

## MSV - Our Sole Mission

# Chapter

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(Financial and Non-Financial Highlights)

# Development of Our Business Model and Evolution of Our Growth Strategy

Corporate actions

## Reforms of cost structure implemented in Japan

- ▶ Kenji Sakai appointed President & CEO Survival Challenge Program launched (April 2009)
- ▶ Consolidation of the Asian JVs announced (February 2014)
- ▶ Transition to a holding company structure (October 2014)

## Capturing demand in the high growth Asian markets

- ▶ Domestic business restructuring, separation of operating companies by lines of business
- ▶ Tetsushi Tado appointed President & CEO (April 2015)
- ▶ Acquisition of U.S. Dunn-Edwards announced (December 2016)

## Solid regional and business portfolio established

- ▶ Increase of Outside Directors based on a shareholder proposal submitted by Wuthelam Group (January 2018)
- ▶ Appointment of Masaaki Tanaka as Executive Chairman of the Board, Representative Director of the Board announced (February 2019)
- ▶ Acquisition of Australian DuluxGroup and Turkish Betek Boya announced (April 2019)
- ▶ Appointment of Masaaki Tanaka as President & CEO announced (September 2019)
- ▶ Transition to a Company with Three Committees (March 2020)

Medium-Term Plan

## 2009-2014

### Survival Challenge Program I & II

(Released in May 2009)

#### Basic strategy

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

Quantitative targets/results	2014 (JGAAP)	
	Plan	Results
Net sales	¥250.0 bn	¥260.6 bn
Operating income	¥25.0 bn	¥33.4 bn
Operating income margin	10.0%	12.8%

#### Outcomes

- ▶ Significantly improved profitability and achieved targets through rigorous cost saving mainly in Japan

#### Challenges

- ▶ Drastically reduced costs including spending on long-term investment as part of emergency measures to respond to the global financial crisis, which is the cause of the current aging facilities and workforce
- ▶ Growth in China and other Asian countries achieved through the Asian JVs, which were consolidated in FY2014

#### Illustration of revenue growth (FY2009–FY2022)

## 2015-2017

### Survival Challenge Program III

(Released in May 2015)

#### Basic strategy

- ▶ 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

Quantitative targets/results	2017 (JGAAP)	
	Plan	Results
Net sales	¥700.0 bn	¥605.3 bn
Operating income	¥105.0 bn	¥75.0 bn
Operating income margin	15.0%	12.4%

#### Outcomes

- ▶ Restructured the Japanese businesses and implemented company splits based on lines of business, and transitioned to a holding company structure
- ▶ Achieved significant earnings growth through consolidation of the Asian JVs

#### Challenges

- ▶ Underachieved the plan due to yen's appreciation, as well as raw material inflation caused by the environmental regulations in China
- ▶ Capturing of profit due to full integration of the Asian JVs

## 2018-2020

### N-20

(Released in May 2018)

#### Basic strategy

- ▶ Strengthen the businesses in existing segments
- ▶ Accelerate expansion of the portfolio
- ▶ Improve earnings capacity
- ▶ Enhance the structure of "Global One Team"

Quantitative targets/results	2017		2020
	Results*	Plan	Results
Revenue	¥610.2 bn	¥750.0 bn	¥781.1 bn
Operating profit	¥85.4 bn	¥105.0 bn	¥86.9 bn
Operating profit margin	14.0%	14.0%	11.1%

\* Figures recalculated in accordance with International Financial Reporting Standards (IFRS)

#### Outcomes

##### Steadily reinforced the organizational base for sustained growth

- ▶ Expanded business in Oceania and Türkiye through M&A (DuluxGroup and Betek Boya)
- ▶ Announced the full integration of the Asian JVs and the Indonesia business

#### Challenges

##### Enhancement of sustainability and profitability improvement over medium and long term

- ▶ Operating profit margin reached 13.8% in FY2018, but fell below the target in FY2019 due to impairment losses and in FY2020 due to the pandemic and other factors
- ▶ Achieve sales growth and profitability improvement that outpace competitors in the growing paint market
- ▶ Create business opportunities through ESG initiatives and work on net zero CO<sub>2</sub> emissions
- ▶ Utilize DX (Digital Transformation) and recruit competent talent to respond to aging facilities and workforce in Japan

## Relentlessly pursuing growth based on Asset Assembler model

▶ For more information, see "Assets Assembled to Date" on page 35.

- ▶ Completed the full integration of the Asian JVs and acquisition of the Indonesia business (January 2021)
- ▶ Adopted the Co-President setup led by Yuichiro Wakatsuki and Wee Siew Kim (April 2021)
- ▶ Transferred the European automotive business and India businesses to Wuthelam Group (August 2021)
- ▶ Launched international offering of shares (January 2022)

### Improving profitability in Japan Group ▶ P91

- ▶ Nippon Paint Corporate Solutions established (January 2022)/ Next Career Plan voluntary early retirement program implemented (September 2022)

### Accumulation of assets through M&As ▶ P59

- ▶ Vital Technical (March 2021)/Cromology (October 2021)/ JUB (October 2021)/Chinese automotive JVs (November 2021)/NPT (February 2023)

### Sustainability ▶ P41

- ▶ Endorsement of TCFD recommendations (September 2021)
- ▶ Deepening of autonomous sustainability structure (January 2022)

## 2021-2023

### Medium-Term Plan (FY2021-2023)

(Released in March 2021)

▶ For more information, see "Overview and Updates on Medium-Term Plan (FY2021-2023)" on page 51.

### A three-year milestone towards our long-term goals

- ▶ Strategy by Asset ▶ page 85  
Further solidify our strong growth platform and proactively address new challenges
- ▶ Finance Strategy ▶ page 55  
Use our strong cash generating capacity to strengthen our financial base and secure funds for growth with M&A and business investment
- ▶ M&A Strategy ▶ page 59  
Aggressively pursue new partners to join our Group, taking advantage of the growth potential of the paint market and stability of cash flows
- ▶ Sustainability Strategy ▶ page 41  
Expand business opportunities through ESG initiatives for sustainable growth

Quantitative targets/results	Released in March 2021		Released in February 2023
	2022	2023	
	Results	Plan	
Revenue	¥1,309.0 bn	¥1,100.0 bn	¥1,400.0 bn
Operating profit	¥111.9 bn	¥140.0 bn	¥140.0 bn
Operating profit margin	8.5%	c.13.0%	10.0%

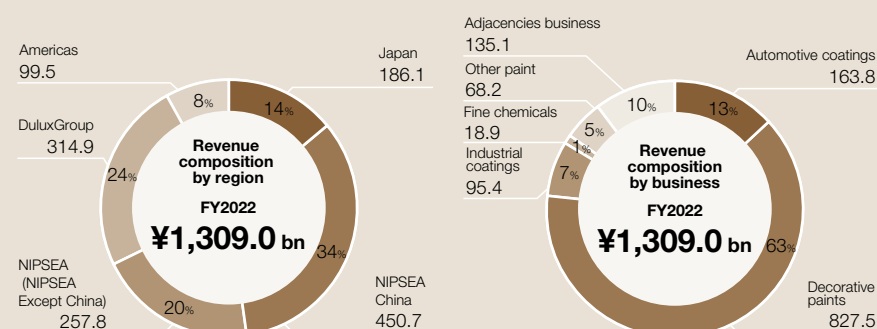
#### Outcomes

##### Strengths of Asset Assembler model reaffirmed

- ▶ Resilient growth achieved despite challenging environment
- ▶ Excellent companies acquired with low financing cost delivering Year 1 EPS accretion
- ▶ Strengths of Asset Assembler model
- ▶ Rising interest rates create additional opportunities

### Overview by segment (FY2022)

▶ See "Asset Management Report" on page 23.



### Our Long-Term Vision

## Ensuring sustainable growth

- Revenue CAGR in the high single digits
- Profit growth exceeding revenue growth

## 2024-

### Medium to Long-Term Management Strategy

▶ See "Our Medium to Long-Term Management Strategy for Achieving MSV" on page 49.

### Organic Growth

Further solidify our strong growth platform

### Inorganic Growth

Eyeing the potential for non-continuous growth including through M&A

### Competitive advantage based on Asset Assembler model

1 Our ability to harness the low-funding cost

2 Our ability to maintain and boost the EPS contribution from assets companies without intervention

3 Our unique appeal to management-class talents who empathize with our modus operandi

▶ See "The Basis of Our Asset Assembler Model" on page 37.

# Our Value Creation Model

Value creation model is based on (1) organic EPS growth, (2) inorganic EPS accretion, and (3) maximization of PER

Deepening trust Further accumulating assets

# OUTCOME MSV

Maximization of Shareholder Value

Maximization of EPS (earnings per share)

Maximization of PER (price-to-earnings ratio)

Customers

Suppliers

Employees

State

Financial institutions

Fulfillment of obligations to all our stakeholders

▶ See page 22.

## INPUT

## Our Business Model

## OUTPUT

External environment

Global population/per-capita GDP growth, urbanization

Worldwide inflation

Increasing geopolitical risks

AI/digital technology progress

Heightened awareness of climate change and the need to protect the environment

Increasingly intense competition

Financial and Non-Financial Resources ▶ See page 39.

**Human resources/organizations**

- Create workplaces that encourage active participation by people with diverse backgrounds and characteristics
- Embrace reforms and changing work styles
- Firmly establish the Purpose and the Global Code of Conduct
- Increase the effectiveness of risk management

**Technologies**

- Cultivate engineering talent
- Step up R&D activities
- Maintain and reinforce production facilities
- Develop sustainable products

**External partners**

- Open innovation with universities and research institutions
- Joint research with automobile manufacturers
- Increase engagement with investors and other stakeholders
- Strengthen and deepen partnerships with Wuthelam Group

**Customer base**

- Build distribution networks that will allow us to supply products to consumers around the world
- More strategic partnerships with real estate developers
- Build strong relationships based on trust with automobile manufacturers and other customers

**Brands**

- Advertising and marketing activities
- Increase visibility among consumers
- Hold the AYDA Awards international architectural and interior design competition
- Social contribution activities

**Financial base**

- Rigorous financial discipline
- Prioritize debt financing and maintaining leverage capacity
- Engagement with financial institutions and credit rating agencies
- Build a global investor base

**Nature/environment**

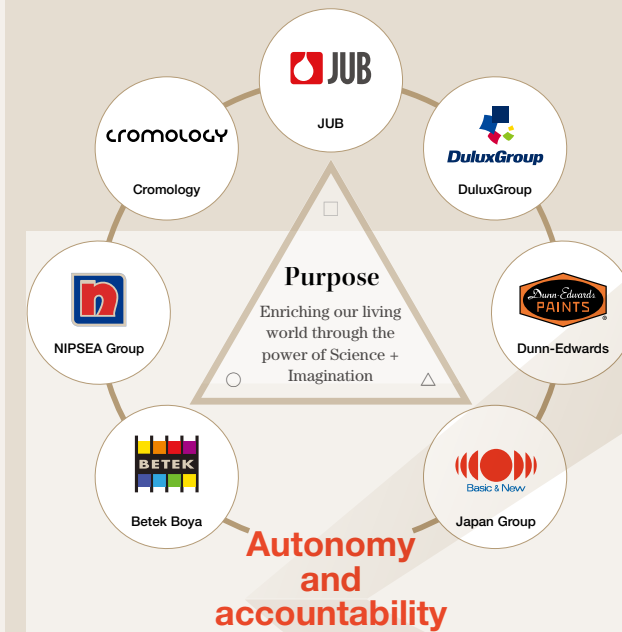
- Actions to combat global warming
- Responsible water use
- Reduce environmental impacts by developing water-based paints

Medium- to long-term growth model as an Asset

Assembler ▶ See page 35.

Relentlessly pursuing growth based on Asset Assembler model

Autonomous and decentralized management



# Paint++

Going beyond paint and into adjacencies

Build up M&As

Expand our existing businesses

Competitive advantage ▶ See page 37.

- 1 Our ability to harness the low-funding cost
- 2 Our ability to maintain and boost the EPS contribution from assets companies without intervention
- 3 Our unique appeal to management-class talents who empathize with our modus operandi

Medium to Long-Term Management Strategy ▶ See page 49.

Medium-Term Management Plan (FY2021-2023) ▶ See page 51.

Strategy by Asset ▶ See page 85.

Finance Strategy ▶ See page 55.

M&A Strategy ▶ See page 59.

Sustainability Strategy ▶ See page 41.

Basic Policy on Sustainability

Materiality

Foundation of value creation

Corporate Governance ▶ See page 99.

Risk Management ▶ See page 121.

Global Code of Conduct ▶ See page 124.

Building up/strengthening financial and non-financial resources

**Human resources/organizations**

- Consolidated number of employees (ratio outside Japan) 33,763 (89.2%)
- Employee satisfaction level 81% (Japan Group)
- Ratio of women in managerial positions (global) 24.8%

**Technologies**

- Engineering talent (global) 3,895 persons
- New Product Sales Index (NPSI) 20% (Total of NIPSEA Group and Japan Group)

**External partner**

- Joint development with the University of Tokyo New anti-viral materials
- Transferred to Wuthelam Group European automotive coatings business and India businesses

**Customer base**

- Number of sales locations in China 104,000 stores
- Number of countries/regions where Nippon Paint Group has the No. 1 market share in decorative paints 13 countries/regions

**Brands**

- Brand award from a Chinese brand evaluation institution Awarded the Gold Brand for seven consecutive years (Wall Paint Category)
- Brand award in Australia Recognized as Most Trusted Brands (Several DuluxGroup brands)

**Financial base**

- Net D/E ratio 0.50 times
- R&I rating A
- Total shareholder return (TSR) 152.5%





**Nature/environment**

- GHG emissions (Scope 1 and 2, Global) 55.6kg-CO<sub>2</sub>/production volume (ton)
- ESG indexes adopted by GPIF Selected as a constituent in all six indexes

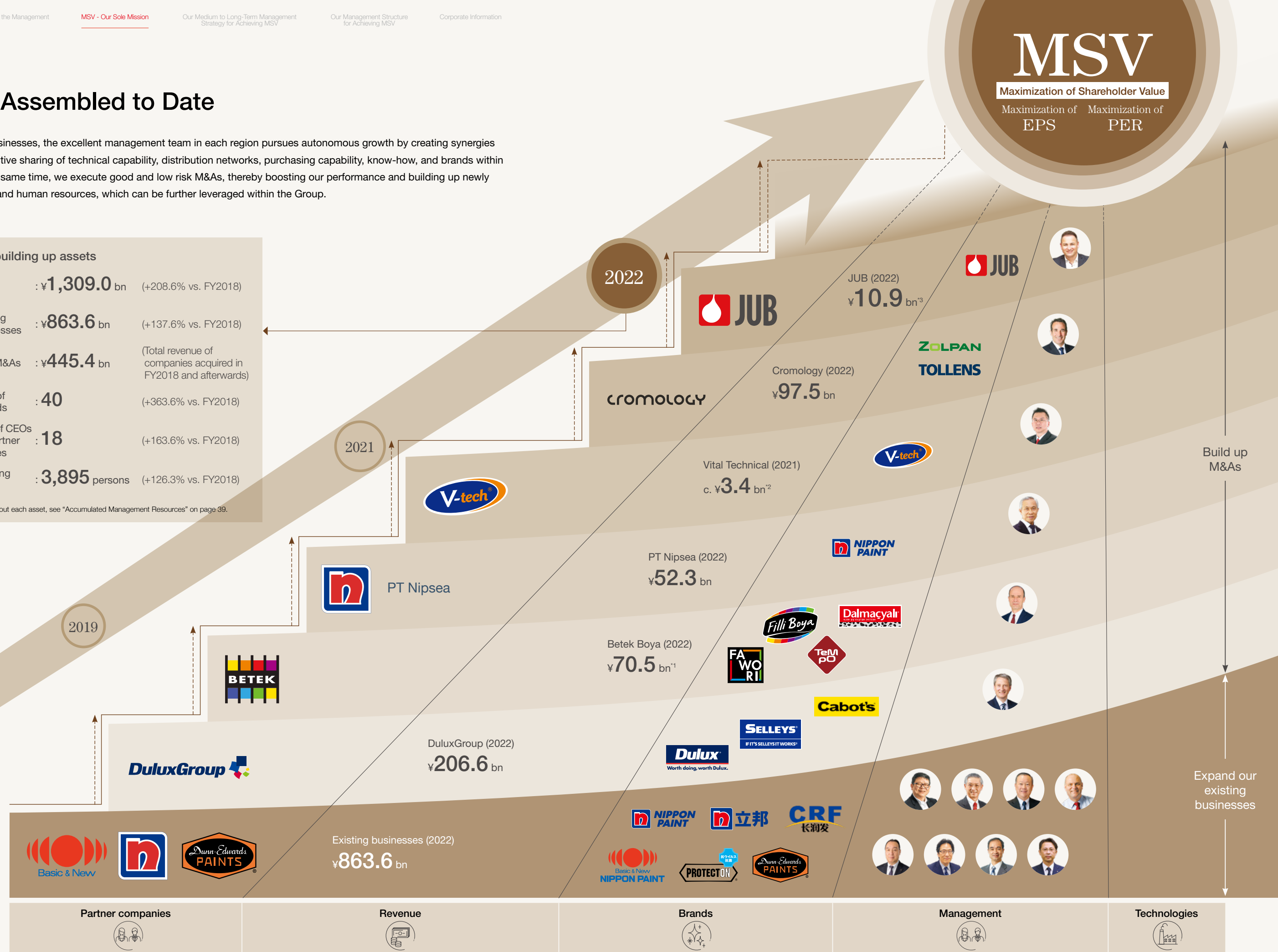
# Assets Assembled to Date

In our existing businesses, the excellent management team in each region pursues autonomous growth by creating synergies through the proactive sharing of technical capability, distribution networks, purchasing capability, know-how, and brands within the Group. At the same time, we execute good and low risk M&As, thereby boosting our performance and building up newly acquired brands and human resources, which can be further leveraged within the Group.

## Outcomes of building up assets

	Revenue	: ¥1,309.0 bn	(+208.6% vs. FY2018)
	Existing businesses	: ¥863.6 bn	(+137.6% vs. FY2018)
	New M&As	: ¥445.4 bn	(Total revenue of companies acquired in FY2018 and afterwards)
	Number of key brands	: 40	(+363.6% vs. FY2018)
	Number of CEOs of key partner companies	: 18	(+163.6% vs. FY2018)
	Engineering talent	: 3,895 persons	(+126.3% vs. FY2018)

► For more information about each asset, see "Accumulated Management Resources" on page 39.



\*1 After applying hyperinflationary accounting

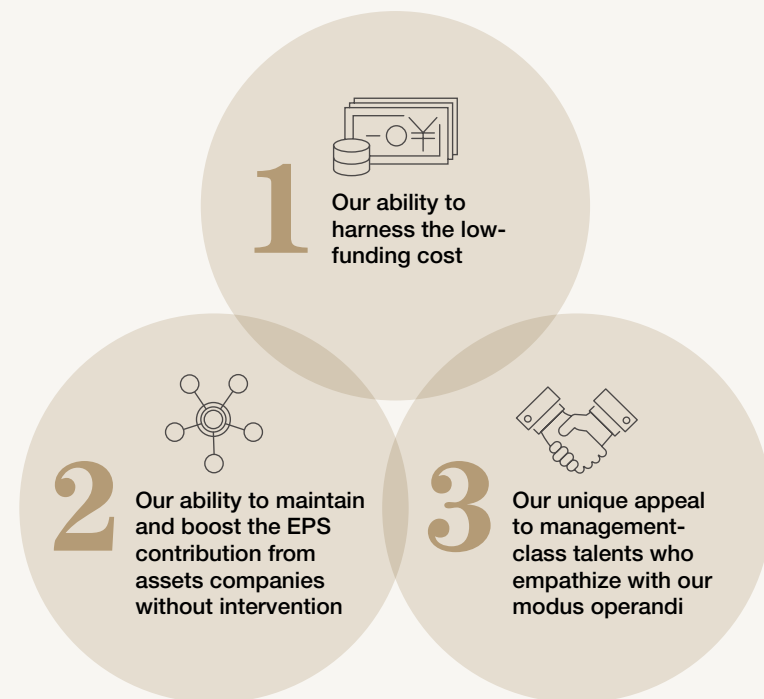
\*2 The earnings of Vital Technical are for nine months and converted to JPY at the exchange rate of MYR/JPY=26.61 yen

\*3 The earnings of JUB are for seven months



# The Basis of Our Asset Assembler Model

Our “Asset Assembler” model is based on our three pillars of competitive advantage.



First, our low funding cost is the vital component in our M&A strategy. We being based in Japan, the stable currency and a consistent low interest rate environment set us apart from European and U.S. companies who face higher interest rates.

Our low-risk asset portfolio provides for higher leverage opportunity, which normally enables EPS accretion as we prioritize debt financing at favorable interest rates for acquisitions. However, debt capacity limits will eventually limit our acquisitions. To mitigate this risk, we hold the option of equity financing. Using high PER shares to acquire a company with relatively low PER generally results in EPS accretion, even if the acquisition is all-share funded. Adding an optimized level of low cost debt to such equity funding will lead to the “maximization” of EPS. This approach enables us to continuously assemble assets without being constrained by debt

capacity limitations. Target assets are entities of low risk and stable profitability, of which we have found many. The success of our acquisition model relies on (1) valuation (PER) of acquisition targets and (2) an optimal combination of debt and equity financing. The chart right demonstrates that a well-executed acquisition of a low PER company, funded through an optimal combination of debt and equity, will result in a substantial EPS accretion. The advantage we enjoy in funding stems from our ability to leverage our balance sheet with the portfolio of low-risk, stable income assets while ensuring the fulfillment of our obligations to financial institutions, which forms one of the premises of MSV.

Low funding cost is common within numerous Japanese companies and any of them could potentially be an “asset assembler.” However, what truly distinguish us are our two unique capabilities, as explained below.

Our second pillar of competitive advantage as stated above is our ability to maintain and boost EPS contribution from assets companies without intervention. This is manifested through our proficiency in recognizing companies with compelling appeal and effective leadership, particularly discovering management-class talents with just the right qualities.

Furthermore, we maintain our respect for the brands and heritage of target companies, while motivating their talented personnel post-acquisition. This approach enables the acquired companies to sustain and even boost their contribution to EPS accretion without headquarters’ control or intervention, enjoying only advantages of scale and other benefits provided by headquarters.

The fundamental idea is that the parent company does not claim superiority in terms of information and

decision-making abilities; rather, it encourages autonomous decision-making by local subsidiaries. This approach helps to circumvent slow decision-making processes and ensures agile and appropriate actions to outperform competitors. Attempting to oversee all our global operations from the headquarters in Japan would be unfeasible and counterproductive.

Of course, we do maintain certain aspects of control. Co-Presidents oversee the governance of our key subsidiaries. The holding company retains its say in certain level of capital expenditures, as well as compensation and appointment/dismissal of management-class senior executives at subsidiaries.

One of our strengths lies in our ability to strike the right balance between autonomy and accountability,

thereby unlocking the growth potential of our subsidiaries. This approach gives us the capability to assemble a large number of outstanding companies.

Our third competitive advantage lies in our prowess in attracting management-class talents. Our platform allows acquired companies that resonate with the concept of MSV to accelerate their contribution to EPS accretion through autonomy and accountability within our Group. This appeal enables us to draw in numerous outstanding talents.

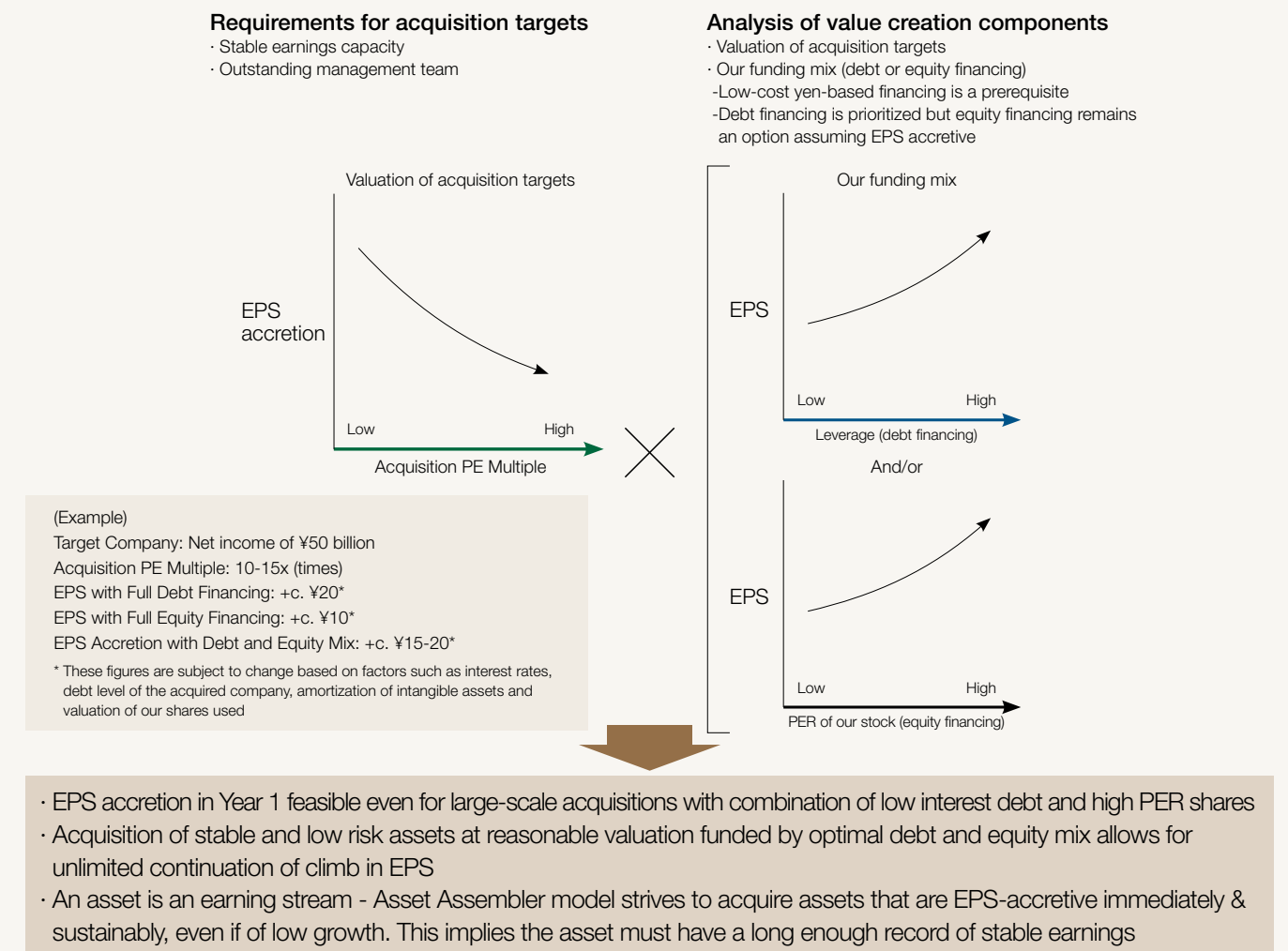
CEOs who have become part of our Group have been effectively proselytizing the benefits of our platform after experiencing them, fostering a similar sense of empathy among newly acquired companies.

As a result, this will facilitate a seamless engagement post-acquisition and make further contribution to MSV

possible. Notably, our approach has already garnered resonance among numerous management-class talents around the globe at this stage.




While taking pride in such competitive advantages, and remaining steadfast in our pursuit of EPS accretion, we make sure we keep a vigilant mindset. Our Asset Assembler model stands as a distinctive notion, granting us the ability to (1) assemble top-notch companies with appropriate valuations using optimal funding structures, (2) unlock the growth potential of these acquired firms, and (3) attract outstanding talents to expand our “federation” approach. Coupled with our unwavering sense of the MSV mission, we believe that we have the potential to exceed investors’ expectations.

## Illustration of continued growth based on Asset Assembler model



Accumulated Management Resources

Financial and Non-Financial Resources Essential

Six categories of capital	Human capital	Manufactured capital	Social and relationship capital
Financial and non-financial resources essential for Asset Assembler model	 Human resources/ organizations	 Technologies	 External partners
Importance of resources from the perspective of Asset Assembler model	<ul style="list-style-type: none"><li>In the paint market, which is characterized by local production for local consumption as well as a wide variety of uses, excellent management teams, diverse human resources, and strong organizational capabilities that enable us to accurately recognize social issues and customer needs and to promptly provide effective solutions are essential.</li></ul>	<ul style="list-style-type: none"><li>Advanced technologies are essential to create innovations that solve social issues and meet customer needs and to enhance our competitive advantage, such as enabling stable product supply</li></ul>	<ul style="list-style-type: none"><li>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 creating innovation for a sustainable future</li></ul>
Examples of resources	<ul style="list-style-type: none"><li>The Group's human resources who are well informed about their local markets (45 countries/ regions: 33,763 employees; ratio of overseas employees: 89.2%)</li><li>Active Diversity &amp; Inclusion initiatives (Ratio of women in managerial positions: 24.8%)</li><li>High level of employee satisfaction (Japan Group: 81%) ▶ See page 47.</li><li>Excellent management teams who have a deep understanding both of market features in their respective countries and regions and of MSV</li><li>Group partner companies around the world with unique corporate culture and expertise, as well as a strong market presence (NIPSEA Group, DuluxGroup, etc.)</li></ul>	<ul style="list-style-type: none"><li>Global engineering talents who are innovation enablers (3,895 persons in total)</li><li>Core technologies, including paint, material synthesis and dispersion, and interface and surface technologies</li><li>Ability to develop sustainable products that help solve social issues (decorative films meeting the needs of the next-generation automobile industry and a decarbonized society, anti-viral and anti-bacterial paint products, high-durability heat shield coatings for road surfaces, next-generation environmentally friendly antifouling paint, etc.)</li><li>World-leading production systems, such as those incorporating factory automation (China, Australia, etc.)</li></ul>	<ul style="list-style-type: none"><li>Active open innovation activities with universities (The University of Tokyo and others), research institutions, and other academic institutions</li><li>Joint development with automobile manufacturers (Toyota Motor Corporation, etc.) applying automotive painting technologies</li><li>Fulfilling obligations to stakeholders and maximizing shareholder value ▶ See page 22.</li><li>Our 60-plus-year partnership with Wuthelam Group</li></ul>
Utilization of resources based on autonomous and decentralized management, creation of autonomous synergies, and sophistication of management (examples)	<ul style="list-style-type: none"><li>Sharing success cases and expertise of Group partner companies around the world (such as NIPSEA Group and DuluxGroup's measures to boost market share and advance ESG initiatives) to achieve appropriate human resource allocation and more sophisticated organizational structure and management</li></ul>	<ul style="list-style-type: none"><li>Sharing technology through interaction among engineers of the technology and research divisions of Group partner companies around the world</li><li>Sharing global state-of-the-art production technologies and expertise</li></ul>	<ul style="list-style-type: none"><li>Sharing technologies and products developed in Japan through the industry-academia co-creation agreement within the Group and deploying them globally</li><li>Reducing risk by having Wuthelam Group bear the cost of additional expenses and investments required to turn around the European automotive business and the India businesses ▶ See page 31.</li></ul>
Particularly relevant materiality ▶ See "Materiality" on page 41.	<ul style="list-style-type: none"><li>Diversity &amp; Inclusion</li><li>Safe people and operations</li></ul>	<ul style="list-style-type: none"><li>Climate change</li><li>Resources and environment</li><li>Innovation for a sustainable future</li></ul>	<ul style="list-style-type: none"><li>Climate change</li><li>Resources and environment</li><li>Safe people and operations</li><li>Growth with communities</li><li>Innovation for a sustainable future</li></ul>
Measures to strengthen resources based on our medium to long-term management strategy ▶ For more information, see "Medium to Long-Term Management Strategy" on page 49.	<ul style="list-style-type: none"><li>Creating a workplace environment that allows diverse people to play an active role</li><li>Accepting reforms and changing workstyle</li><li>Instilling Purpose and Global Code of Conduct</li><li>Improving effectiveness of risk management</li></ul>	<ul style="list-style-type: none"><li>Cultivating engineering talent</li><li>Stepping up R&amp;D activities</li><li>Maintaining and reinforcing production facilities</li><li>Developing sustainable products</li></ul>	<ul style="list-style-type: none"><li>Promoting open innovation with universities and research institutions</li><li>Promoting joint research with automobile manufacturers</li><li>Enhancing engagement with investors and other stakeholders</li><li>Strengthening and deepening partnerships with Wuthelam Group</li></ul>

for Asset Assembler Model

	Intellectual capital	Financial capital	Natural capital
 Customer base	 Brands	 Financial base	 Nature/environment
<ul style="list-style-type: none"><li>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</li></ul>	<ul style="list-style-type: none"><li>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</li></ul>	<ul style="list-style-type: none"><li>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</li></ul>	<ul style="list-style-type: none"><li>Raw materials, electricity, water, and other resources are essential and important from a sustainability perspective to the Group that operates paint and adjacent businesses</li></ul>
<ul style="list-style-type: none"><li>Extensive distribution channels supporting the growth of the Chinese decorative paints business (104,000 stores)</li><li>Strategic partnerships with leading Chinese real estate developers and other customers</li><li>Stable long-term relationships with leading automobile manufacturers and automotive parts manufacturers in Japan, the US, and Europe</li><li>Strong relationship of trust with customers enabling a high market share worldwide in the B2B businesses, such as industrial coatings and adjacencies businesses</li></ul>	<ul style="list-style-type: none"><li>The Nippon Paint brand is proof of technological capabilities and high quality (Global)</li><li>High brand awareness for the LiBang brand (China)</li><li>High consumer rating as "top of mind" for the decorative paints business in Indonesia</li><li>DuluxGroup boasts outstanding consumer awareness of its brands, such as Dulux and Selseys (Australia)</li><li>Conducting the international AYDA Awards competition for architectural and interior design students in 16 countries and regions with a total of more than 50,000 entries to date</li></ul>	<ul style="list-style-type: none"><li>Fully leveraging Japan's stable currency and financial markets to secure financing</li><li>Paint business has low capital expenditure requirements and high cash flow generation (operating cash flow: JPY112.4 bn)</li><li>Establishing a solid financial base by taking actions including the integration of the Asian operations (net debt to equity ratio: 0.50x, total equity: JPY1,155.4 bn) ▶ See page 46.</li></ul>	<ul style="list-style-type: none"><li>Taking actions to tackle global warming such as reducing energy consumption</li><li>Advanced production systems that reduce environmental footprint (US, Australia, China, etc.)</li><li>Controlled water usage through proper management following voluntary standards</li><li>Responsible care activities for proper management of chemical substances (Japan, etc.)</li><li>Reducing environmental impact by developing highly competitive products, such as water-based and antifouling paints and heat shield coatings</li></ul>
<ul style="list-style-type: none"><li>Strengthening relationships with customers by providing meticulous support to customers and sharing information throughout the Group about customers with global operations, such as automobile manufacturers</li></ul>	<ul style="list-style-type: none"><li>Deploying the Nippon Paint brand overseas, which is proof of technological capabilities and high quality</li><li>Sharing products with high brand awareness among the Group and deploying them globally (such as deploying Australian Selseys brand products in Asia)</li></ul>	<ul style="list-style-type: none"><li>Securing global business growth by actively investing in M&amp;A and state-of-the-art production facilities for Group partner companies around the world due to our solid financial base and financing procurement capabilities ▶ See page 55.</li></ul>	<ul style="list-style-type: none"><li>Reducing environmental impact by sharing among the Group the latest technologies and environmental technologies used in paint factories, and sharing among the Group products that help solve social issues and deploying them globally</li></ul>
<ul style="list-style-type: none"><li>Climate change</li><li>Resources and environment</li><li>Safe people and operations</li><li>Growth with communities</li><li>Innovation for a sustainable future</li></ul>	<ul style="list-style-type: none"><li>Resources and environment</li><li>Safe people and operations</li><li>Growth with communities</li><li>Innovation for a sustainable future</li></ul>	<ul style="list-style-type: none"><li>Climate change</li><li>Resources and environment</li><li>Growth with communities</li><li>Innovation for a sustainable future</li></ul>	<ul style="list-style-type: none"><li>Climate change</li><li>Resources and environment</li><li>Innovation for a sustainable future</li></ul>
<ul style="list-style-type: none"><li>Developing distribution networks that will allow us to supply products to consumers around the world</li><li>Increasing strategic partnerships with real estate developers</li><li>Developing strong trust relationships with automobile manufacturers and other customers</li></ul>	<ul style="list-style-type: none"><li>Promoting advertising and marketing activities</li><li>Increasing visibility among consumers</li><li>Holding AYDA Awards international architectural and interior design competition</li><li>Promoting social contribution activities</li></ul>	<ul style="list-style-type: none"><li>Ensuring financial disciplines</li><li>Prioritizing debt finance and maintaining leverage capacity</li><li>Promoting engagement with financial institutions and credit rating agencies</li><li>Developing a global base of investors</li></ul>	<ul style="list-style-type: none"><li>Actions to combat global warming</li><li>Proper water use</li><li>Reducing environmental impacts by developing eco-friendly products</li></ul>

# Sustainability as the Prerequisite for MSV

## Sustainability linked to materiality

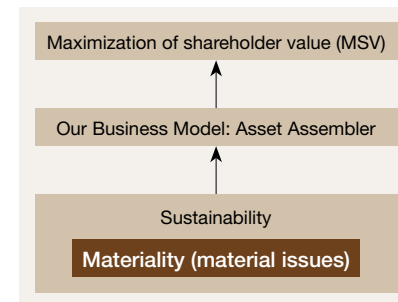
We believe that fulfilling our obligations to customers, suppliers, employees, society and other stakeholders is the premise for all initiatives for the maximization of EPS and PER.

To fulfill these obligations, we have a broad range of activities involving key themes (materiality) that we established in 2020 by using a global perspective. Linking these initiatives directly with business operations, such as for identifying business opportunities and entering new markets, is the primary

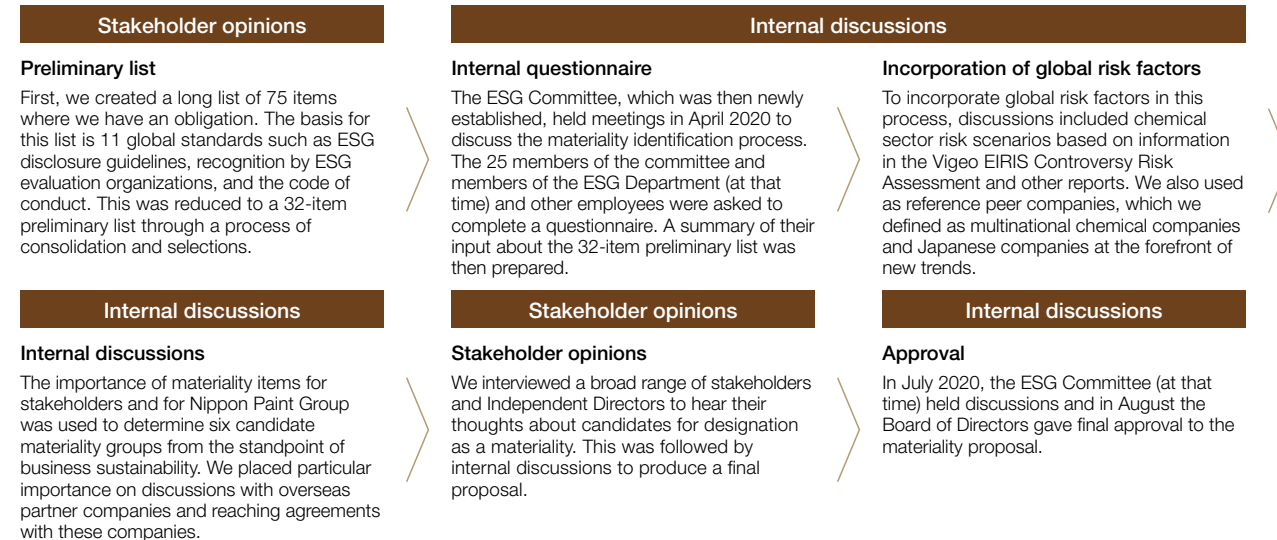
goal. By complying with future laws and regulations and responding ahead of competitors to changes in the demands of society, we expect to avoid significant increases in expenses and reduce vulnerability to business risk itself.

We use a medium to long-term perspective for monitoring a broad range of risks and opportunities involving materiality. At the same time, we are working to turn these risks and opportunities to creating innovations that support growth strategies based on our Asset Assembler model while watching for changes in materiality. By taking these

actions, we aim to achieve MSV by increasing earnings and investors' expectations of Nippon Paint Group (maximization of EPS and PER).



## Materiality identification process



## Materiality map



## Autonomous sustainability structure

Under the leadership of Co-Presidents, five sustainability teams were established. Three teams are Environment & Safety, People & Community, and Innovation & Product Stewardship. For themes with a broader scope, there are also teams for Governance and for Sustainable Procurement. Based on autonomous and decentralized management that emphasizes the autonomy of all partner companies, the five teams are conducting global activities primarily led by business leaders with considerable expertise involving the areas of responsibility of each team.

Team leaders submit reports about progress and ideas for new activities directly to Co-Presidents about once every quarter. Co-Presidents pass on this information to the Board of Directors to enable the Directors to supervise sustainability activities.

► See "Discussions by the Board of Directors" on page 108.

## Basic Policy on Sustainability

In March 2023, the Board of Directors approved the Basic Policy on Sustainability, which was subsequently made public. The policy states that Nippon Paint Group, with MSV as the goal, will implement sustainability initiatives as part of autonomous and decentralized management that emphasizes the autonomy of partner companies. Sustainability at Nippon Paint Group is based on the premise of the pursuit of MSV based on our Asset Assembler model.

## Basic Policy on Sustainability

Nippon Paint Group recognizes an opportunity for sustainable growth from taking actions such as protecting natural capital including the environment, enhancing human resources by embracing diversity, and creating innovation with social benefits. Our group partner companies autonomously develop sustainability strategies and conduct business activities. Furthermore, we identify risks and opportunities related to Materiality based on sound group governance with the sole mission of Maximization of Shareholder Value (MSV) after adequately fulfilling our legal, social and ethical obligations to customers, suppliers, employees, society and other stakeholders.

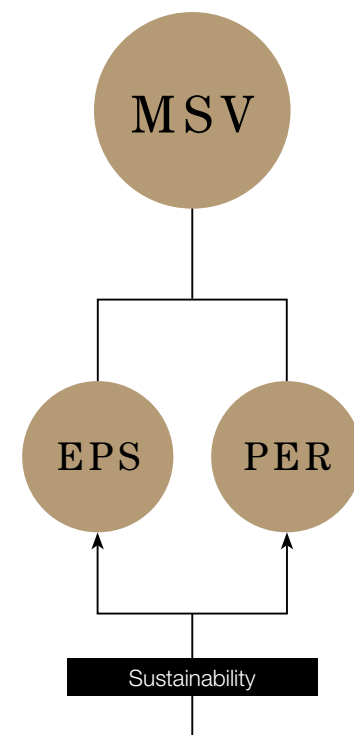
## Key points

	ESG Statement (August 2020 - February 2023)	Basic Policy on Sustainability (March 2023-)
Positioning of MSV	The policy states that progress with a sustainability improvement plan will create new business opportunities and help achieve MSV.	The policy states that MSV is the goal of sustainability.
Business model	The sustainability policy was created for the paint and coatings business and articulates actions for accomplishing goals.	Formulated to align with our Asset Assembler model and autonomous and decentralized management
Procedure for establishment of the Basic Policy on Sustainability	Discussions about a sustainability policy took place mainly at the ESG Committee (at that time) and the results of these discussions were reported to the Board of Directors. (August 2020)	The proposed Basic Policy on Sustainability was discussed by the Directors and approved. (March 2023)



Sustainability as the Prerequisite for MSV

MSV Logic Tree



\* For more information, see "How Shareholder Value Is Maximized" on page 5.

Team	Our pursuit	Materiality
Environment & Safety	Develop low-carbon/eco-friendly products + Ensure safe people and operations	<b>Climate change</b> Climate change is impacting our business, people, and communities. We will work to reduce our greenhouse gas emissions, manage climate-related risks, and capture climate-related opportunities
		<b>Resources and environment</b> Our business and communities depend on the sustainable consumption of natural resources and protection of the environment and biodiversity. We will work to improve the life cycle and circularity impacts of our products and supply chain
		<b>Safe people and operations</b> There are significant safety and health risks in our business that could impact our people, supply chain, and communities. We will work to manage these risks effectively and prevent harm, with a priority focus on high-consequence risks
People & Community	Recruit/train diverse employee + Earn the trust of stakeholders	<b>Diversity &amp; Inclusion</b> Respect for the people around us, respect for human rights and active acceptance of diverse values are important for our sustainable growth. We value diversity of ideas and thinking to foster innovation and growth
		<b>Growth with communities</b> 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
Innovation & Product Stewardship	Develop sustainable products (NPSI 7·monitor LCA) + Chemicals of concern	<b>Innovation for a sustainable future</b> 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
Corporate Governance	Oversee management + Encourage risk-taking	All Materiality categories*
Sustainable Procurement	Low-cost and sustainable procurement + Reduce environmental and human rights risks	All Materiality categories*

\* Focused on activities not only tied to specific Materiality categories but also spanning all Materiality categories.

Relevant SDGs	Risks	Opportunities
	<ul style="list-style-type: none"> <li>Regulatory changes and impacts, such as carbon pricing and greenhouse gas emission reduction targets</li> <li>Increased extreme weather events (e.g. flooding) and climate impacts (e.g. water stress) impacting operations and supply chain</li> <li>Increased supplier costs from climate adaptation and decarbonization actions</li> <li>Changes in customer and consumer expectations and behavior during the transition to a low-carbon future</li> <li>Product claims and brand damage due to performance deterioration (e.g. temperature extremes)</li> </ul>	<ul style="list-style-type: none"> <li>Market growth for sustainable products (e.g. low-carbon, improved performance in temperature extremes)</li> <li>Development of new products and services to capture climate-related business opportunities</li> </ul>
	<ul style="list-style-type: none"> <li>Regulatory changes and impacts, such as waste disposal restrictions and increased costs</li> <li>Supply constraints and increased costs associated with resource scarcity</li> <li>Major site incident or contamination (e.g. soil/ groundwater) causing harm to people and community</li> <li>Changes in customer and consumer expectations and behavior during the transition to a circular economy future</li> </ul>	<ul style="list-style-type: none"> <li>Market growth for sustainable products (e.g. renewable content, post-consumer waste recovery)</li> <li>Enhanced competitiveness through development and use of recycling technologies, resource efficiencies, and circular raw materials</li> </ul>
	<ul style="list-style-type: none"> <li>Major site incident (e.g. fire) causing asset damage, supply chain disruption, and significant harm to people and community</li> <li>Loss of safety management effectiveness from introduction of significant changes (e.g. new or modified plant/process)</li> </ul>	<ul style="list-style-type: none"> <li>Minimizing risks through adoption and sharing of global best practice, particularly for high-consequence risks</li> <li>Enhancing brand reputation, employee engagement, and attracting talent as a safe employer</li> </ul>
	<ul style="list-style-type: none"> <li>To improve employee engagement and create continuous innovation, fostering a diverse and inclusive work environment is essential to increase human resources with diverse backgrounds. Failure to do so risks hindrance of the growth strategy</li> <li>We may face perception risk if diversity initiatives are not properly positioned. Globally, many companies have come under scrutiny for implementing programs or campaigns that are either superficial to appear 'in tune' with popular trends and current topics, or are not well-received by their employees due to unintentionally excluding some groups in order to highlight others</li> </ul>	<ul style="list-style-type: none"> <li>Securing diverse and competent human resource talent as a global company</li> <li>Creating wealth for companies, workers, and local communities by creating diverse and inclusive organizations</li> </ul>
	<ul style="list-style-type: none"> <li>Significant damage to the corporate brand if the company is not perceived as a good corporate citizen that is connected to and invests in local communities</li> <li>Damage to the public image of the paint industry caused by inadequate activities oriented toward the local community</li> </ul>	<ul style="list-style-type: none"> <li>Improving public awareness of the corporate brand through value chain investment in communities</li> <li>Promoting the sound growth of communities through social contribution activities to increase the positive public view of our Group</li> </ul>
	<ul style="list-style-type: none"> <li>Significant hindrance to future corporate earnings owing to inability to generate innovation due to slow response to new markets</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of market for products that contribute to controlling and adapting to climate change</li> <li>Products and services that address social issues contribute significantly to society and help boost corporate earnings in the long term</li> </ul>
	<ul style="list-style-type: none"> <li>If our autonomous and decentralized internal control system aligned with our Asset Assembler model does not work effectively, this will create a risk of damage to our Group</li> </ul>	<ul style="list-style-type: none"> <li>Social requirements regarding corporate governance are becoming increasingly demanding, which provides an opportunity for our Group to increase our significance of existence and strengthen competitiveness by addressing future issues and fulfilling social requirements ahead of time</li> </ul>
	<ul style="list-style-type: none"> <li>The risk of raw materials not meeting sustainable criteria now adds to the long list of possible disruption to the raw material supply chain. We will continue to be vigilant and proactive to identify potential risk</li> <li>The failure to ensure responsible sourcing (e.g. conflict minerals and chemicals of concern) will affect company reputation and may lead to legal implications</li> </ul>	<ul style="list-style-type: none"> <li>Our sustainability survey of suppliers allows us the opportunity to identify potential risk in advance. We will work with suppliers who are aligned with our sustainable aspiration towards a more resilient supply chain and to develop sustainable products</li> </ul>



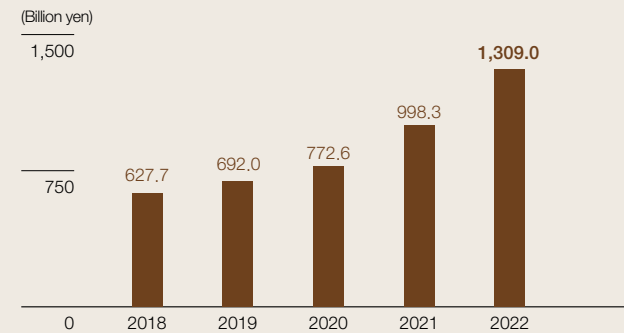
## Value Creation Achievements (Financial and Non-Financial Highlights)

# Financial Highlights

## Financial base

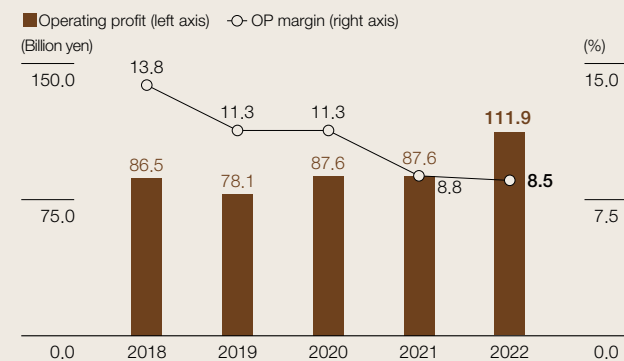


### Revenue



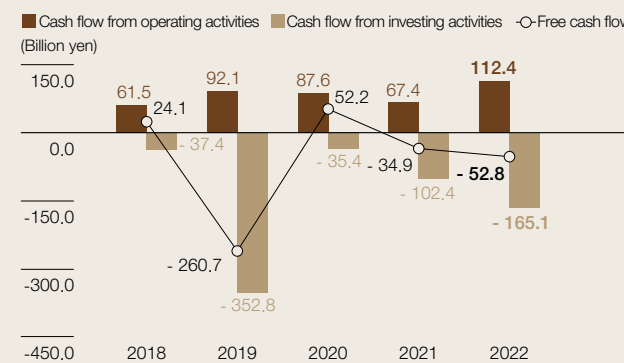
Our Group's revenue growth is accelerating due to the acquisition of a US paint manufacturer in FY2017, an Australian and a Turkish paint manufacturer in FY2019, and the Indonesia business in FY2021, as well as the significant growth in the decorative paints business in China and other Asian countries. In FY2022, we achieved revenue growth for the sixth consecutive year to a record high due to the acquisition of two European paint manufacturers, flow-through of price increases, and the yen's depreciation.

### Operating profit / OP margin



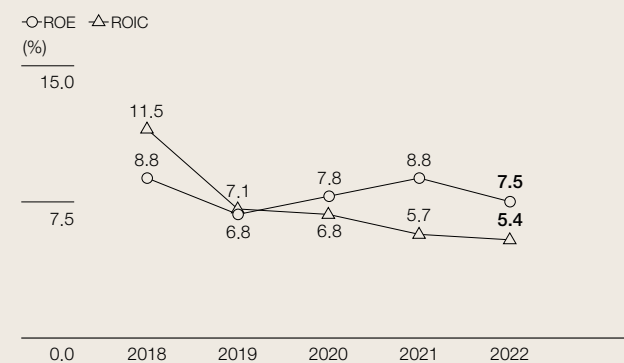
Group operating profit decreased from the previous year in FY2019 due to the recording of impairment loss involving the automotive business in Europe and India. However, operating profit increased for the third consecutive year since FY2020. Group operating profit rose to a record high in FY2022 due to higher revenue, despite raw material inflation, credit loss provisions in China, and the application of hyperinflationary accounting for our Turkish subsidiaries. Group operating profit margin decreased in FY2019 due to the recording of impairment loss and has remained in the 8% range since FY2021 reflecting the increase of the raw material cost contribution ratio.

### Cash flow



Capital expenditures in the paint and agencies businesses are relatively low and positive cash flow is the norm. Free cash flow in FY2019, FY2021, and FY2022 was negative due to the acquisition of overseas paint manufacturers. However, our operating cash flow has increased consistently every year.

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



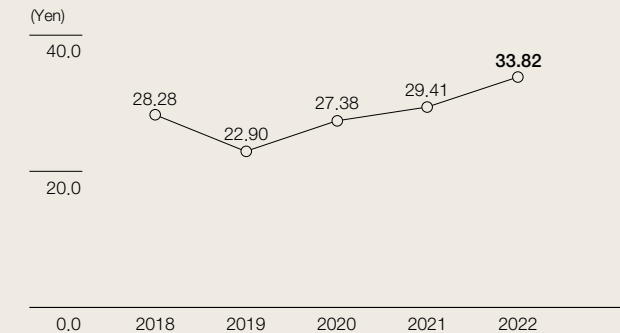
ROE has remained around 8% in recent years after decreasing in FY2019 because net profit decreased due to the recording of impairment loss and other factors. ROIC has been decreasing since FY2019 because of lower turnover of invested capital caused by increases in interest-bearing debt and shareholders' equity following the acquisitions and the full integration of the Asian JVs carried out in the period between FY2019 and FY2022.

\* ROIC (IFRS): Operating profit after tax / (net debt + total equity)

## Financial base



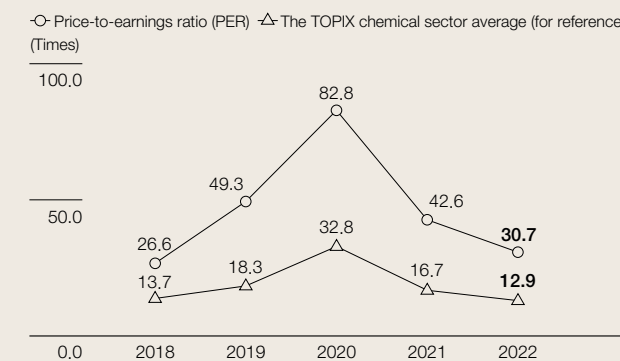
### Earnings per share (EPS)\*



Earnings per share (EPS) rises or falls roughly in proportion to changes in earnings, such as operating profit. EPS has increased for the third consecutive year since FY2020 due to higher revenue, after a decrease in operating profit in FY2019 due to the recording of impairment loss.

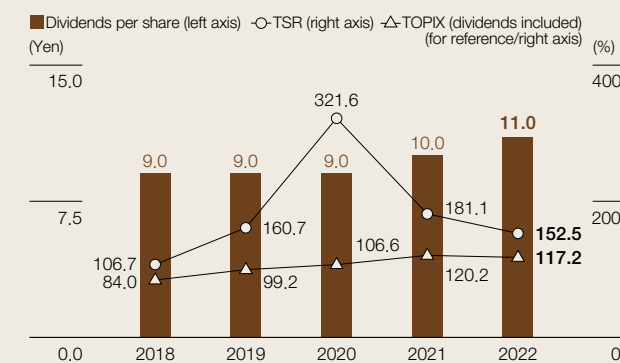
\*Calculated assuming that the five-for-one stock split on April 1, 2021 was conducted in January 2018

### Price-to-earnings ratio (PER)



The PER has been above the TOPIX chemical sector average to reflect the expectations from investors for our future growth potential. The PER rose significantly in FY2020 reflecting multiple factors, such as investors' preference for growth stock in the stock market and our M&A activities.

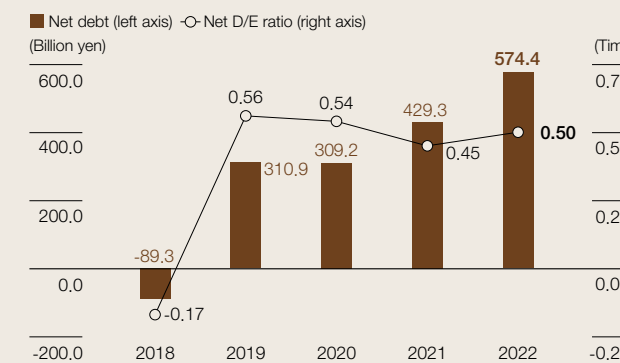
### Dividends per share\* / Total shareholder return (TSR)



Our basic policy is to pay stable and consistent dividends and maintain a dividend payout ratio of 30%. Our dividends increased for the second consecutive year, with an annual dividend of JPY10 per share including a commemorative dividend of JPY1 per share for the 140th anniversary of the company's founding paid in FY2021 and an annual dividend of JPY11 per share paid in FY2022. The total shareholder return (TSR) has exceeded TOPIX (dividends included), a comparative benchmark, since FY2018. TSR in FY2022 reached 152.5%, reflecting a dividend increase.

\*Calculated assuming that the five-for-one stock split on April 1, 2021 was conducted in January 2018

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



Due to relatively low capital expenditures in the paint and agencies businesses, positive cash flow is the norm and our net debt had been 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 FY2022 because of the increase in equity capital due to the increase in interest-bearing debt associated with the acquisition of two European paint manufacturers.

\*Net debt: Interest-bearing debt (bonds and borrowings (current/non-current) + other financial liabilities (current/non-current)) - liquidity on hand (cash and cash equivalents + other financial assets (current))

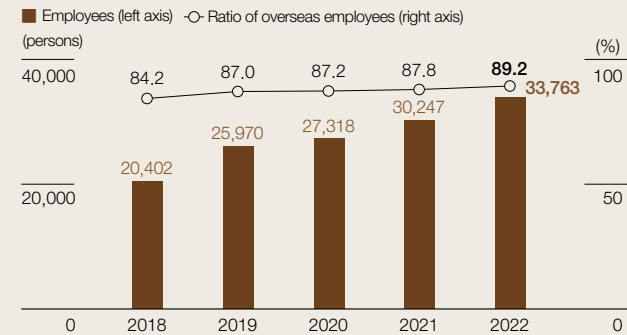
## Value Creation Achievements (Financial and Non-Financial Highlights)

# Non-Financial Highlights

### Human resources/ organizations

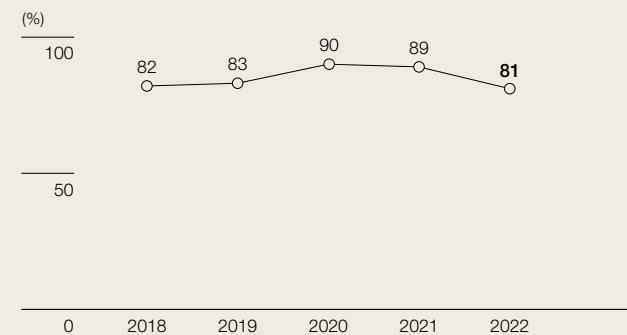


#### Employees / Ratio of overseas employees



The ratio of employees at the Group's overseas operations has been increasing due to aggressive M&A including the acquisition of a paint manufacturer in the U.S. in FY2017, an Australian and a Turkish paint manufacturers in FY2019, the Indonesia business in FY2021, and two European paint manufacturers in FY2022. We are taking actions to further reinforce and increase our human resources for more growth in Asia and Oceania. The ratio of overseas employees has increased by 5.0 pts from 84.2% in FY2018 to 89.2% in FY2022.

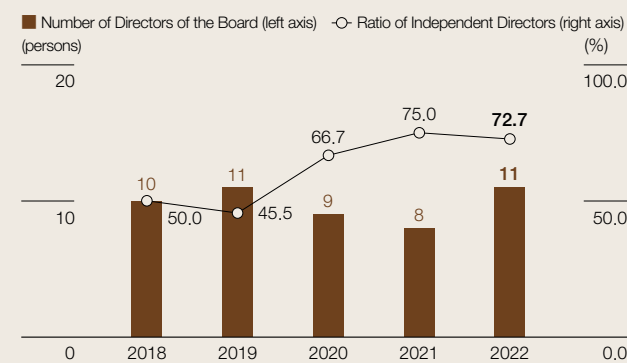
#### Employee satisfaction level (Japan Group)\*



Japan Group's employee satisfaction rose to a record high in FY2020 but declined for two consecutive years in FY2021 and FY2022. With Japan Group pursuing reforms aimed at profitability improvements, employee satisfaction improved in the areas of working hours and use of annual leave but decreased in the areas of sympathy with the Group visions and policies, as well as trust and reassurance in their company of employment, as a result of the implementation of the voluntary early retirement program.

\* Surveys by Nippon Paint Labor Union. ▶ See "Human Resource Strategy" on page 71 for information about employee satisfaction at other partner companies.

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



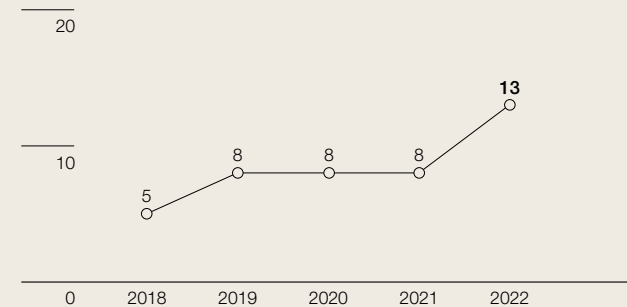
NPHD is building an advanced corporate governance structure based on Asset Assembler model with a focus on medium to long-term growth and protection of the interests of minority shareholders. We transitioned to a Company with Three Committees structure in March 2020. The Lead Independent Director has been serving as Board Chair since FY2021, and eight of the 11 Directors are Independent Directors in FY2022.

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

### Customer base



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



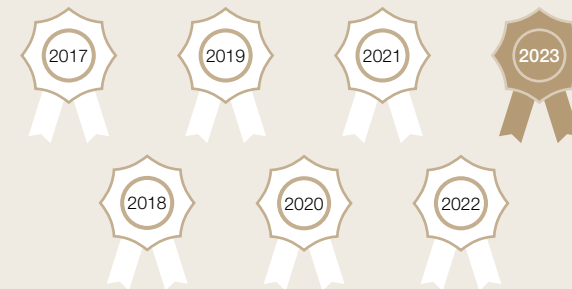
The Group has held the top market position in Japan for many years. The aggressive expansion of the ASEAN business since 1967 has also steadily increased the number of countries and regions where the Group has the largest market share. The acquisitions of Cromology and JUB in FY2022 have added five European countries including Italy and Croatia as markets where the Group has the leading position.

### Brands



#### Awarded the Gold Brand from a brand evaluation institution (China)

##### Award winner for SEVEN consecutive years

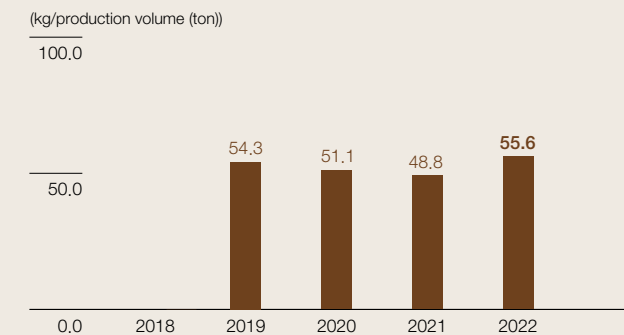


The ongoing sales growth of our high-quality LiBang brand products since we entered the China market in 1992 has made it the top brand in China. The LiBang brand has won the Gold Brand for seven consecutive years in the wall paint category of the C-BPI (China Brand Strength Index).

### Nature/ environment



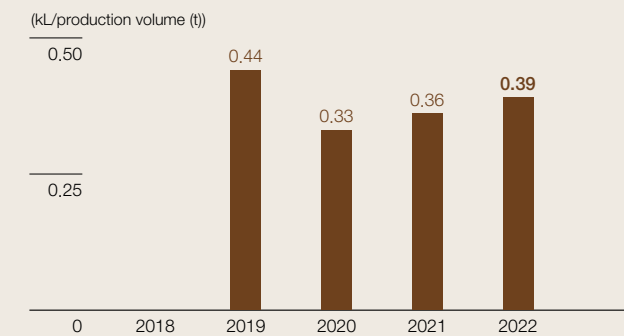
#### Greenhouse gas emissions (Scope 1 and 2) (Global)\*



The Group has set a global-level target to reduce GHG emissions (Scope 1 and 2) by 37% in FY2030 compared to the FY2020 level. To achieve this target, we are taking actions including conducting aggressive energy-saving activities and starting the use of renewable energy. The Group's GHG emissions in FY2022 increased due to changes in production mix in NIPSEA Group.

\* The scope of coverage: Japan Group, NIPSEA Group, DuluxGroup (including Cromology beginning in FY2022 and excluding JUB)

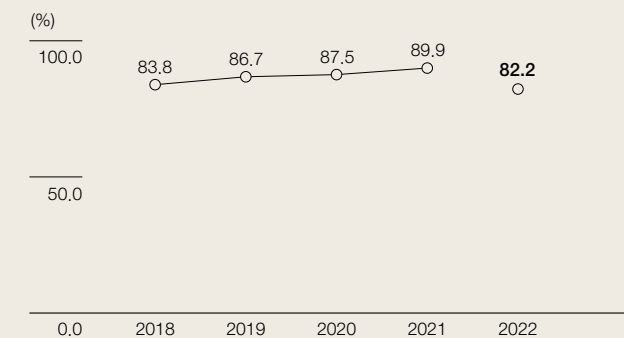
#### Water consumed (Global)\*



The Group identified the efficient use of water as a category of Materiality under Resources and Environment, and is taking actions such as efficiently using water for raw materials as well as reducing water use and using recycled water in manufacturing processes. The water use in the Group increased in FY2021 due to the expansion of the scope of data aggregation (Betek Boya) and in FY2022 due to the DuluxGroup acquisitions of Cromology and JUB, DuluxGroup clean-up of Dulux Rocklea site after major flooding event, and changes in production mix in NIPSEA Group.

\* The scope of coverage: Japan Group, NIPSEA Group, DuluxGroup (including Cromology and JUB beginning in FY2022), Dunn-Edwards (beginning in FY2020)

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



Demand for water-based paints is rising in line with growing environmental awareness and tighter environmental regulations around the world. The Group is using its technological strengths to develop highly competitive water-based paint products globally. The ratio of water-based paints in the decorative paints business is increasing yearly.

\* Figures from FY2018 to FY2021 are calculated as water-based paint shipments divided by total paint shipments in units of 10,000 tons. Figures for FY2022 onwards are calculated as water-based paint shipments divided by total sales volumes in units of tons. The figure for FY2022 decreased due to a change in the definition of data collection, and there is no change in the trend to increase the ratio of water-based paints. Data cover six companies: Nippon Paint (NPTU) and NIPSEA (from FY2016 onwards), Dunn-Edwards (from FY2017 onwards), DuluxGroup (from FY2019 onwards), and Cromology and JUB (from FY2022 onwards)