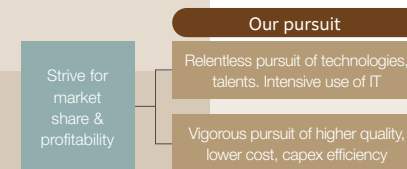


Strategy by Asset

Feature Article (2): High Growth Potential of the China Business

How Shareholder Value Is Maximized

► See page 5.



What are the driving forces that keep NIPSEA in the leading position in the decorative paints market with strong growth potential?

Since its expansion into the Chinese market in 1992, NIPSEA has remained the leading company in the dynamically changing Chinese market. NIPSEA delivered resilient growth despite the challenging business environment during Medium-Term Plan (FY2021-2023) period, serving as the main growth driver of Nippon Paint Group. This section guides the reader through the competitive advantages and growth strategies that will allow the company to remain the leader in the decorative paints market in China with enormous growth opportunities.

Resources built up in China



Pursuing optimization and transformation of organizations

Nippon Paint China focuses on business success and continuously carries out organizational optimization and transformation. Based on the design of front, middle, and back offices, it streamlines and optimizes various business groups and headquarter functions.

Nippon Paint China has established IPMT/PDT organizations to facilitate the management of the entire product lifecycle.



Advanced production system

The new factory construction follows the principles of “smart manufacturing” and “Industry 4.0,” aiming to create a digitally intelligent, green, and environmentally friendly benchmark factory. The fully automated latex paint production line utilizes a closed pipeline system for material transportation, ensuring a fully automated, information-driven, green and eco-friendly, safe, and clean production process.

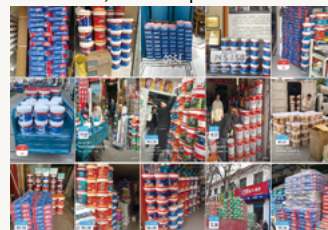
It significantly reduces manual labor, enhances production efficiency, and meets the requirements of Industry 4.0.



Dominant distribution network

In 2023, TUC will continue to expand its distribution network, allocate more manpower, collaborate with distributors, seize high-quality distribution store resources, and simultaneously enhance the quality of distribution stores to increase their affinity.

The number of Distributor Stores nationwide was 154,000 as of end-May 2023, an increase of 51,000 compared to the end of 2022. The number of Exclusive Stores increased by 10,000 to 42,000 during the same period, with over 10,000 equipped with Computerized Color Matching (CCM) machines.



High brand strength

In 1992, NIPSEA officially entered China and has since grown into a renowned brand in the Chinese paint and coatings industry. NIPSEA China has continually been granted numerous brand awards including the China Brand Indexes, which is a testament of the trust and confidence that consumers have in us. We will continue to invest in brand building and reinforcement sparing no expense with a focus on enhancing the visibility and evaluation of the LiBang brand.



Market Overview

The Current Situation in the China Market

The China market offers greater opportunities than advanced markets due to new demand and with market segments created one after another

In the first quarter of 2023, China's GDP grew by 4.5% year on year, surpassing the expected value of 4% and accelerating by 1.6 pp compared to the previous quarter. Consumer confidence gradually recovered, with a year-on-year increase of 10.6% in total retail sales of consumer goods in March.

National fixed-asset investment (excluding rural households) in 2023 1Q reached RMB10.7 trillion, showing 5.1% year-on-year growth, maintaining the same level as the previous year. Infrastructure investment increased by 8.8% year on year, although slightly lower by 0.2% compared to January-February 2022, it still maintained a relatively fast growth rate. High-tech industry investment continued to grow at a high rate, with a year-on-year increase of 15.1%, including 16.2% growth in high-tech manufacturing industry investment.

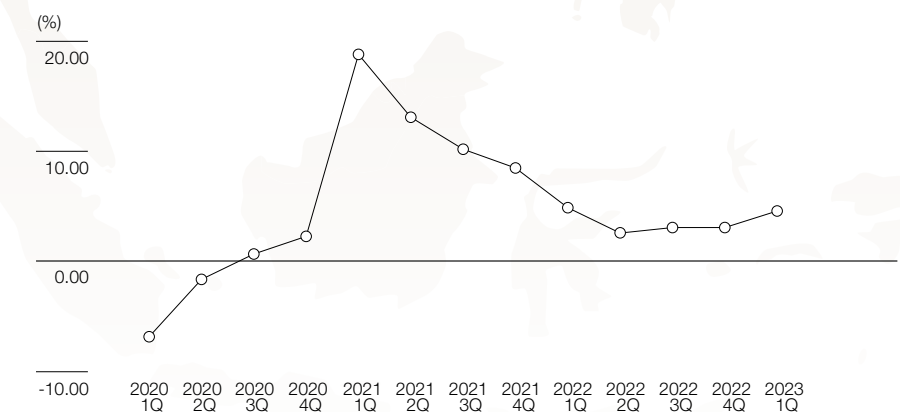
Turning to the conditions in the real estate market, in 2022 China's real estate development investment recorded a year-on-year decline for the first time, with a decrease of 10%. In the first quarter of 2023, the year-on-year trend of decline in real estate development investment continued, although the overall decline narrowed. In terms of sales area of commercial housing, it has been on a downward trend for 16 consecutive months since January 2022. The newly started

construction area has been declining for 22 consecutive months since July 2021. Overall, the momentum for recovery remains insufficient.

Although China's real estate market showed a decline in 2022, the forecasts into 2023 and 2024 are still optimistic. In fact, overseas forecasts institutions have high expectations for

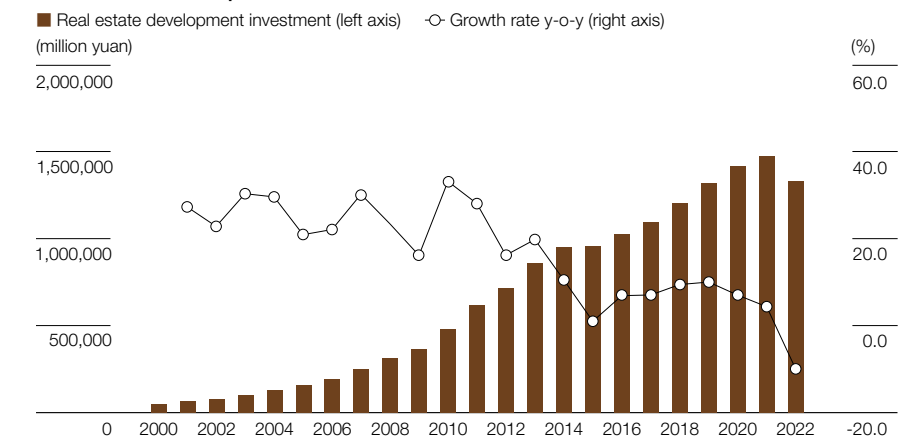
future economic growth potential in China and projects 5% GDP growth rate for both 2023 and 2024.

GDP growth rate



Source: National Bureau of Statistics of China

Real estate development investment



Source: National Bureau of Statistics of China

Strategy by Asset

Rapid expansion of repainting market driven by arrival of stock housing era

In the future, the Chinese real estate market is expected to exhibit the following trends:

1) The real estate market will transition from a period of high demand to a phase of basic supply-demand balance. The era of rapid development will come to an end, and the scale of new housing will gradually reach its peak, marking an overall shift towards the era of stock housing. The seventh national census shows that the number of per capita housing units in China have exceeded 1. In 2022, the population decreased by 850,000 compared to the previous year-end, marking the first population decline in the past 60 years. The number of new urban residents in 2022 was 6.46 million, nearly half of the previous year's increase of 12.03 million, reaching a new low in the

past 42 years. The peak of population growth also signifies the arrival of the era of stock housing in China. After the decline of the real estate dividend, the contribution of new housing to the rapid development of the real estate sector will gradually shift towards the renovation cycle of existing properties. Assuming a renovation cycle of 15 years, it is estimated that by 2030, there will be approximately 9.27 million units of stock housing, accounting for about 49% of total consumption, representing an increase of approximately 28% compared to 2022.

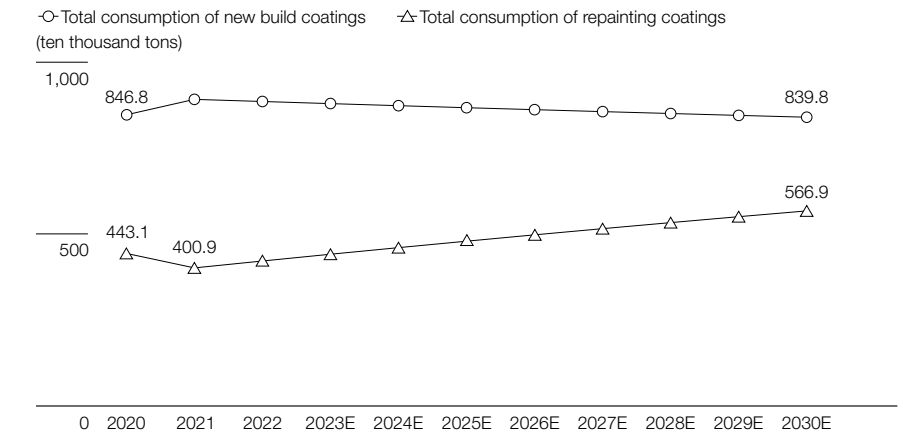
2) The "20th National Congress of the Communist Party of China (二十大) Report" emphasizes the positioning of housing as a place for living, not for speculation. Efforts will be made to accelerate the establishment of a

housing system that features multiple entities supplying housing, multiple channels ensuring affordability, and a balanced approach between renting and purchasing. In the future, the rental market will gradually become an important component of the real estate market, and the "rent before purchasing" model will become a common way of homeownership. Under policy incentives, affordable housing, urban renewal, and the renovation of aged housing estates will experience development opportunities. In terms of urban renewal, it is estimated that during the entire 14th Five-Year Plan period, urban renewal will bring about a cumulative investment of RMB18 trillion, with an average annual investment of RMB3.6 trillion.

The scale of new housing has peaked, and China's real estate market has entered the era of stock housing. According to estimates by domestic securities companies, assuming a decline of around 2% per year in the urban real estate construction and completion area from 2022 to 2030, while maintaining steady growth in other construction areas, and under the assumption of unchanged repainting cycles and repainting ratios, the total demand for architectural coatings is estimated to be around 14.07 million tons by 2030, corresponding to a market space of about RMB123.8 billion. Among them, the demand for new construction and repainting is approximately 8.4 million tons and 5.67 million tons, respectively, with the repainting demand accounting for about 40%, becoming the main driving force

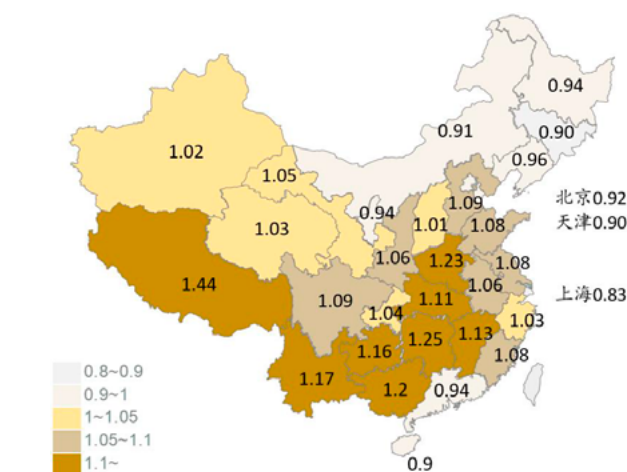
behind the demand for architectural coatings. With the Chinese government's increasing requirements for building usage and comprehensive energy efficiency, the frequency of repainting is expected to increase, leading to further expansion of the overall repainting demand.

Total consumption of new build and repainting coatings



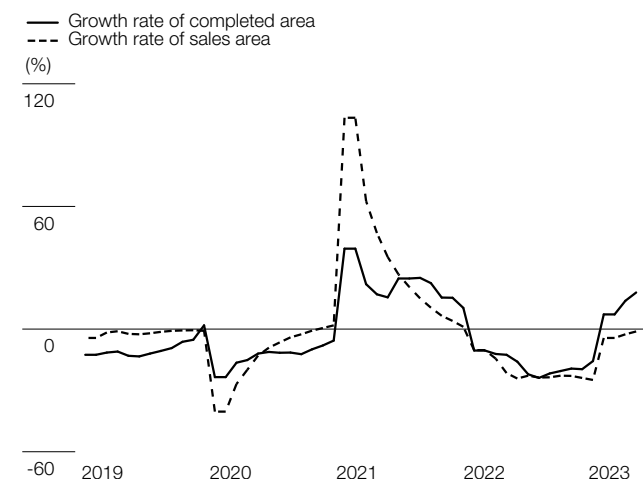
Source: Source: Huaxi Securities "Special Topic on Architectural Coatings 1: Domestic Architectural Coatings Market Exceeds 100 Billion, Repainting Supports Long-term Space Expansion."

The number of per capita housing units in urban areas by province (city) in 2020



Source: Debang Securities "Embracing the Era of Existing Housing: China's Housing Supply and Demand in the Next Ten Years."

Commercial residential building development and sales



Source: National Bureau of Statistics of China

Our Strategy

Growth Strategy to Stay in the Leading Position

TUC (Trade Use Consumer)

Pursuing market share gains in urban areas and rural cities by leveraging brand strength

Overview of the TUC market

TUC covers over 2,000 cities in China, offering a wide range of products for various usage scenarios and consumer segments. The offline distribution channels primarily involve recruiting distributors, expanding distribution stores and exclusive stores, and increasing the deployment of CCM machines. Simultaneously, there is a

focus on accelerating the expansion of business in the public and home decoration sectors to seize market share.

The online channels maintain a continuous presence on mainstream e-commerce platforms such as Tmall, JD.com, and Douyin.

The TUC revenue grew 10% YoY in 2022, continuing on a strong growth track achieved in 2021.



Strategy by Asset

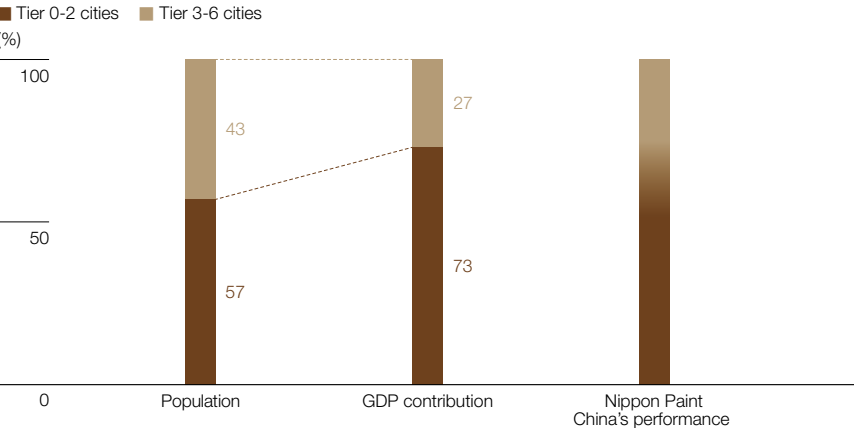
Characteristics and competitive landscape of Tier 0 and Tier 1-2 cities and Nippon Paint China's market position

Tier 0 and Tier 1-2 cities are primarily located in provincial capitals and economically prosperous areas in China. We have a couple of strong competitors in these areas. In Tier 0 and Tier 1-2 cities, Nippon Paint China

assigns at least one representative to each city to assist customers in channel optimization and comprehensive product management, while strengthening the development efforts in the home decoration and commercial decoration markets.

In 2022, Nippon Paint China's market share in the paint segment in Tier 0 and Tier 1-2 cities exceeded 50% (according to the 2022 Consumer UA Survey).

The comparison between urban and regional cities



Source: Company's estimates

TUB (Trade Use Business)

Pursuing market share gains through capturing new demand by considering market conditions and customers' situations

Overview and competitive landscape in the TUB market

We are pursuing more growth in the TUB business based on the six major business scenarios: (1) Multi-scene healthy interior solution; (2) One-stop delivery solution for car park scene; (3) One-stop delivery solution for coating and maintenance materials; (4) Integrated low-carbon prefabricated solution; (5) Industrial building system solution; and (6) One-stop coating solution for urban renewal and transformation. Based on these scenarios, the market capacity of TUB in 2022 reached

Aiming for market share gains in Tier 3-6 cities

Tier 3-6 cities in China mainly refer to towns and county-level areas with relatively lower economic levels. They are primarily targeted by local paint manufacturers and other domestic second-tier brands. To tackle the Tier 3-6 market, the main strategies are as follows:

Channel expansion: Enhance the product line by incorporating existing TUC products and introducing certain regional TUB products.

Organizational and personnel arrangements: Foster collaboration between Nippon Paint personnel and Pioneer; and doubling personnel to ensure comprehensive synergy.

Store expansion in towns: Accelerate market development in rural areas and penetrate the township market.

RMB102.1 bn, with an annual growth rate of about 5%. Our market share of TUB is 8%.

Under the national economic structural adjustment and real estate policy regulation, the capacity of the real estate market is declining. However, commercial and residential real estate still accounts for about 50% of the total market. The government is increasing investment in affordable housing, infrastructure, and industrial sectors outside of real estate. Overall, the total market capacity of TUB remains stable with a slight increase, while the real estate sector is declining, and non-real estate channels are on the rise.

Top 100 real estate developers, represented by Vanke, continue to reduce land acquisitions, resulting in a significant decrease in new construction projects. Construction progress is slow, leading to longer project construction and delivery cycles.

From January to April 2023, national real estate development investment amounted to RMB3.55 trillion, a year-on-year decrease of 6.2%. The newly started construction area was 3.12 million square meters, a year-on-year decrease of 21.2%.

The newly started construction area for residential buildings was 2.29 million square meters, a year-on-year decrease

of 20.6%.

In the field of urban renewal, the market is largely driven by policy orientation, with regional finances playing a major role. The government-led projects have a strong reliance on government relationships (pure relationship-based market). In early 2023, the national government debt ratio was high, resulting in slow progress in the urban renewal market. In terms of market competition, there is a lack of strong brand awareness in this field, and the use of brands is relatively fragmented. The competition focus is concentrated on government-enterprise relationships.

Ensuring the capturing of repainting demand

- **Empowerment tool development**
 - Focus on key scenarios, such as integrated solution packages for the renovation of old communities, integrated solution packages for industrial renovation, and outsourced testing service packages.
- **Build channel competitiveness**
 - Focus on fifteen key cities, develop and promote business models for urban renewal, and launch the "Livability City" brand.

Our actions for TUB

1. Focus on developing six major channel businesses: commercial and residential, affordable housing, industrial, infrastructure, healthcare, and education.
2. Focus on three major business groups: strategic clients, industry clients, and partners.
3. Continuously promote the regionalization of urban operations system.

1. Six major channel businesses:
Commercial and residential: Focus on developing and deepening relationships with high-quality clients, contributing to sales revenue and profit (central state-owned enterprises, top 30 companies, high-quality private enterprises).

Affordable housing: Expand government connections and establish relationships with key agencies in the affordable housing sector; adapt products for the affordable housing channel; develop partnerships in the affordable housing sector.

Non-residential: Target clients in non-residential sectors such as top 500 industrial companies, key listed companies, central state-owned enterprises, urban investment and construction, etc., and establish collaborative partnerships.

2. Three major business groups:
Strategic clients: Aim for a cooperation rate of 65% with central state-owned enterprises clients and 86% with top 30 real estate clients (excluding high-risk clients).

Industry clients: Target the top 500 industrial companies and identify major infrastructure and education projects according to the market map. Promote brand integration with target clients and facilitate project collaboration with industry partners.

Partners: Establish a three-dimensional and diversified partnership system across multiple channels and categories, guided by the market map and urban operations objectives.

3. Regionalized urban operations:

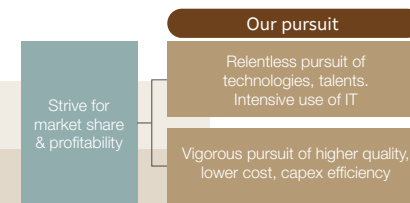
- Conduct in-depth market insights analysis, identify market opportunities, create market maps, and implement targeted strategies. Develop precise and clear targets for cities, channels, and products based on market insights.
- Identify target customers in cities, channels, and product categories according to the market map and develop corresponding partnerships.
- Drive urban operations through project marketing and channel marketing strategies.



Progress of Structural Reforms in Japan Group and Roadmap for Improving Profitability Presented by Co-President Wee

How Shareholder Value Is Maximized

► See page 5.



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

Improving the profitability of Japan Group is one of our highest priorities. Under the leadership of Co-Presidents, we are implementing structural reforms of Japan Group by using unconventional approaches and actions.

In this section, Director, Representative Executive Officer & Co-President Wee Siew Kim explains the progress of structural reforms in Japan Group and the roadmap for improving its profitability.

Progress and achievements of structural reforms

Forging ahead with cost structure reforms in order to regain the operating profit margin achieved during the fiscal year 2017-2018

In the Integrated Report of 2022, I stated that it was the general consensus of our senior Japanese colleagues that *bunshaka* was the root cause of the declining profitability of Japan Group from 2017 onwards. *Bunshaka* split Japan Group along focused business lines of automotive, decorative, industrial, surface treatment and marine, coupled with a trading/procurement unit overseen by an

operating/holding headquarter company. It was an excellent idea. However, *bunshaka* was not implemented with market competitiveness in mind, resulting in a bloated cost structure saddled with duplicative capabilities and cumbersome processes. Inefficiencies and falling profitability precipitated a vicious cycle of business loss and inability to further invest in staff development and aging facilities.

Having agreed on the root problem, the first order of the day was to address these issues while preserving the core ability of the organization to continue to

meet current and future customer needs. Eight task forces were launched to address specific aspects of production, quality, and SG&A elements of the larger PCs (see the table on the right). Early results from the action plans implemented by these eight task forces borne out the belief that when cross-functional task forces of staff from all levels are properly challenged and empowered to solve problems, unencumbered by established constraints, many of the intractable issues can be resolved over time. This also demonstrated that the hidebound hierarchical, top-down

culture that was dominant was also inhibiting the realization of the true potential of our workforce. In parallel, Nippon Paint Corporate Solutions (NPCS) was carved out of NPHD to house the functional competencies that are capable of addressing pan-Japan issues in supply chain, manufacturing facility footprint, talent development, core R&D, financial and audit. Cross Japan initiatives driven by NPCS were envisioned to break through the silos of the operating PCs. In short, NPCS was created to bring out the true effectiveness of focused PCs based on business lines whilst having the ability to deliver cross-Japan efficiencies.

Organizational restructuring inevitably results in many instances of roles being drastically altered or eliminated. To ensure that affected staff are fairly treated, Next Career Plan was implemented such that special early retirement options coupled with next career placement assistance were offered.

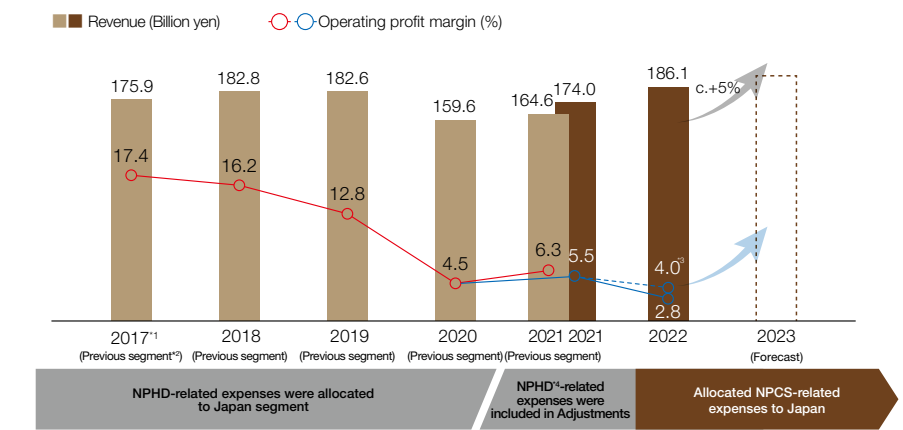
On the business front, besides the key leaders making determined efforts to dig deeper into the cost drivers of their business areas, appropriate

financial information was made accessible to a broader group of people. As a result of the increased accountability and raised awareness, our leaders identified many opportunities for improvement. This was particularly timely when raw material costs escalated sharply in 2022, necessitating both further cost reduction (CR) efforts as well as the gumption to address cost pass throughs with customers with pleas for price

increases. The CR and out-of-cycle price adjustments were in themselves clear indications of mindset changes on the part of our Japanese leaders.

Much remains to be done but the seeds planted in 2022 position us well to take on the challenges of 2023 and continue on our quest to regain the profitability of 2017-18 and thereby contributing to sustainable EPS growth.

Operating performance of the Japan segment



¹ J-GAAP-based figures for 2017 (IFRS-based figures starting with 2018)

² Japan Group included marine business in Japan only under previous segment but also includes overseas marine business under new segment.

³ Excluding special retirement payment of c. JPY2.2 bn

⁴ Including the current NPCS

Eight task forces working to improve the profitability of Japan Group

Theme	Task Force (TF)	Major achievements
Production/Quality	1. NPAU Production TF (Automotive)	<ul style="list-style-type: none"> Reduced cost by increasing the capacity utilization of in-house production factories and improving productivity Streamlined logistics and shipping and reduced storage cost Reduced labor cost by improving the efficiency of back-office operations
	2. NPTU Production TF (Decorative)	<ul style="list-style-type: none"> Completed restructuring and consolidation of production subsidiaries and streamlined management costs Improved human productivity and cost productivity by reforming production and logistics processes Started training core human resources who will perform the next-generation production and logistics functions
	3. NPTU Production TF (Industrial)	<ul style="list-style-type: none"> Started considering productivity improvement of inefficient products based on analysis of production man-hour by product Completed automated data visualization of all expenses incurred at factories Shifted to insource production of contracted products
SG&A	4. NPIU & NPMC SG&A TF (Industrial/Marine)	<ul style="list-style-type: none"> NPIU and NPMC jointly rationalized SG&A expenses NPIU and NPMC jointly rationalized expenses by sharing part of functions of sales and administrative departments Rationalized NPMC's supply chain management cost
	5. NPAU SG&A TF (Automotive)	<ul style="list-style-type: none"> Reduced the ratios of personnel expenses and SG&A by consolidating and streamlining tasks by integrating two or more departments Improved business processes by integrating sales and logistics functions which were separated into production and sales departments Eliminated overlapping tasks with NPCS in the areas including technology, HR, and general affairs
	6. NPTU SG&A TF (Decorative)	<ul style="list-style-type: none"> Strengthened collaboration and improved the efficiency of operations management following the integration and restructuring of affiliated companies Optimized and reallocated the workforce within the group Secured earnings by revising selling prices
Finance	7. BSC TF (Cost Management Enhancement)	<ul style="list-style-type: none"> Visualized the impact of raw material price increases by product using ICT tools Strengthened alignment of budget and standard cost management and reflected the results to each product (responded to changes in management environment, such as increase in utility cost)
Procurement	8. NPMJ TF (Procurement)	<ul style="list-style-type: none"> Reduced procurement risks by visualizing the procurement risk information and information of substitute raw materials Mutually shared product strategy and raw material selection strategy with other partner companies to implement highly effective measures. Contributed to the acceleration of cost reduction activities and earnings growth

Progress of reforms in the marine coatings and automotive coatings businesses

Aiming for growth as a global company through both short-term and long-term actions

The marine coatings and automotive coatings businesses in Japan Group presented themselves as urgent candidates for attention because of the operating losses of both businesses. Both PCs share one common characteristic – customers who are operating globally but supported by Nippon Paint Group without having an adequate global support infrastructure and operating model. Both businesses also needed to simultaneously address domestic costs and inefficiencies issues whilst designing and putting in place the appropriate external wings. Marine and automotive PCs took different paths primarily because their problems were different.

For marine, the domestic cost structure and talent base were addressed with pulling together the resources of both Japan's industrial and marine businesses. Senior industrial leaders from NPIU and business leaders from NIPSEA were coopted to lead the transformation. Careful rebalancing of our product portfolio in Japan, among new-build and maintenance & repair, and among customers, was conducted. The entire product portfolio was also re-assessed with a view of delivering better formulation costs and value propositions. Sharper appreciation of the cost drivers enabled our sales leaders to obtain price increases from domestic customers. We believe the effort of 2022 will give a fighting chance for the domestic Japan marine business to turn a profit in 2023. At the same time,

the global supply chain organization has to be set up from scratch to deliver responsive supply on the back of a network of global supply points for our coatings and sea stocks so as to provide better coverage for our customers. This global network is still a work in progress.

Being a global business, senior marketing staff of NIPSEA worked with Japanese colleagues to bring to life new marketing material and sales tools, together with the confidence to exhibit at international marine shows.

Outside of Japan, the overseas associates were restructured one at a time: merging some as in China, Taiwan, Singapore and Hong Kong; combining them with NIPSEA as in Malaysia, India, Indonesia; and downsizing and refocusing as in Korea.

The outcome is the first operating profitability in many years for the entire marine coating business segment in 2022. This builds the confidence that we can now turn our attention to be a truly global marine organization that aspires to meet the more environmentally exacting standards expected of all coating companies.

The challenges confronting our automotive business were many and daunting. The shrinking share of market and operating loss situation were signs that we have both cost structure and technological issues. The latter was addressed with a restructuring of the entire Technology division with a joint Japan Auto-NIPSEA CTO (in an attempt to leverage NIPSEA resources whenever beneficial for stepping up progress) as well as giving more responsibilities to

younger and energetic Japanese leaders who are unconstrained by the past. The result of the transformation in the technology division is particularly comforting in that Nippon Paint Group is now leading the field in the campaign for the next generation of carbon neutral requirements of one particularly important auto OEM customer.

Although initial attention was focused on the technology side because of the recognition that we are falling behind our key competitors in this aspect, it was also recognized that we have to develop a whole new integrated sales-technical approach to the customer. Customer centricity was emphasized as we gave more accountability to sales leaders to ensure that in the new product design process (named DR +), sales leaders hold full accountability for target market costs and product specifications.

Task forces in production/quality and SG&A in automotive PC attempted to derive efficiencies from a hitherto disparate collections of operating sites and offices. The intent is to bring together everyone to operate as one company and not as a hodgepodge of distinct divisions and sites. Additionally, we hope to see even better synergies as we cross-deploy talent from other PCs into our automotive production sites.

A much reduced operating loss was all that we can show in 2022. Nonetheless, even saddled with the pressure of increasing investments in new infrastructure and facilities, business costs in the globalization of our film business, as well as, disruptions as we rejuvenate the auto parts business, Auto PC is well positioned to return to profitability in 2023.

Our path for reforming our culture and the mindset of our employees

Providing true value to customers by embracing the J-LFG culture

Japan Group has long-standing traditions and a justifiably proud history. In order to keep pace with a rapidly transforming business landscape and pick ourselves up from the stupor of recent years,

adjustments have to be made to our approach to work. The Japan-Lean for Growth (J-LFG) program was introduced. J-LFG is a cultural transformation initiative that aims to energize the entire workforce and promote a proactive approach to business with desired workplace behaviors. It encourages our

people to adopt a different mindset about growth, pace and efficiency. This J-LFG program was developed with inputs from a broad spectrum of our Japanese leaders and staff.

J-LFG is not solely about cost cutting which is a distinct departure from the singular focus of Survival Challenge.

On the contrary, it embodies strongly the element of investment for growth. Coupled with the prerequisite of Leanness, which conjures the image of a muscular lean body that is fit for agility and growth, it draws upon the energies of the entire body of staff with the firm belief that everyone, at every level in the organization can do his or her part in

contributing to leanness – eliminating waste and friction to free up the resources to chase growth.

▶ See "Embracing Transformation and Changing Work Style" on page 95.

I felt that many of our colleagues have begun to appreciate the significance of this program based on the feedback and

observed anecdotal descriptions of J-LFG in practice in our workplaces. Cultural entrenchment takes time, and together we will persevere towards this lean and growth DNA. It is this cultural differentiation that we will bring to the marketplace as a competitive advantage.

Developing leaders who can contribute to continuous EPS growth

Acting with courage by going beyond conventional ways of thinking in Japan

Building upon the J-LFG culture, sustainable and continuous EPS growth necessitates that we continually outwit the competition and deliver fresh attractive value propositions to the market. This requires an open mindedness to adopt and adapt ideas, innovations and practices different from the conventional. We have a rich pool to dip into as Nippon Paint Group's diverse field of partner companies across the world offer up an extensive array of ideas and innovations. It must be recognized that the willingness to challenge the status quo and encouragement of contributory

dissent are not exactly behavioral traits of our workforce, leadership or even society. To change requires courage. Courage is required of our leaders. In order to reset the default risk averse attitude, it falls upon the shoulders of our senior leaders to create an environment where sensible, calculated risk taking is allowed and encouraged. Our employees must comfortably enjoy a level of psychological safety that free up any inhibitions. As we continue to demonstrate that we really mean what we say, and continuously listen and pay attention to the views of our staff from all levels, one day this will firmly take root. In time to come, as we continue to groom our young leaders in this mould, a wolf-like entrepreneurial spirit will

infuse our organization such that the collective insatiable appetite of the entire workforce will propel us forward. Then, we would be unstoppable. Leaders must set the example. Leaderships must create the environment. It will take time for many of our colleagues to firmly believe that things are changing. In the meantime, we put in place the training and exposure for our people. In the past year, talent development, grooming initiatives and performance/behavioral-based incentives have been put in place as NPCS HR are realigned with PC HR to drive a multi-year effort in order that we take the tentative steps to groom our future workforce.

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	Be prepared, be responsive, ever ready
Insatiable appetite	Hunger for more	Be ambitious, eliminate complacency
Teamwork	Work as one	Be strong together, be collaborative, no silos
Agility	Sense & respond fast	Be nimble, outwit the competition
Leanness	Back to basics	Be value-driven, be tenacious, make every bite count
Stamina	Can't stop, won't stop	Be relentless, be resilient, unending quest

Positioning of J-LFG



Strategy by Asset

Embracing transformation and changing work styles —our path to improving EPS to contribute to MSV—

Altering mindsets by transforming how tasks are performed and organizations

Japan Group is dedicated to contributing to MSV by increasing EPS through productivity improvements. For this purpose, we are embracing the transformation of organizations and human resources management, fundamentally reviewing the organizations and how tasks are performed, and altering the mindset of every employee.

For instance, Japan Group adopted a Japanese LFG (Lean For Growth; J-LFG) in the early FY2021 that provides the action guidelines and mindset changes for the future based on the LFG culture of NIPSEA Group. After that, we have been using meetings and management communications at offices and factories in order to deepen employees' understanding of J-LFG. We also used many activities to identify inefficient tasks and processes and eliminated some of them where it was appropriate (Lean). Resources made available as a result of these activities are used for measures that contribute to our future growth (Growth), such as developing products that meet customers' needs, improving service quality, and

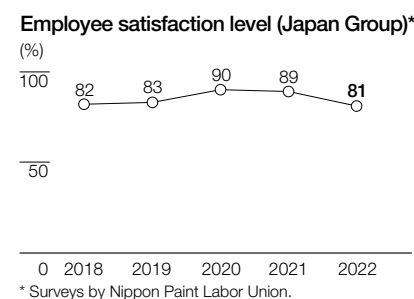
increasing the skills of employees. In addition, we launched the J-LFG Awards program for recognizing teams and individuals that contributed to the growth of businesses and organizations by implementing J-LFG. In these ways, we are building a culture where people recognize and praise each other's skills and accomplishments as they share information about successful initiatives within Japan Group. (See the next page.)

In addition, to improve EPS, Japan Group is taking actions for transforming how tasks are performed and organizations (See the chart below.) For instance, we are transforming our organizational structure to create a powerful framework for growth, efficiency, and productivity. We also implemented the Next Career Plan voluntary early retirement program to allow employees to pursue new career goals.

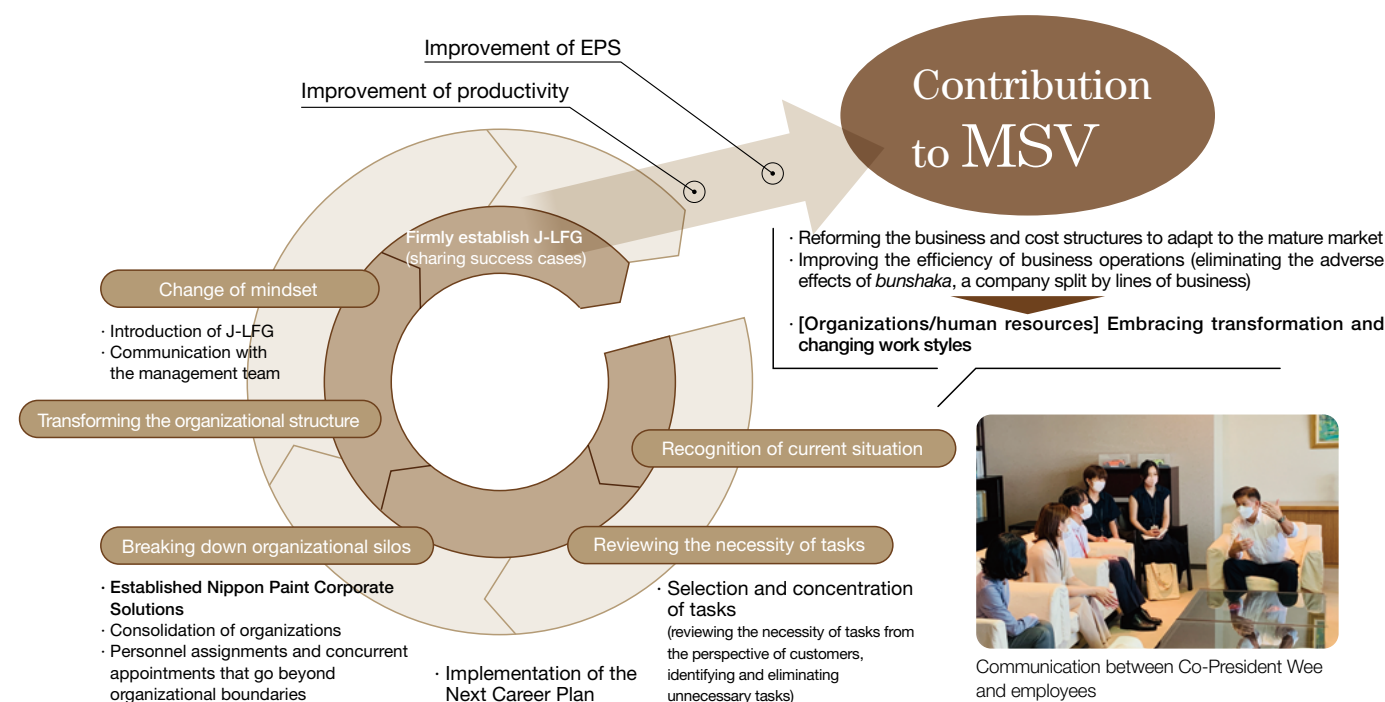
Enhancing communication with priority on the effects of transformations

Japan Group is improving employee engagement while paying attention to the effects of transformations too.

According to the survey conducted by Nippon Paint Labor Union at the end of FY2022, employee satisfaction declined to 81%, decreasing for the second consecutive year. In response to this survey, we are taking actions such as providing workplaces where people can realize their full potential and designing a compensation structure that rewards excellent work. At the same time, we are reexamining our organization with the goal of increasing motivation. In addition, activities are underway to enhance communications, such as through messages from Co-Presidents and other senior executives whenever appropriate and management communications at partner companies.



Actions/initiatives for improving EPS



J-LFG Awards for recognizing teams and individuals that contributed to business and organizational growth by practicing J-LFG

J-LFG Awards acknowledge teams and individuals advancing business and organizational growth through J-LFG practices. This program encompasses teams and individuals across all divisions and job categories, spanning production, sales, research and development, as well as planning and administration. Employees in Japan Group, including those affiliated with sub-subsidiaries of Nippon Paint Group, have the opportunity to seek recognition for the award through either self-nomination or nomination by their peers. A panel selects the winners by evaluating their accomplishments and evaluating their commitment to embodying the principles of J-LFG and VITALS. (See page 94.)

Overview of the J-LFG Awards

[Purpose]

Commending and awarding teams and individuals that contributed to organizations and inspired others by practicing J-LFG and VITALS.

[Schedule]

Application period: October 3 to November 4, 2022
Judging period: Early November to late December 2022
Notification of results: Team Award
Early December 2022: Notification of primary results
Late December 2022: Notification of final results
Individual Award
Early December 2022: Notification of selections
Award presentation: January 5, 2023



Award winners at the awards ceremony



J-LFG Excellence Award: Team Award

Award received	Company	Department	Award-winning theme
Gold Award	NPIU	Procurement Technology Department, Technology Division	An Efficient Raw Material Management System to Ensure a Stable and Cost-Effective Procurement of Materials
Silver Award	NPMC	Project True GSCM at GSCM Division	Optimizing Marine Supply Chain Structures for Cost Reduction
Bronze Award	NPAC	Project X Low-VOC2K Clear Team	Developing and Introducing Eco-Friendly Low VOC Clear O-4100
Bronze Award	NPSU	Joint team for technology, production, and procurement	Commencing the Use of Recycled Raw Materials to Increase Profitability and Uphold an ESG-Focused Approach to Management
Encouragement Award	NPCS	Japan Group Life Cycle Assessment - Working Group	Implementation of an LCA Calculation Method Across Japan Group
Encouragement Award	NPCS	Legal Department	Providing Worksite-Oriented Legal Services Beyond PC and Department Boundaries

Feedback from Award Winners



Gold Award

Akihiro Sawaguchi

The Spokesperson for the Award Winners

The theme of the project is to develop an ICT tool that facilitates stable raw material procurement at reduced costs, enabling Nippon Paint Group to maximize growth and profitability, irrespective of the business environment. We used ICT tools to centralize information about raw materials and products, which had previously been unevenly accessible and only to designated individuals. Centralizing this information allows for swift and effortless reviews and approvals from various angles, encompassing all functions, including procurement operations, even in

emergency situations. The outcome is a framework designed to enhance profitability promptly by utilizing substitute raw materials. At the core of this framework lies an analysis that involves comprehensive comparisons between the standard and actual prices of substitute raw materials in relation to the price of the materials currently in use. We intend to leverage this tool to overhaul our business processes by engaging multiple departments in partner companies and our key suppliers.



The Co-President Award*

Yasufumi Suzuki

The Spokesperson for the Award Winners

Initially, we contemplated the essential requirements for leveraging J-LFG to foster growth and enhance value of Nippon Paint Group. Our conclusion emphasized the pivotal importance of instilling a collective awareness among all employees, encouraging them to recognize the significance of J-LFG and translate this understanding into action. The "recognition and understanding" phase plays a critical role in expeditiously integrating J-LFG within the group. Therefore, we undertook a multitude of initiatives, including the creation of awareness posters, dissemination of messages from the management, and organization of briefings for department heads. We are confident that

these initiatives have enhanced employees' comprehension of J-LFG and VITALS, resulting in record high number of entries for the J-LFG Awards.

We have initiated fresh endeavors aimed at raising awareness of J-LFG, with a particular emphasis on not just increasing the quantity of entries for the J-LFG Awards, but also enhancing the quality and diversity of themes submitted. Our commitment remains steadfast in nurturing a new culture in NPTU Group. We aspire to achieve this through activities that promote a sound understanding of J-LFG and inspire individuals to embody this culture in their conduct.

* The special award created by Co-Presidents to recognize the initiatives of NPTU Group as a whole