal audits of partner companies are fully rolled out. At the Group Audit Committee (GAC) meeting, which is held twice a year and attended by people in charge of internal audit of each PCG, we work to raise the overall auditing level through the sharing of best practices and other means, thereby strengthening the cooperative structure between the Audit Department and the internal audit units in each region (see the next page).

We have also established a risk-based global audit system in which the Audit Department assesses the risks of the entire Group through risk assessment surveys to each partner company started in FY2021, while the internal audit units in each region audit and advise on individual risks. In addition, such as introduction of data analytics to each internal audit unit, we contribute to MSV through our audit activities for improving business operation.

Based on its evaluations in FY2021, the Audit Committee has identified issues in the following main areas: (1) the effectiveness of the audit system in the corporate group, (2) the monitoring and verification of the risk management systems, (3) the monitoring and verification of financial reporting and information disclosure, (4) the effectiveness of IT governance, and (5) the effectiveness of responding to ESG and SDGs. The Committee is deliberating the implications of these five areas for MSV. In addition, ongoing interviews with GDP and other management, we are furthering our understanding of the situational realities of the workplace, while remaining focused on improving the quality and effectiveness of audits appropriate to our Asset Assembler model.

Role of the Committee
Conduct audits on the execution of duties by Executive Officers and Directors, prepare audit reports, and determine the content of proposals regarding the election, dismissal and refusal of reelection of Accounting Auditor to be submitted to the General Meeting of Shareholders.

Main activities of the audit committee
Deliberation of the Audit Committee’s audit plan for FY2021

Deliberation on the ideal form of audit system, and establishment of a global IT governance, and internal control systems (e.g., the ideal form of global IT governance and internal control systems)

Deliberation concerning audit reports and the content of proposals for the election, dismissal and refusal of Accounting Auditor, results of evaluation of risk-taking ability and objectives of Accounting Auditor to be submitted to the ordinary general meeting of shareholders.

Conducted audits concerning financial results and the ordinary general meeting of shareholders.

Shared best practices (e.g., cases, audit findings, risk management, background of selecting audit themes) at Group Audit Committee (GAC).

The Audit Committee
- Prepared audit reports based on the results of audits on the status of execution of duties by the Executive Officers and Directors and other factors.
- Resolved the content of proposals regarding the election, dismissal and refusal of reelection of Accounting Auditor to be submitted to the ordinary general meeting of shareholders.
- Conducted audits concerning financial results and the ordinary general meeting of shareholders.
- Shared best practices (e.g., cases, audit findings, risk management, background of selecting audit themes) at Group Audit Committee (GAC).

Cooperation with Accounting Auditor and local audit firms

The Audit Committee monitors and verifies whether the Accounting Auditors conduct appropriate audits while maintaining its independent position. The status of the execution of duties is checked at the Three-Party Audit Meeting held on a regular basis. Relevant matters of concern are shared as needed to ensure close and organic coordination. Particularly with regard to Key Audit Matters (KAM), which we began adopting in FY2021, the Company holds discussions with the Accounting Auditor on items that involve significant management decisions, including accounting estimates, and items likely to have a significant impact on financial statements, and confirmed the appropriateness and consistency of information disclosures.

The Audit Committee also conducts direct interviews with local audit firms in charge of auditing accounts of major overseas partner companies. The Committee discusses audit findings at the partner companies.

Risk-based global audit system

The Company's Audit Department ensures the independence and appropriateness of audits by establishing double reporting lines to the Audit Committee and Representative Executive Officers & Co-Presidents. As the entity in charge of establishing a global audit system, the Audit Department supports the audit activities of the Audit Committee and conducts J/SOX evaluations as well as supervises the audit activities conducted by internal audit units in each region. Specifically, on top of analyzing the results of assessments of important risks at each partner company, the Audit Department promotes collaboration among internal audit departments of each partner company to improve the maturity of internal audits for the entire group that contribute positively to MSV. By these methods, we have established an “Audit on Audit” system, where the results of internal audits conducted by each partner company are fully relied on, enabling us to develop an effective global audit system.

Coordination with Accounting Auditor and local audit firms

The Audit Committee monitors and verifies whether the Accounting Auditors conduct appropriate audits while maintaining its independent position. The status of the execution of duties is checked at the Three-Party Audit Meeting held on a regular basis. Relevant matters of concern are shared as needed to ensure close and organic coordination. Particularly with regard to Key Audit Matters (KAM), which we began adopting in FY2021, the Company holds discussions with the Accounting Auditor on items that involve significant management decisions, including accounting estimates, and items likely to have a significant impact on financial statements, and confirmed the appropriateness and consistency of information disclosures.

The Audit Committee also conducts direct interviews with local audit firms in charge of auditing accounts of major overseas partner companies. The Committee discusses audit findings at the partner companies.

“Audit on Audit” Group audit system

As the entity in charge of establishing a global internal audit system, the Audit Committee monitors and verifies whether the Accounting Auditors conduct appropriate audits while maintaining its independent position. The status of the execution of duties is checked at the Three-Party Audit Meeting held on a regular basis. Relevant matters of concern are shared as needed to ensure close and organic coordination. Particularly with regard to Key Audit Matters (KAM), which we began adopting in FY2021, the Company holds discussions with the Accounting Auditor on items that involve significant management decisions, including accounting estimates, and items likely to have a significant impact on financial statements, and confirmed the appropriateness and consistency of information disclosures.

The Audit Committee also conducts direct interviews with local audit firms in charge of auditing accounts of major overseas partner companies. The Committee discusses audit findings at the partner companies.

Financial and tax risks, and the status of communication between local management and the Company’s Accounting Auditor to identify risk factors and confirm the performance of duties by local audit firms.

In Japan, the Audit Committee holds regular meetings with corporate auditors of partner companies to share information and exchange opinions on issues identified through audits and other matters. Through these and other activities, the Audit Committee is working to further improve the effectiveness of our activities.

Chairperson
Masataka Mitsuhashi (Independent Director)

Composition of the Committee

<table>
<thead>
<tr>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main meetings held</td>
<td>Number of meetings held</td>
</tr>
<tr>
<td>FY2021 (from late March 2021 to early March 2022)</td>
<td>16</td>
</tr>
<tr>
<td>FY2022 (from late March 2022 to early May 2022)</td>
<td>3</td>
</tr>
</tbody>
</table>

* An Independent Director serves as the Committee Chairperson.

Main activities for FY2021
- Deliberation of the Audit Committee’s activities for FY2021
- Preparation and refinement of audit planning for FY2022
- Preparation of internal audit plan for FY2022
- Preparation of the 3rd party’s audit plan for FY2022
- Reporting on the result of evaluation of the effectiveness of the Audit Committee’s activities for FY2021

Main activities for FY2022
- Deliberation concerning the implementation of internal control system, and establishment of a global IT governance, and internal control systems
- Examination of the audit plan for FY2022 and exchange of views on the need for global IT governance
- Reporting on the result of evaluation of the effectiveness of the Audit Committee’s activities for FY2022

Japan
Nippon Paint Group
Internal audit unit
- Audit
- Group partner companies

Americas
Internal audit unit
- Audit
- Group partner companies
**Corporate Governance Structure and Initiatives**

**Q1. I understand that Maximization of Shareholder Value (MSV) is premised on the fulfillment of obligations to all stakeholders. How does the Board of Directors ensure that the management team’s decisions are fulfilling those obligations?**

**A1.** As Independent Directors, we do our utmost to fully understand the expectations of our stakeholders and believe that the best source of information is to liaise directly from the local management, the heads of each business, since, naturally, they undertake their operations by taking into account the views of various stakeholders. Therefore, we interview them about their most important stakeholders and their expertise and knowledge regarding internal control systems to confirm that they are fulfilling their responsibilities in their existing regions and businesses.

In addition, at the Meetings of Independent Directors which were held 17 times during the 2021 term of office the focus was on deepening knowledge of and updating information about each Independent Director through discussions about the roles Independent Directors should play for Nippon Paint Group and the possibility of issues emerging in the future. Furthermore, we made efforts to enhance our knowledge about our obligations to stakeholders by exchanging views with persons in charge of compiling third-party evaluation reports when evaluating the effectiveness of the Board of Directors.

**Q2. How does the Board of Directors supervise the sustainability performance of Nippon Paint Group?**

**A2.** The fulfillment of obligations is the premise of our sole mission of achieving MSV. These obligations include not only legal contracts, but also social and ethical obligations, and also encompass the concept of sustainability. In FY2021, the Board of Directors established the “Nippon Paint Group Global Code of Conduct” to set the standards of conduct including compliance, ethics, and sustainability rules to be shared and compiled with by everyone across the Group. Based on the Global Code of Conduct and using the Asset Assembler model, NPHD is controlling the risk of the Group and pursuing sustainable growth while respecting the autonomy as a “Corporate Group with Integrity.”

The results of self-assessment by each Partner Company Group (Nippon Paint Group companies grouped by region or business) are reported to the Co-Presidents annually. The Co-Presidents then analyze these assessments and report the content to the Board of Directors from a cross-group perspective. Besides these activities, the Board of Directors meeting has the Co-Presidents’ Report as a regular agenda item whereby the Co-Presidents provide updates on risks and sustainability measures of the Group in a timely and appropriate manner.

When determining the compensation for the Co-Presidents at the Compensation Committee, we comprehensively evaluate the performance of the Group in relation to both financial and non-financial indicators including the development of corporate culture, the strengthening of human capital and the status of management of sustainable growth at each partner company, along with our expectations for the future performance of these items. Through this comprehensive evaluation, the Board of Directors is constantly supervising the sustainability performance of the Group.

**Q3. Has the influence of Mr. Goh Hup Jin on the Board of Directors increased with the increase in the ownership of Wuthelam Group in NPHD? Are there any governance concerns regarding NPHD’s actions, such as transactions with Wuthelam Group and the President’s nomination process given that Mr. Goh is also a member of the Nominating Committee?**

**A3.** The Nominating Committee consists of four committee members, with Mr. Goh being one of the members, while the remaining three committee members are Independent Directors. Within the Board of Directors, Mr. Goh is asked to serve as a member of the Nominating Committee because he is the person most familiar with the Group’s management teams who play an important role in the Group, and he is valuable when the Nominating Committee discusses succession planning and other specific issues.

As NPHD and Wuthelam Group share MSV as the common mission of achieving MSV. Thus, obligations include not only legal contracts, but also social and ethical obligations, and also encompass the concept of sustainability. NPHD has appointed the Directors, Representative Executive Officers and Co-Presidents and General Manager of Investor Relations Department as points of contact for dialogue with investors, and also provides opportunities for dialogue with independent directors. Opinions and suggestions from investors obtained through dialogue are fed back to the Board of Directors in an appropriate manner and reflected in management, and the opinions of Directors, including Independent Directors, are also made use of in dialogue with investors.

In FY2021, we strengthened our communication with investors and held IR meetings with 519 companies (an increase of 50% from the previous year), in order to promote understanding of the paint market and the company’s strategy, and promote the understanding and dissemination of our medium- and long-term strategies. In March, we held the Medium-Term Plan (FY2021-2023) progress report briefing at which Co-President Wakatsuki explained the growth potential of the paint market, our strengths and the future strategic direction of Nippon Paint Group. In September, we held an investor briefing on the NIPSEA business in response to long-term requests from investors. At this event, Co-President Watanabe explained our medium- and long-term strategy for China and other Asian countries, the current market outlook, and countermeasures against current risks.

In October, both Co-President Wakatsuki and DuluxGroup CEO Houlihan hosted the investor briefing on the acquisition of Dulux Commodities, explaining the background and the significance of the acquisition.

Besides the above, we took a new approach and held a small investor meeting with Independent Director and Board Chair Nakamura, where he explained the effectiveness of the Board of Directors and the Board’s relationship with Wuthelam Group, the major shareholder of NPHD.

In addition, we are continuing to focus on proactive disclosure of information through measures, including the strengthening and expansion of our Integrated Report and IR website.
Committee Chairperson), look back at previous discussions held Why we considered the executive compensation plan compensation plan that truly contributes to actions, we have taken the group management the Compensation Committee will contribute the executive election and compensation design he played an important role in as Compensation Advisory Committee Chairperson, and from March 2020, as the It may be a roundabout approach to plan that is fair and rational and can ful/ill Independent Director and thoughts to “our vision for the future.” period “From the full integration of the Asian initiatives for business expansion and changes A compensation structure that promotes appropriate and decisive risk-taking To be able to continuously provide motivation so that maximum potential can be satisfactory and to continue to provide appropriate motivation and incentives to⾯向未来的SDGs。”

Dialogue
Towards the establishment of an executive compensation plan that truly contributes to Maximization of Shareholder Value (MSV)

We believe that our executive compensation plan is also undergoing a major transformation. The Compensation Committee members have been and will continue adhering to “what compensation plan will contribute to MSV.” As we drive this transformation, Mr. Tsutsui, the Compensation Committee Chairperson, and I will look back on why we considered the executive compensation plan developed by the Compensation Committee will contribute to the achievement of MSV and what were the discussions we held towards creating such a plan.

Takashi Tsutsui (left in the photo) Independent Director and Compensation Committee Chairperson

Why we considered the executive compensation plan compensation system developed by the Compensation Committee will contribute to the achievement of MSV and what were the discussions we held toward creating such a plan? — On this page, Independent Directors, Masayoshi Nakamura (Board Chair) and Takashi Tsutsui (The Compensation Committee Chairperson), look back at previous discussions held at the Compensation Committee and explain how the optimal executive compensation plan is contributing to MSV, the role of the Compensation Committee, and their thoughts about the design of the compensation plan for the future.

Retracing the footsteps of the Compensation Committee
Nakamura • It has now been over a year since we adopted the Co-President structure on April 28, 2021. Mr. Wve Siew Kim, one of the Co- Presidents, is a Singaporean residing in Singapore, and he became the first non-Japanese president of the company under the current Co-President structure. In early 2021, we announced the adoption of Asset Assembler model for pursuing MSV. By those actions, we have taken the group management to the next stage.

Tsutsui • Well, compensation design needs to maintain some degree of continuity. It is not necessarily a good idea to suddenly switch our compensation plan to an ideal one. Naturally, we need to develop a compensation plan that is fair and rational and can fulfill accountability requirements by taking into account objective information and specialized advice by making use of the help of external advisors and other parties. Also, an ideal compensation plan should be able to adapt to the company’s growth stage and the social circumstances in which it operates. I don’t think there is any single perfect goal to always aim at.

It may be a roundabout approach to explaining our conclusion to “what compensation plan will contribute to MSV” but let us begin by retracing our footsteps.

Nakamura • Mr. Tsutsui and I were elected as Directors of NPHD at the General Meeting of Shareholders in March 2018. NPHD transitioned to “a Company with a Nominating Committee, etc.” in March 2020. As you know, in August 2021, we decided to fully include the Asian JVs, which had grown to account for roughly 50% of the consolidated revenue and over 60% of the consolidated operating profit, into the consolidation by

acquiring their remaining 49% equity stakes.

Decision to acquire the Indonesia business was also taken at the same time. Those events required a major transformation of management teams and their compensation to take the Group to the next growth stage. It was also in 2020 that the Compensation Philosophy was established.

Now, let us look back at NPHD’s initiatives for business expansion and changes in the structure of our compensation design for the President in terms of timelines: First, the period “Up until the full integration of the Asian JVs (2018-2020)” and second, the period “From the full integration of the Asian JVs to the adoption of the Co-President structure (2021-2022).” Then we will turn our thoughts to “our vision for the future.”

“Up until the full integration of the Asian JVs” (2018-2020)

What kind of executive compensation plan was necessary to prepare for the full integration of the Asian JVs? Nakamura • At the time we were elected as Directors, our committee was the Compensation Advisory Committee based on the corporate governance structure of “a Company with a Board of Company Auditors.” What was your first impression of the executive compensation plan and the issues if fixed when you were initially briefed? Tsutsui • It may be misleading, but my first impression was that NPHD’s executive compensation plan was “an ordinary

Compensation Philosophy

Overarching Principle
• In order to implement MSV, to build a compensation plan that is transparent and satisfactory and to continue to provide appropriate motivation and incentives to key executives by implementing individual treatment based on the plan.

Guiding Principles
• To be able to attract and keep management talent that excels at practicing MSV.
• To be able to continuously provide motivation so that maximum potential can be encouraged even under changing environments.
• To function effectively and in harmony with the current state of business development, level of maturity of organizational systems, organizational values, and the community.

Design Policies for the Compensation of the Representative Executive Officer and Co-Presidents

• Compensation that contributes to MSV
• Total compensation is commensurate with the performance of the Representative Executive Officer & Co-President
• A compensation structure that promotes appropriate and decisive risk-taking

Masayoshi Nakamura (right in the photo) Lead Independent Director and Board Chair

PROFILE

Ms. Nakamura was elected Independent Director of NPHD in March 2016, serving as a member of both the Nominating Advisory Committee and the Compensation Advisory Committee member and, from March 2020, as the Lead Independent Director. He has served as the Board Chair since April 2021, and is playing an important role in deepening the content of the discussions in the Board of Directors, meetings, such as consolidating the views of the Independent Directors and communicating them to the management team. He has more than 30 years of experience in a specialized professional in MBA advisory services and financing in the capital markets from his roles at Morgan Stanley and at other leading investment banks.
executive compensation plan of Japanese companies without any special features”. We both already had a clear vision when we became the Directors that it would be an inevitable decision for NPHD to fully integrate the Asian JV’s in the near future to achieve MSV and we had to prepare for this and, at the same time, guide the executives to make that decision.

Based on the executive compensation plan back then, the President’s total compensation exceeded 100 million yen and the plan included short-term incentives (STI) in the form of performance-linked compensation and long-term incentives (LTI) through stock options. However, based on what we had in our mind as an ideal executive compensation plan, we thought something was missing—it needed a new approach, and one that was not limited by conventional arrangements in order to boost the motivation and incentives of the President and other senior management to achieve MSV.

Nakamura* felt the same way. I visualized a President who would make the decision on the full integration of the Asian JVs or a President who would drive the globalized Nippon Paint Group to the next growth stage following the full integration of the Asian JVs. Then, thinking what kind of compensation plan would be appropriate for this person, I felt that NPHD would not be able to attract the person it required under the existing compensation plan

Tsutsui* That’s right. What we needed was an executive compensation plan that matched all of the management teams, from the President and other executives to bring out their maximum potential. If the right candidate is outside the Group, it should be able to attract such a person. Accordingly, we proceeded to reform it, focusing on “working out a satisfactory total amount of compensation, raising our compensation to a competitive level,” and “designing a compensation structure that requires a clear commitment by the President to achieving MSV.”

That said, if we were to determine compensation as the occasion demanded, we would be naturally required to determine compensation that is commensurate with the performance of the President in office at that time. While applying a strict performance assessment for the President, we proactively adopted a new approach to the compensation of the President’s compensation, by means such as increasing the proportion of stock-based compensation. In this manner, we enhanced our compensation plan in terms both of the total amount and of the composition of the compensation.

Nakamura* As a result of those compensation reforms, we increased the compensation for the President in FY2020, when NPHD shifted to “a Company with a Nominating Committee, etc.” structure, by around 2.4 times compared to the FY2017 prior to our election to the Directors. This was, even from a global perspective, a competitive level of compensation. We invited candidates for the President from outside the Group as well, and we believe that the reform of executive compensation plan paved the way for attracting external talent.

During this time, NPHD further expanded its global operations through the acquisitions of DuluxGroup in Australia and Betik Boya in Turkey, full integration of the Asian JVs, and acquisition of the Indonesian business. As a result, the Group’s overseas revenue increased by around 70% of consolidated revenue and NPHD rose towards the fourth place in the global paint
market. We wanted to develop a compensation plan which would make the President clearly aware of our and the globe and drive growth at each partner company by essentially entrusting these companies with autonomous management based on trust.

The key to the success of this growth model is unquestionably, the Co-Presidents of NPHD, which is a pure holding company. Therefore, the Compensation Committee determined that the evaluation and determination of compensation for the Co-Presidents to be our most important role. We needed to establish a compensation plan that would strongly support the group management led by the Co-Presidents. In the meantime, we decided to delegate to the Co-Presidents the responsibility for evaluating and determining the compensation for the management teams of partner companies.

Nakamura • We thought the key parameters for properly evaluating the performance of the Co-Presidents would be: “how well the Co-Presidents lead other Executive Officers, and Global Key Personas (GKPs), who are the key management teams of partner companies,” and “how well they determine compensation for GKPs.”

Tsutsui • I believe that as the core of our approach to the evaluations we will perform. The Compensation Committee is responsible for evaluating the performance and determining the compensation of the Executive Officers, including the Co-Presidents. The prerequisites for our evaluation of the Co-Presidents is an understanding by the Compensation Committee members of the personalities and performance of the Co-Presidents, as well as GKPs, including the Executive Officers. Therefore, we have established a procedure by which the Co-Presidents report to the Compensation Committee on how they manage and evaluate other Executive Officers and GKPs, while the Compensation Committee evaluates and determines the compensation for the Co-Presidents and other Executive Officers after carefully considering the content of reports from the Co-Presidents.

Each partner company has its own compensation for the Co-Presidents and Co-Presidents to hold a significant number of stocks. Simply put, the Co-Presidents will have a driving force for many years, and their compensation will be linked to the performance of the Co-Presidents. The Co-Presidents make a report to the Compensation Committee jointly with the Nominating Committee members. This enables an organic coordination between proper compensation and compensation decisions for the Co-Presidents and other Executive Officers. We believe these integrated activities will contribute practically to Nippon Paint Group’s achievement of MSV.

Nakamura • Adequate communication is essential for this purpose, and both the Nominating Committee and the Audit Committee have been working on expanding communication with GKPs. The Audit Committee follows an “Audit on Audit” system, in which our partner companies are grouped by business or region and NPHD audits the status of auditing within each group. The Audit Committee also interviews each GKP on a regular basis. The meetings of Independent Directors, where I serve as the Chairperson, have also spent time to increase communication with GKPs through meetings over lunch and on other occasions.

The qualitative information and relationship building that these opportunities provide is invaluable for the Board of Directors in understanding the Group’s human capital at the senior management level that goes beyond the scope of the Committees.

Nakamura • Mr. Goh Hup Jin has been in the paint and coatings businesses, working with GKPs longer than any of the other Directors, and he therefore knows them better than any of us. Mr. Goh’s relationship with GKPs, which is based on trust, was essential when we began communicating with them. His experience-based insight will be invaluable as we work to expand communications with GKPs. In view of the above, we have nominated Mr. Goh to serve on both the Nominating and Compensation Committees.

While Mr. Goh brings shareholder perspectives to the Compensation Committee’s deliberations, his opinion carries only one-third the weight as it is a three-member committee. We believe that it is important for the Compensation Committee to ensure that Mr. Goh’s views are not expressed outside the committee and are taken into consideration in decision making. We believe that this will help in gaining the confidence of the management team of NPHD, including the Co-Presidents.
Going beyond formula-based compensation decisions

Nakamura  Through these communications, we have made an effort to assess the merits of the Co-Presidents and other Executive Officers. We have also had many discussions on how we should reflect the results of evaluations based on this assessment for making compensation decisions.

Tsuntsu  Under the executive compensation plan that was in place prior to our election as Directors, the amount of performance-based compensation for the President was automatically calculated by using a formula that used consolidated net sales and profit before tax as indicators.

This compensation is linked directly to Nippon Paint Group’s performance and had the advantage of being fair and transparent to some degree. However, we didn’t think that it was really the best way to evaluate the performance of executives; nor did we think that each member of the management team would be convinced that their performance had been properly evaluated and recognized. We thought that calculating and determining the compensation based on formulas have limitations because Nippon Paint Group must

respond with agility to the rapid changes in business environment, which have been exacerbated by the pandemic. Therefore, we continued to explore an optimal evaluation and compensation determination method that can quickly reflect the current business climate.

Nakamura  I believe this is the core of the transformation, led by the Compensation Committee, from the conventional “evaluation and compensation decisions using a position-based fixed compensation table” to “compensation decisions based on comprehensive evaluations.”

Based on our activities to enhance the compensation for the President in terms of both the total amount and composition, we decided to comprehensively evaluate the performance of the Co-Presidents through dialogues with them and close communications with GKPs for determining their compensation in FY2021. We also decided that total compensation, starting in FY2022, will be determined every year from the ground up and the percentages of cash and stock-based compensation will be reviewed every year.

Tsuntsu  We often hear people say that compensation based on a clearly defined formula makes it more transparent as performance-linked compensation. However, Nippon Paint Group is undergoing drastic transformations. Group companies establish initial plans and budgets as well as KPIs from both financial and non-financial perspectives. We have held many discussions on whether compensation decisions using a formula based on company business plans would really work as an appropriate incentive to achieve MSV at a time when the Group is undergoing growth amid drastic changes in the business environment.

It is our responsibility to strongly support the Co-Presidents as they review business plans with agility and a sense of vigilance. We must also support their relentless pursuit of major goals and by extension growth to achieve MSV. We intend to work with the Co-Presidents to determine actions that are needed to keep changing based on the concept of MSV.

Nakamura  This may not be a good analogy, but members of the Compensation Committee were thinking about the fact that “An officer going to the war is not asked to only follow predetermined KPIs or review KPIs every time.” Willis Towers Watson, which is our external compensation advisor, commented that we are oriented toward the OODA (Observe, Orient, Decide, Act) model, which is more flexible and responsive to different situations, rather than the PDCA (Plan, Do, Check, Action) model, which requires careful planning.

Tsuntsu  We constantly discuss group activities more at the Board of Directors meetings than at the Compensation Committee meetings. These discussions involve both financial indicators and non-financial indicators, such as ESG and sustainability performance.

However, we do not believe that we can arrive at the compensation plan we seek to achieve by simply calculating compensation by doing additions and subtractions based on the degree of attainment of KPI targets. For example, we could add 5 points because performance exceeded the initial target by 5% for a particular KPI involving ESG.

Rather, it is important to comprehensively evaluate each individual’s actions, performance and contributions at that point, taking into consideration the changing environment and other situations. Even if revenue and profits decline, for instance, we may give someone a positive evaluation if the decrease was caused by external factors and the market share increased despite the decline. On the contrary, we may give someone a negative evaluation even when revenue and profit increase if the benefits of price increases to reflect higher expenses did not emerge in a timely manner.

We believe that a comprehensive evaluation that carefully examines performance will serve as a proper incentive for executives to maximize their performance, as well as lead to the retention of these people.

Nakamura  The compensation for the Co-President is based solely on a comprehensive evaluation by the Compensation Committee, and total compensation for the following year will be reviewed from the ground up. Therefore, the Co-Presidents’ compensation consists entirely of variable compensation. From the standpoint of people being evaluated, this may be a very demanding compensation plan.

For this compensation system to really function properly, the prerequisite is that we win the trust of the Co-Presidents that our judgments will definitely lead to MSV. I am convinced that the relationship we have developed with them through communications and the mutual trust backed by our track record will be the driving force behind our compensation plan.

Our vision for the future

Nakamura  We have covered the main topics that we considered and discussed leading up to the current Co-President structure. From here on, I would like to summarize our thoughts looking to the future.

What kind of compensation is conducive to sharing value with our shareholders?

Tsuntsu  When considering our future compensation design, I believe we should place even more emphasis on determining what kind of compensation is truly conducive to raising incentives for achieving MSV and furthering value sharing with shareholders.

Nakamura  From that perspective, there is also the question of who should share value with shareholders in the first place. We also need to think about whether the best approach is holding stock, receiving stock as compensation, having compensation linked to the stock price, and so on.

Tsuntsu  Directors are directly elected by shareholders. Therefore, it is obvious that we need to share value especially with minority shareholders. From a global perspective, there are many examples of companies that establish shareholding guidelines for their presidents. Simply put, the Co-Presidents are subject to these guidelines. It is natural to believe that the shortest path to value sharing with shareholders is for the Co-Presidents to hold a significant number of shares of NPHD stock.

In this regard, we should either establish a policy that allows the Co-Presidents to purchase this stock or design our stock-based compensation in a suitable manner. But in reality, it’s not that simple. Even if the Co-Presidents intend to purchase NPHD stock, they will definitely be exposed to material facts constantly as they implement growth strategies such as our Asset Assembler model. That means they will have very few opportunities to purchase stock. To deal with this issue, we are considering upgrading our insider information management system, including the development of contracts that allow trading of our shares through advance planning. We are still considering whether these steps can address all the issues.

Whether or not the use of stock-based compensation will solve the issues, it is not a good idea to impose a one-size-fits-all compensation plan. ‘This is because, for a company like NPHD, where we consider external candidates for becoming the President or electing a person from an overseas partner company, we must take into account the continuity with existing compensation and the different levels and composition of compensation in other countries, which are strongly influenced by cultural differences.

Nakamura  The Compensation Committee is responsible for ensuring that the Co-Presidents’ compensation is structured to allow value sharing with shareholders.

In other words, it is our critical mission to maintain the appropriate role of the Co-Presidents, who are responsible for business execution to pursue MSV, and to rigorously evaluate their performance with emphasis on value sharing with shareholders. In fact, this is a more demanding task than might be expected and a very serious responsibility.

Our next move to create compensation that further contributes to MSV

Tsuntsu  We are determined to fulfill this role. An ideal compensation plan has no goal. We must continue to explore the best way to compensate our executives. I believe the validity of the concept of MSV we have created and our thoughts on the evaluation and compensation decisions based on trust to achieve MSV will be put at the test from now on. I am convinced that our initiatives for achieving MSV will advance to the next stage from here on.

Nakamura  Today, we had an opportunity to outline our path up to this stage and reaffirm the role of the Compensation Committee. We will do our best to take the committee activities to the next level.

Thank you very much for your time.
Share transfer of the European automotive coatings business and India businesses

—A move based on discussions at the Board of Directors and the Special Committee from the standpoint of protecting the interests of minority shareholders—

NPHD’s Board of Directors is committed to improving the transparency, objectivity, and fairness of management by holding thorough exchanges of opinions and discussions, mainly by the Independent Directors who comprise the majority of the Board. The Board of Directors* held many discussions on whether NPHD can ensure the protection of the interests of minority shareholders in association with the transfer of the European automotive coatings business and India businesses to Wuthelam Group. This page explains the objective of this transaction and views of each Director.

Key points of this transaction

• The transfer of these businesses to Wuthelam Group will sufficiently contribute to Nippon Paint Group’s sustained growth over the medium and long term.
• Risk involving this transaction is diversified because Wuthelam Group will be responsible for additional investments and expenses required for short-term business restructuring.
• The board determined that the transaction is rational because it will be EPS accretive and NPHD will have an option to buy back the businesses in the future (call option). This transaction is also rational regarding the protection of the interests of minority shareholders and Maximization of Shareholder Value (MSV).

Q&A at the Board of Directors Meeting

Q Did NPHD start considering this transaction in 2019, when an impairment loss was posted in the European automotive coatings businesses?

A The business environment changed significantly after 2019 due to the pandemic, shortage of semiconductor chips and high prices of raw materials. As a result, we started considering the transaction in order to resume the strategy that we had established when the impairment loss was recorded. One option was to withdraw from the European market. However, we needed to keep our operations in Europe to maintain access to European automobile manufacturers, which have a growing presence in China. In addition, we knew that the Indian market has many opportunities for growth. Taking these factors into account, we determined that we must make significant investments for business restructuring and reinforcement in order to achieve growth in these regions over the medium and long term.

Q Didn’t NPHD have any other restructuring plan?

A We examined numerous options, all based on the recognition that the European and India markets will remain strategically important. Two possibilities were restructuring the businesses by ourselves and divesting the businesses to a third party. If we attempt to restructure the businesses by ourselves, there would be a significant short-term financial burden. In addition, Europe and India are difficult markets. We were concerned about the possibility that the use of funds to turn around these businesses would not contribute to MSV from the perspective of risk and return. Moreover, divesting the businesses to a third party would make it difficult for us to buy them back, causing us to lose an option involving the growth potential of our businesses. The Wuthelam Group decided to bear the risks involved and allow us to make a decision about buying back the businesses in the future. After comparing this with other restructuring plans, we decided that the share transfer to Wuthelam Group would be the best plan from the perspective of MSV and protection of the interests of minority shareholders.

Q What is the position of Wuthelam Group after this transaction and what responsibilities will NPHD have?

A There is no guarantee that the businesses will be turned around as a result of this transaction. The Wuthelam Group will entrust management of the businesses to Nippon Paint Group while bearing the financial risk. Nippon Paint Group will continue to be responsible for supplying automotive coatings in Europe and assume business risk. This scheme of divesting a business temporarily to implement drastic, medium- and long-term measures aimed at a turnaround is often used in management buyout (MBO) deals.

Q Is it legally valid to treat the businesses as outside the scope of consolidation even when they are transferred on the premise that NPHD will receive a call option to buy the businesses back from Wuthelam Group?

A We have confirmed that the businesses will be excluded from the scope of consolidation even if a call option is granted assuming that the buyback will not take place within one year after the share transfer.

Q Isn’t there a possibility that the elimination of the businesses from the scope of consolidation will be regarded as a postponement of future impairment charges and losses?

A This strictly a business decision. NPHD will have the right to buy back the businesses in the future but is not obligated to do so. Therefore, this transaction is not intended to postpone impairment charges and losses.

Q We must carefully examine the calculation method for the share transfer price and the buyback price. We must also confirm that management fees required for business restructuring are reasonable. One of the key discussion points is how the restructuring plan’s business risk and capital risk are divided between Nippon Paint Group and Wuthelam Group.

A The Special Committee has verified that entrusting the management of the businesses that were transferred is reasonable. Furthermore, this transaction will not significantly affect Nippon Paint Group’s earnings. Regarding business risk, Nippon Paint Group will be entrusted by Wuthelam Group to continue to manage and operate the business that were transferred without changing their names. As a result, we believe the impact of the transfer of the businesses, including customer relationships, will be minimal. Regarding capital risk, Wuthelam Group will bear the cost of restructuring measures, such as strengthening the business structure and conducting aggressive sales promotion activities.

Q This transaction appears to be very favorable for NPHD and its minority shareholders. Please provide a thorough explanation in disclosure materials to prevent people from having the perception that this is a questionable transaction within Nippon Paint Group.

A We will explain that Director Goh did not participate in the Board of Directors and Special Committee meetings to examine and negotiate the share transfer to ensure independence from Wuthelam Group and that we make a fair judgment about the pros and cons of the share transfer and the rationality of the terms. Just as when NPHD fully integrated the Asian JV, Wuthelam Group’s stance remains unchanged that Nippon Paint Group’s earnings growth will be in the interests of Wuthelam Group. Our explanation to the public will emphasize that Wuthelam Group is not expecting to profit from this transaction nor does it expect to earn a capital gain if Nippon Paint Group exercises the call option.
Further strengthen risk management by setting appropriate agendas and prompt responses

Yuri Inoue
Managing Executive Officer and GC

Many hidden risks exist in the frontline. This means that the most effective risk management can be implemented by partner companies around the world that are familiar with their respective regions and markets, rather than by Nippon Paint Holdings, which is a pure holding company. We believe that the best way to contribute to the Group’s sustainable growth is to entrust detailed internal controls to the Partner Company Group (PCG: Nippon Paint Group companies grouped by region or business) as a “Corporate Group with Integrity,” while limiting our centralized internal controls of partner companies to the minimum required level. Under this concept, we, as an Asset Assembler, take a role to control the Group’s risks while respecting the independence and autonomy of the partner companies.

We have reformed our internal control system into one suitable for Asset Assembler model. In addition, we have built a mechanism that enables checking the risk factors at the Group in a simple manner by incorporating the newly established Global Code of Conduct (see the next page), the internal reporting system (Whistleblowing Hotline), and risk management policies into this internal control system (see the figure below). The effective functioning of this internal control system requires “mutual trust” and “simple communication channels” that ensure sharing important information between NPHD and its partner companies. In addition, there is a structure in place to immediately and appropriately take actions by using daily communication channels in case a serious problem or concern occurs.

Regarding human capital, raw material procurement, IT, and other risk factors that were identified in January 2022, we decided to take measures on a case-by-case basis in order to recognize the risks to our Group as a whole and identifying any common risks. These risk analysis results are also reported to the Board of Directors.

In January 2022, our Group established the Nippon Paint Group Global Code of Conduct, a code of conduct on compliance, ethics, and sustainability to be shared and observed by all Group companies. Drafting was conducted with the participation of Compliance, Finance, and Human Resources managers from NPHD and its partner companies in Japan and overseas, and based on discussions from a global perspective with an eye to future business in each region and market.

Establishment of the Global Code of Conduct

In January 2022, our Group established the Nippon Paint Group Global Code of Conduct, a code of conduct on compliance, ethics, and sustainability to be shared and observed by all Group companies. Drafting was conducted with the participation of Compliance, Finance, and Human Resources managers from NPHD and its partner companies in Japan and overseas, and based on discussions from a global perspective with an eye to future business in each region and market.

Promotion of risk management

In January 2022, our Group established a Global Risk Management Basic Policy with the aim of clarifying the global framework for risk management. The Policy specifies that, while the Co- Presidents will be the responsible persons, the head of PCG is accountable for identifying risks that need to be addressed as the first line of defense, for planning and executing their management, conducting self-inspections, and making improvements. The Co-Presidents oversee these risk management activities and monitor the functioning of the risk management system from a Group-wide perspective. The self-inspection results of each PCG are reported to the Co-Presidents once a year, and global “Risk Management Committee” meetings are held as necessary to discuss the results after recognizing the risks to our Group as a whole and identifying any common risks. These risk analysis results are also reported to the Board of Directors.

Based on the results of self-inspection conducted by PCG in January 2022, the following Group risks have been identified:

Identified Group risks

- Risks related to human capital, including the succession of the Group’s management team
- Risks related to the Group’s Business Continuity Plan (BCP), including global raw materials price hikes, natural disasters, and IT security
- Risks related to international locations, etc., resulting from the deepening cooperation among Group companies in terms of brands, and technologies, etc.
- Risks related to compliance issues, such as information leaks and employee misconduct, for which the demand from society to respond is increasing
- Risks related to financial risks, such as unexpected increases or decreases in the demand from customers, etc.
- Risks related to organizational efficiency and labor productivity enhancement, to improve profitability in Japan, etc.

Nippon Paint Group Global Code of Conduct

Global Code of Conduct ensure our people act according to our Purpose and our stakeholders understand how we operate.

SEALING WITH INTEGRITY

We maintain our reputation by conducting our business in a fair and honest way.

- We compete fairly
- We market responsibly
- We conduct business ethically
- We comply with laws, regulations and materials accurate records
- We do not tolerate bribery or corruption
- We avoid conflict of interest and are responsible to act sensibly with gifts and entertainment
- We prohibit insider trading
- We do not compromise on quality or safety
- We protect our assets and confidential information
- We use technology and innovation to enhance and enrich

Risk management system

- We embrace diversity
- We work collaboratively with our partner companies and stakeholders
- We strive to reduce the environmental impact of what we do
- We aim to leave a positive and sustainable footprint

Acting in accordance with Global Code of Conduct, Speaking Up when there is a suspected breach and protecting others who Speak Up is a responsibility for all who work with us. (To Speak Up*)

*Consequences have joint responsibilities for Speak Up by employees is provided locally in a manner of no unfair treatment or fear of retaliation to those who make honest speak up.

Relationship between Basic Policy of Internal Control System and related regulations

Basic Policy of Internal Control System

Nippon Paint Group Global Code of Conduct

Group’s Code of Conduct to be shared globally by the entire Group

Global Basic Policy of Whistleblowing Hotline

Clarify policy for Whistleblowing operated by each partner company

Global Risk Management Basic Policy

Define roles and responsibilities of each company for effective risk management

Corporate Governance

Message from Management

We strive to reduce the environmental impact of what we do.

We aim to leave a positive and sustainable footprint

Representative Executive Officers & Co-Presidents

Program and Management of the Partner Company Groups

Global Risk Management Committees

Global Code of Conduct

Identify Group risks

- Risks related to human capital, including the succession of the Group’s management team
- Risks related to the Group’s Business Continuity Plan (BCP), including global raw materials price hikes, natural disasters, and IT security
- Risks related to international locations, etc., resulting from the deepening cooperation among Group companies in terms of brands, and technologies, etc.
- Risks related to compliance issues, such as information leaks and employee misconduct, for which the demand from society to respond is increasing
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*Consequences have joint responsibilities for Speak Up by employees is provided locally in a manner of no unfair treatment or fear of retaliation to those who make honest speak up.
## Directors and Executive Officers

(as of June 30, 2022)

### Experience/Expertise

<table>
<thead>
<tr>
<th>Experience</th>
<th>IT/Digital</th>
<th>Legal affairs</th>
<th>Finance</th>
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<tr>
<td>M. Kirby</td>
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<td>Hara</td>
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<td>H. Hu</td>
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<tr>
<td>Mitsuhashi</td>
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<tr>
<td>Tsutsui</td>
<td>5</td>
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<td>8</td>
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</table>

### Ratio of Independent Directors on the Board
- 8/11

### Number of Independent Directors serving as committee members
- 2/3
- 3/4
- 2/3

### Experience in M&A

- M. Kirby
- Hara
- Hup Jin

### Number of applicable Directors
- 11
- 11
- 8
- 5
- 5
JGAAP

Financial indicators


Fiscal year (Million yen)

Net sales 227,378 222,266 233,380 260,576 260,590 535,746

Gross profit 75,104 73,329 82,038 93,640 95,220 223,342

Operating income 15,975 16,323 25,860 33,367 30,751 71,352

Profit attributable to owners of parent company 14,590 12,312 20,018 23,156 18,177 30,020

EBITDA(*) 25,059 24,262 33,093 40,438 40,722 97,985

Capital expenditures 5,594 5,251 5,880 5,580 5,130 10,034

Depreciation and amortization 9,079 8,202 7,233 7,051 6,870 26,533

R&D expenses 9,280 8,673 6,918 8,915 5,873 15,177

Cash flow (Million yen)

Cash flow from operating activities 20,345 22,482 21,384 26,900 34,419 63,101

Cash flow from investing activities (3,178) 16,913 16,918 17,762 86,966 (5,308)

Cash flow from financing activities 11,578 11,942 18,744 21,024 88,298 24,659

Free cash flow 11,898 18,769 29,320 19,746 52,547 75,793

Fiscal year end (Million yen)

Total assets 260,590 233,380 227,378 222,266 233,380 260,576


Financial indicators

Operating income margin (%) 7.0 7.3 11.1 12.8 13.0 13.3

EBITDA margin (%) 11.0 11.1 14.2 15.5 16.5 18.8

Return on equity (%) 11.6 9.3 13.5 18.1 53.8 6.3

Return on assets (%) 5.4 6.3 7.1 10.5 32.0 3.8

Return on investment capital (ROIC) (%)(*) 8.3 6.9 11.3 15.2 9.5 10.3

D/E ratio (times) 0.39 0.30 0.16 0.08 0.06 0.09

Net D/E ratio (times) 0.17 0.12 0.16 0.24 0.29 0.42

Dividend payout ratio (%) 29.7 31.7 72.7 79.2 79.3

Total shareholder return (TSR) (%) 13.5 13.3 12.4 6.8 26.7

Price-earnings ratio (PER) (times) 1.2 1.2 1.5 2.1 2.9 1.7

Price-book-value ratio (PBR) (times) 0.8 0.8 0.8 0.9 0.8 0.9

Non-financial Data

Goverance

Number of Directors of the Board (personnel) 8 8 8 10 8 6

Ratio of Independent Directors on the Board (%) 0.0 0.0 0.0 12.5 16.7

Social

Number of employees (personnel) 5,729 5,762 5,888 5,795 15,780 16,408

Ratio of overseas employees to all employees (%) 43.6 45.5 47.8 48.2 81.7 92.2

Ratio of female managers in Group companies (Japan Group)(*) 1.6

Number of fatalities as a result of work-related injury (Global) (cases) 0 0 0

Environment

CO2 emissions in Japan (Scope 1 + Scope 2) (tCO2)(') 14,863 10,067 11,802 14,475 15,621 17,102

Ratio of water-based paints in the decorative paints business (Global) (%) 79.2

Other

*1 ROIC (JGAAP): Operating profit after tax / (net debt + total net assets)

*2 EBITDA: Operating profit + depreciation and amortization + any impairment loss on goodwill.

*3 Net debt: Total liabilities - cash on hand and cash equivalents - any derivatives + other financial assets (current and non-current) - property, plant, and equipment - goodwill - investment in associated companies - any purchase obligations - any convertible bonds - any deferred tax liabilities - long-term facilities - cash and cash equivalents.

*4 EPS, P/E, and PBR were calculated assuming that the stock split was carried out on the beginning of FY2021. Annual dividends per share in FY2021 is the actual amount of dividend paid before the stock split (Rounding-off of the third digit) and FY2020 is calculated as if the stock split was occurred on the beginning of FY2020. Dividends paid on share in FY2021 is the actual amount of dividend paid before the stock split.

*5 EBITDA margin (%) = (Operating income - finance costs) / total sales.

*6 ROIC: (Operating profit after tax) / (net debt + total net assets).

*7 Underlying ROIC is calculated using net financial income (interest income and expenses, dividend income, etc.) as well as depreciation and amortization as operating income.


*9 Number of the Directors who assumed office after the conclusion of the Ordinary General Meeting of Shareholders held during the current fiscal year. The FY2021 figure is the number of the Directors in office on or after April 1, 2021.

*10 Price book-value ratio (PBR) (times) = Share price / book-value per share

*11 Work-related injury (Global) (cases) = Work-related injury (Japan Group) (cases) + Work-related injury (DuluxGroup) (beginning in FY2019)

*12 ROE: Return on equity (Global) = Net income / Total shareholders’ equity

*13 ROIC: Return on invested capital (Global) = Operating profit / (Net debt + Total net assets).

*14 Non-GAAP financial data. For more information, see "Progress of the Medium-Term Plan (FY2021-2023) on page 51.

Non-financial Data

Goverance

Number of Directors of the Board (personnel) 10 11 9 8 8 6

Ratio of Independent Directors on the Board (%) 50.0 45.5 66.7

Social

Number of employees (personnel) 20,402 25,970 27,319 30,247

Ratio of overseas employees to all employees (%) 84.2 87.0 97.2

Ratio of female managers in Group companies (Japan Group) 4.1 4.3 4.9

Number of fatalities as a result of work-related injury (Global) (cases) 0 0 0

Environment

CO2 emissions in Japan (Scope 1 + Scope 2) (tCO2)(') 36,430 45,714 42,374 42,971

Ratio of water-based paints in the decorative paints business (Global) (%) 83.3 88.7 87.5
### 11-year Data by Segment

Nippon Paint Holdings Co., Ltd. and its Consolidated Subsidiaries

The Company has changed its fiscal year-end from March 31 to December 31 from the fiscal year ended December 31, 2016. Accordingly, the consolidation period for the fiscal year ended December 31, 2016 is the nine months starting on April 1, 2016 and ending on December 31, 2016.

The Company has adopted the International Financial Reporting Standards (IFRS) starting from the fiscal year ended December 31, 2018, the financial results figures with IFRS.

#### By region

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<td>174.5</td>
<td>187.5</td>
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<td>15.3</td>
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<td>26.4</td>
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<td>3,005</td>
<td>3,013</td>
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<td>2.7</td>
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<td>536</td>
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<td>(0.9)</td>
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<td>87</td>
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#### By business

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<tr>
<td>Automotive coatings business</td>
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<td>72.4</td>
<td>81.3</td>
<td>92.5</td>
<td>93.4</td>
<td>130.8</td>
<td>129.0</td>
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<td>Decorative paints (including heavy duty) business</td>
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<td>39.8</td>
<td>43.8</td>
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<td>68.3</td>
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<td>Fine chemicals business</td>
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<td>15.5</td>
<td>17.4</td>
<td>15.6</td>
<td>18.9</td>
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<tr>
<td>Others (marine &amp; auto refinishes, etc.) business</td>
<td>56.7</td>
<td>54.5</td>
<td>51.7</td>
<td>55.8</td>
<td>59.5</td>
<td>98.0</td>
<td>40.9</td>
<td>56.0</td>
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*1 The earnings for FY2020 and thereafter have been adjusted retrospectively following the separation of the European automotive coatings business and the India business as discontinued operations after they were transferred to Wuthelam Group (announced on August 10, 2021) and a change in accounting policy reporting cloud computing agreements beginning with FY2021.

*2 The number of employees of NIPSEA, which was previously included in the Japan segment, has been excluded in the Consolidated total (Common) from 2021.
Nippon Paint Holdings Integrated Report 2022
editorial policy

We use our Integrated Report as a communication tool for better understanding, as well as sound management, about our Group’s management policy and growth strategy among our investors as well as other stakeholders around the world.

The 2022 edition of the report conveys the medium- and long-term value creation story of Nippon Paint Group as we pursue Maximization of Shareholder Value (MSV) based on Asset Assembler model that aims to accelerate growth through our existing businesses and M&A.

This report presents the Group’s initiatives for pursuing autonomous growth based on mutual collaboration among Group partner companies in every region through autonomous and decentralized management.

This management structure combines the delegation of authority and accountability based on Trust of Group partner companies around the world.

Editorial work referenced the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards developed by the Value Reporting Foundation, and Guidance for Collaborative Value Creation by the Ministry of Economy, Trade and Industry, etc.

This report is unrelated.

Nippon Paint Holdings Integrated Report 2022

FY2020 and FY2021 earnings and earnings forecast

The European automotive coatings businesses and the triba business were classified as discontinued operations following the transfer of these businesses to Wuthelam Group (announced on August 12, 2021). Also, there was a change in the accounting policy regarding cloud computing agreements beginning with the 4Q of FY2022. As a result, the earnings for FY2020 have been adjusted accordingly. The forecast announced at the financial results announcement on February 14, 2022, the forecast announced at the financial results announcement on February 14, 2022, and the forecast released at theMedium-Term Plan Progress Report Briefing onMarch 16, 2022.

Notice concerning forward-looking statements

The forward-looking statements in this report are based on information available at the time of preparation and involve inherent risks and uncertainties. The actual results and performance of Nippon Paint Holdings Co., Ltd. and Nippon Paint Group may differ significantly from these forward-looking statements. Please be advised that Nippon Paint Holdings Co., Ltd. and information providers shall not be responsible for any damage suffered by any person relying on any information or statements contained herein.

Period and scope

Period covered: January 1 to December 31, 2021

Information on some activities after January 2022 is also included as necessary

Scope of the report: Nippon Paint Holdings and its consolidated subsidiaries around the world

Accounting standard: Unless stated otherwise, figures from FY2017 are based on IFRS and figures from FY2018 onwards are based on JGAAP.

Publication date

August 2022 (published annually)

Inquiries about this report

Nippon Paint Holdings Co., Ltd. Investor Relations

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Corporate, Stock and Ratings Information

The treasury stock of 22,085,512 shares is included in “Individuals and others.”

Niphsea International Limited is a subsidiary of Wuthelam Holdings Ltd., of which Mr. Goh Hup Jin, the Director of the Board of Nippon Paint Holdings (NPHD), serves as Managing Director.

*2 Niphsea International Limited is a wholly owned subsidiary of Wuthelam Holdings Ltd., of which Mr. Goh Hup Jin, the Director of the Board of Nippon Paint Holdings (NPHD), serves as Managing Director.

*3 Fraser (HK) Limited is a subsidiary of a company (W BVI Holdings Limited) whose majority voting participation and involvement of the management

Production process


Conducted interviews of 35 institutional investors from 13 firms to obtain their feedback and evaluations (October 2021)

Conducted interviews of 25 institutional investors from 14 firms based on the forecast released in the new Medium-Term Plan released on March 5, 2021, the forecast announced at the financial results announcement on February 14, 2022, and the forecast released at the Medium-Term Plan Progress Report Briefing on March 16, 2022.

Nippon Paint Holdings publishes the Investor Book (quarterly report) as a companion volume that supplements the Integrated Report. The Investor Book provides a brief summary of the corporate profiles of Group partner companies among the world as well as information and data related to the global paint and adjacent industries.

Editorial work referenced the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards developed by the Value Reporting Foundation, and Guidance for Collaborative Value Creation by the Ministry of Economy, Trade and Industry, etc.

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