Chapter 02

Our Business Model

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Our Business Model: Asset Assembler

As a unique Japan-based global company with MSV as its sole mission, we will relentlessly pursue growth using Asset Assembler model. Through the expansion of our existing businesses and aggressive M&A, we will build up assets with strong brands and excellent management teams, effectuating accelerated growth with limited risk.

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

Based on Asset Assembler model, the excellent management teams in each region will pursue autonomous growth in our existing businesses by creating synergies through the proactive sharing of technical capability, distribution networks, purchasing capability, market expertise, and brands within the Group.

At the same time, we will aggressively execute M&As, thereby boosting our performance and building up newly acquired brands and human resources, which we will leverage within the Group to achieve further growth.

For more information about individual assets, see “Assets Essential for Our Business Model” on page 39.
The five strengths underpinning our Asset Assembler model

Using Asset Assembler model and drawing on our five strengths, which are the enablers of medium- and long-term growth, we will pursue continuous earnings growth with limited risk with the goal of achieving MSV.

1 Focused on paint and adjacencies with significant market opportunities

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

Global paint demand*1,2

<table>
<thead>
<tr>
<th>Region</th>
<th>2019-2024 CAGR</th>
<th>Total Demand (bn)</th>
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</thead>
<tbody>
<tr>
<td>Africa</td>
<td>5.0%</td>
<td>74.0</td>
</tr>
<tr>
<td>Europe</td>
<td>4.2%</td>
<td>141.0</td>
</tr>
<tr>
<td>Japan</td>
<td>3.5%</td>
<td>165.0</td>
</tr>
<tr>
<td>Global</td>
<td>4.0%</td>
<td>202.0</td>
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</table>

*1 Source: JGBC & Global Market Analysis by Forgan & Partners
*2 Source: PwC & Global Market Analysis by Forgan & Partners

2 Attractive risk-return profile of paint and adjacencies arena

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

3 An assembly of talented management and strong brands

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

4 Japan domicile enhanced competitive strengths

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

5 Advanced governance

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

Six categories of capital

<table>
<thead>
<tr>
<th>Human capital</th>
<th>Manufactured capital</th>
<th>Social and relationship capital</th>
<th>Intellectual capital</th>
<th>Financial capital</th>
<th>Natural capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources/organizations</td>
<td>Technologies</td>
<td>External partners</td>
<td>Customer base</td>
<td>Brands</td>
<td>Financial base</td>
</tr>
</tbody>
</table>

Importance of assets from the perspective of Asset Asssembler model

- Shares human resources and strong organizational capabilities that enable us to accurately recognize social issues and customer needs and promptly provide effective solutions are essential in the paint market, which is characterized by local production for local consumption as well as a wide variety of uses.

Examples of assets

- The Group’s human resources who are well-informed about their local markets (DSI countires: 30,274 employees; ratio of overseas employees: 63.1%)
- Active Diversity & Inclusion initiatives (302 women, 45% employee: 25.9%, 25% of employees in management posts: 23.5%)
- High level of employee satisfaction (March: 396, DuluxGroup: 87%)
- Local management teams who have a deep understanding of both market features in their respective regions and of MSD
- Group partner companies around the world with unique corporate culture and expertise, as well as a strong market presence (RIPSEA Group, DuluxGroup, etc.)

Utilization of assets based on autonomous and decentralized management, creation of autonomous synergies, and sharing of management (case studies)

- Sharing success cases and expertise of Group partner companies around the world, such as Wuthelam and DuluxGroup’s measures to boost market share through a “Wherever we are, consistent commitment to achieve appropriate human resource allocation and more sophisticated organizational structure and management
- Sharing technology through interaction among engineers of the technology division, R&D personnel and Group partner companies around the world
- Sharing global state-of-the-art production technologies and experiences
- Sharing technology and products developed in Japan through the Group's local presence, respecting local agreement among the Group and development of sales and distribution systems
- Sharing strength with having Wuthelam Group or additional expenses and investments required to form the Group and automotive business and the India business

Particularly relevant materiality

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

Major recent external evaluations

- Selected as a constituent of the MSCI Japan Empowering Women Index (WIN) for the third consecutive year (June 2022)
- Selected as a constituent of the MSCI Japan ESG Select Indices (May 2022)
- Selected as a constituent of the FTSE Blossom Japan Sector Relative Index (April 2022)
- Selected for the first time as a constituent of the FTSE4Good Index Series (April 2022)
- Selected as a constituent of the FTSE4Good Index Series and FTSE4Good Japan Index (June 2020)
- Selected as a constituent of the S&P/JPX Carbon Efficient Index (Japan) (April 2022)
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Financial and non-financial assets essential for Asset Asssembler model

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Materiality Supporting Our Business Model

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

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

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

The materiality identification process

We identified materiality by creating a list of material issues which society requires us to address. This process included international ESG guidelines such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) as well as items required by ESG research organizations. We then performed a quantitative evaluation of the issues and verified their significance from two perspectives: the level of importance to stakeholders and the level of importance to Nippon Paint Group’s businesses. In addition, we used external experts to receive objective viewpoints and held discussions with our partner companies around the world to identify material issues associated with our business model and the business environment. These issues were then designated as our materiality.

For more information about our framework for sustainability initiatives and the identification of EKIs, see “Sustainability Strategy” on page 77.

Materiality Relevant SDGs

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Climate change

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

Resources and environment

Effective use of resources such as water, energy, and raw materials, and prevention of environmental pollution are important matters for sustainable business. We will advance these efforts throughout life cycle of products.

Safe people and operations

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

Diversity & Inclusion

Respect for the people around us and active acceptance of diverse values are important for our sustainable growth. We place great importance on the diversity of employees and other people involved in the business and respect human rights.

Growth with communities

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

Innovation for a sustainable future

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

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