

02

Chapter

Our Business Model

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PHOTO
Singapore / Singapore Sports Hub



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

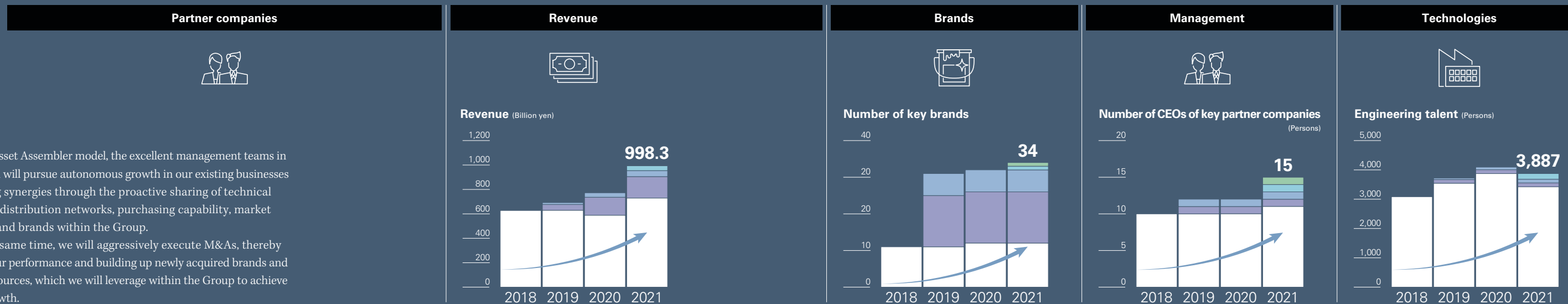
As a unique Japan-based global company with MSV as its sole mission, we will relentlessly pursue growth using Asset Assembler model. Through the expansion of our existing businesses and aggressive M&A, we will build up assets with strong brands and excellent management teams, effectuating accelerated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

*1 On a segment basis (after elimination of intersegment transactions and after PPA)
 *2 Vital Technical's revenue represents its nine months of revenue; Exchange rate: MYR 1=JPY 26.61
 *3 Exchange rate: EUR 1=JPY 132.79; Pro forma figures
 *4 Exchange rate: EUR 1=JPY 135.19



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.

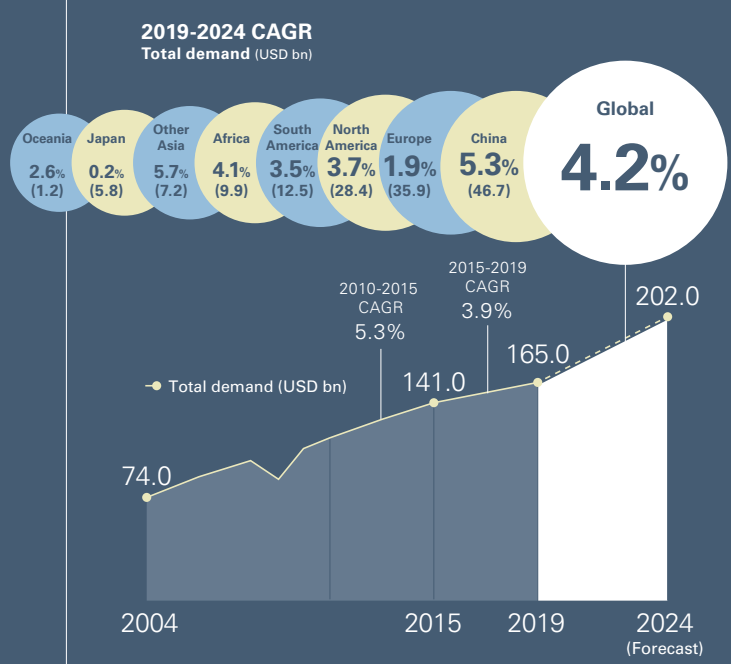
- Message from Management
- Our Business Model
- Our Medium- and Long-Term Management Strategy
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- Financial and Corporate Information



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



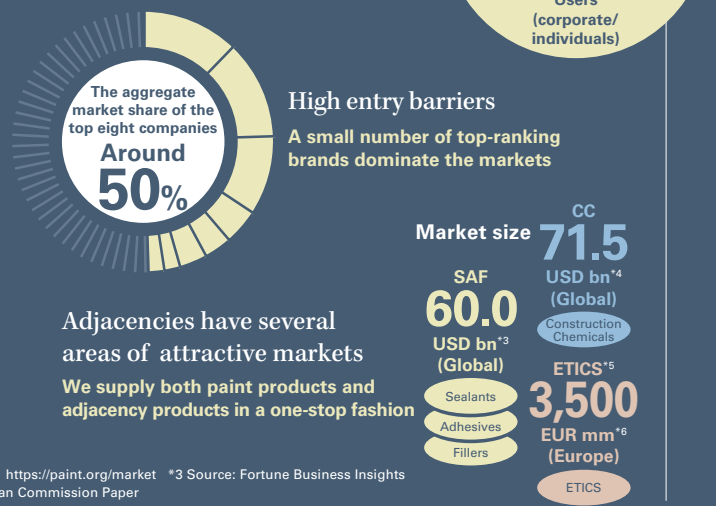
*1 Country/region total figures are market growth forecasts in 2019.
 *2 Source: ACA-published Global Market Analysis for the Paint & Coatings Industry (2019-2024) <https://paint.org/market>
 *3 Source: Fortune Business Insights
 *4 Source: ReportLinker *5 External Thermal Insulation Composite System *6 Source: European Commission Paper

2 Attractive risk-return profile of paint and adjacencies arena

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

Characteristics of the paint and adjacencies businesses

Businesses characterized by local production for local consumption
 Customer needs differ across countries and regions



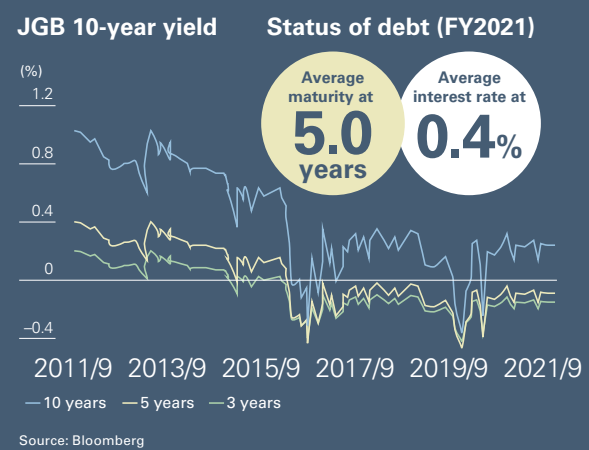
3 An assembly of talented management and strong brands

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.

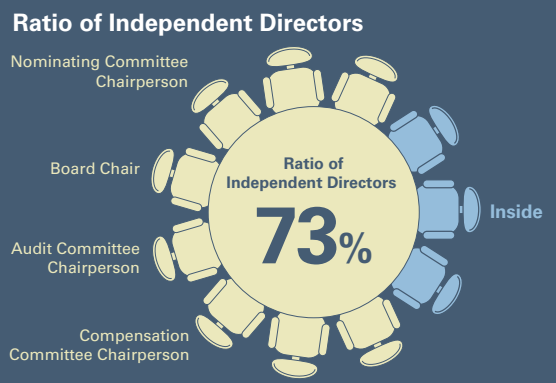
4 Japan domicile enhanced competitive strengths

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 with our major shareholder the achievement of MSV as the top decision criteria, ensuring the protection of the interests of minority shareholders. This constitutes a unique strength in our governance.



Financial and non-financial assets essential for Asset Assembler model

Six categories of capital	Human capital	Manufactured capital	Social and relationship capital	Intellectual capital	Financial capital	Natural capital	
Financial and non-financial assets essential for Asset Assembler model  Human resources/ organizations  Technologies  External partners  Customer base  Brands  Financial base  Nature/environment	<ul style="list-style-type: none"> Diverse 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 	<ul style="list-style-type: none"> Advanced technologies are essential to create innovations that solve social issues and meet customer needs and to enhance our competitive advantage, such as to enable stable product supply 	<ul style="list-style-type: none"> 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 innovation for a sustainable future 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Achieving sustainable growth requires abundant funds to continue investing in M&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 	
Importance of assets from the perspective of Asset Assembler model	<ul style="list-style-type: none"> Diverse 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 	<ul style="list-style-type: none"> Advanced technologies are essential to create innovations that solve social issues and meet customer needs and to enhance our competitive advantage, such as to enable stable product supply 	<ul style="list-style-type: none"> 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 innovation for a sustainable future 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Achieving sustainable growth requires abundant funds to continue investing in M&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 	
Examples of assets	<ul style="list-style-type: none"> The Group's human resources who are well informed about their local markets (30 countries/regions: 30,274 employees; ratio of overseas employees: 89.1%) Active Diversity & Inclusion initiatives (global percentage of female employees: 25.9%, global percentage of women in management posts: 23.0%) High level of employee satisfaction (Japan Group: 89%; DuluxGroup: 80%) Local management teams who have a deep understanding both of market features in their respective regions and of MSV Group partner companies around the world with unique corporate culture and expertise, as well as a strong market presence (NIPSEA Group, DuluxGroup, etc.) 	<ul style="list-style-type: none"> Global engineering talent who are innovation enablers (3,887 persons in total) Core technologies, including paint, material synthesis and dispersion, and interface and surface technologies Ability to develop 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.) World-leading production systems, such as those incorporating factory automation (China, Australia, etc.) 	<ul style="list-style-type: none"> Active open innovation activities with universities (The University of Tokyo and others), research institutions, and other academic institutions Joint development with automobile manufacturers (Toyota Motor Corporation, etc.) applying automotive painting technologies Engagement with investors and other stakeholders ▶ See page 109. Our 60-plus-year partnership with Wuthelam Group 	<ul style="list-style-type: none"> Extensive distribution channels supporting the growth of the Chinese decorative paints business (58,000 stores) Strategic partnerships with leading Chinese real estate developers Stable long-term relationships with leading automobile manufacturers and automotive parts manufacturers in Japan, the US, and Europe Strong relationship of trust with customers enabling a high market share worldwide in the B2B businesses, such as industrial coatings and adjacencies businesses 	<ul style="list-style-type: none"> The Nippon Paint brand is proof of technological capabilities and high quality (Global) High brand awareness for the LiBang brand (China) High consumer rating as "top of mind" for decorative paints products in Indonesia DuluxGroup boasts outstanding consumer awareness of its brands, such as Dulux and Selleys (Australia) Conducting the international AYDA Awards competition for architectural and interior design students in 16 countries and regions with a total of more than 47,000 entries to date 	<ul style="list-style-type: none"> Fully leveraging Japan's stable currency and financial markets to secure financing Paint business has low capital expenditure requirements and high cash flow generation (operating cash flow: ¥70.2 bn (continued operations basis)) Establishing a solid financial base by integrating the Asian operations (net debt to equity ratio: 0.45x, total equity: ¥968.7 bn) ▶ See page 55. 	<ul style="list-style-type: none"> Reduced energy consumption as part of global warming initiatives Advanced production systems that reduce environmental footprint (US, Australia, China, etc.) Controlled water usage through proper management following voluntary standards Responsible care activities for proper management of chemical substances (Japan, etc.) Reducing environmental impact by developing highly competitive products, such as water-based and antifouling paints and heat shield coatings
Utilization of assets based on autonomous and decentralized management, creation of autonomous synergies, and sophistication of management (case studies)	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Sharing technology through interaction among engineers of the technology and research divisions of Group partner companies around the world Sharing global state-of-the-art production technologies and expertise 	<ul style="list-style-type: none"> Sharing technologies and products developed in Japan through the industry-academia co-creation agreement among the Group and deploying them globally Diversifying 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 119. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Deploying the Nippon Paint brand overseas, which is proof of technological capabilities and high quality Sharing products with high brand awareness among the Group and deploying them globally (such as deploying Australian Selleys brand products in Asia) 	<ul style="list-style-type: none"> Securing global business growth by actively investing in M&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 47. 	
Particularly relevant materiality ▶ For more information about Materiality, see page 41.	<ul style="list-style-type: none"> Diversity & Inclusion Safe people and operations 	<ul style="list-style-type: none"> Climate change Resources and environment Innovation for a sustainable future 	<ul style="list-style-type: none"> Climate change Resources and environment Safe people and operations Growth with communities Innovation for a sustainable future 	<ul style="list-style-type: none"> Climate change Resources and environment Safe people and operations Growth with communities Innovation for a sustainable future 	<ul style="list-style-type: none"> Resources and environment Safe people and operations Growth with communities Innovation for a sustainable future 	<ul style="list-style-type: none"> Climate change Resources and environment Growth with communities Innovation for a sustainable future 	
Major recent external evaluations	<ul style="list-style-type: none"> Selected as a constituent of the MSCI Japan Empowering Women Index (WIN) for the third consecutive year (June 2022) 	<ul style="list-style-type: none"> Received the GREEN4SEA Technology Award (April 2021) for AQUATERRAS antifouling paint Received the Environmental Technology Award 2020 for technology to develop high-durability heat shield coating for road surfaces (May 2021) Received the Grand Prize in the renovation category of the 24th Good Painting Color (GPC) Environment Color Competition (January 2022) 	<ul style="list-style-type: none"> Awarded the Special Excellence Award (Quality Management) from Toyota Housing Corporation for 11 consecutive years (April 2022) 	<ul style="list-style-type: none"> Selected as the No. 1 paint brand by the top 500 Chinese real estate developers for 11 consecutive years (March 2022) Selected as a leading company in the paint industry/paint applicator industry and as consumers' favorite paint brand/paint applicator brand in "2022 Survey of Chinese Home Furniture Consumption Trends and Survey of Industry Leading Companies" (March 2022) Selected for the China Building Materials Association's Floor Coating Industry Chapter (CFA) "Chinese Floor Coating Industry Top 20 Brand Annual Award" for two consecutive years (March 2022) 	<ul style="list-style-type: none"> Awarded the Gold Brand in the China Brand Index (C-NPS) (January 2022) Selected as No. 1 wall paint brand for six consecutive years and as No. 1 wood paint brand for 10 consecutive years in the China Brand Index (C-BPI) (March 2022) Several DuluxGroup brands recognized as Australia's Most Trusted Brands (April 2022) Nippon Paint China was selected for the first time among Brand Finance's Top 10 Most Valuable Paint Brands in the World (second place) (June 2022) 	<ul style="list-style-type: none"> R&I rating: A (as of June 2022) Selected as a constituent of the JPX-Nikkei Index 400 for nine consecutive years (August 2022) 	

Materiality supporting Asset Assembler model

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

Nippon Paint Holdings is pursuing MSV as its sole mission and believes, first and foremost, that the fulfillment of obligations to customers, suppliers, employees, society, and others is the major premise for accomplishing 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

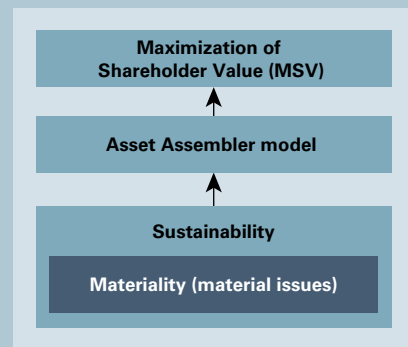
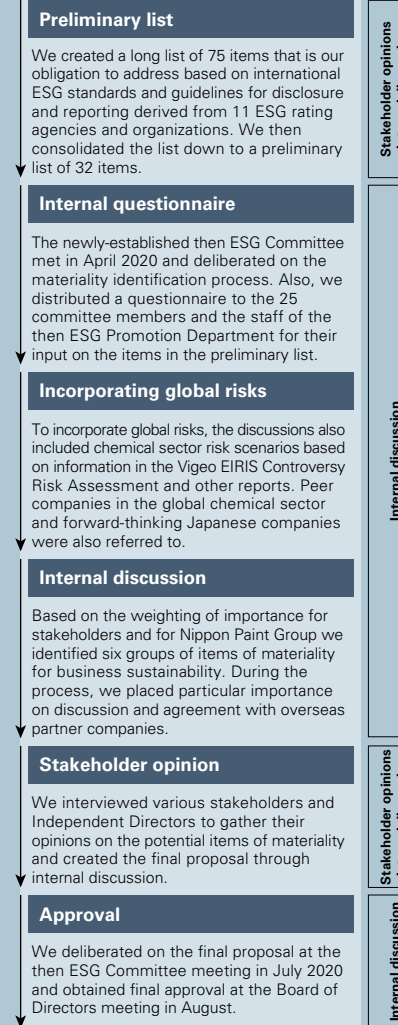
Assembler model, we are linking these initiatives to the creation of innovations that support the growth of existing businesses. We believe that these initiatives to achieve MSV will result in revenue growth and higher expectations for our value (maximization of EPS/PER).

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 KPIs, see "Sustainability Strategy" on page 77.

























Materiality identification process



Materiality map



Materiality	Relevant SDGs	Explanation of materiality
Climate change	7 AFFORDABLE AND CLEAN ENERGY, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 13 CLIMATE ACTION	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	3 GOOD HEALTH AND WELL-BEING, 6 CLEAN WATER AND SANITATION, 11 SUSTAINABLE CITIES AND COMMUNITIES, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 14 LIFE BELOW WATER	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	3 GOOD HEALTH AND WELL-BEING, 4 QUALITY EDUCATION, 8 DECENT WORK AND ECONOMIC GROWTH	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	4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES	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	1 NO POVERTY, 4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	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	3 GOOD HEALTH AND WELL-BEING, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 17 PARTNERSHIPS FOR THE GOALS	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	Relevant SDGs	Risks	Opportunities	ESG agenda	ESG action examples	Achievements in FY2021-2022
Climate change	  	<ul style="list-style-type: none"> Enforcement/change of policies and legal regulations such as introduction of a carbon tax Impact on production and shipment from extreme weather, such as typhoons and heavy rainfalls, that are becoming increasingly common in recent years Changes in customer behavior toward transition to a decarbonized society 	<ul style="list-style-type: none"> Expansion of the market for environmental products, such as products contributing to decarbonization Development of new businesses through research and development 	<ul style="list-style-type: none"> Reduction of greenhouse gas (GHG) emissions Identification of risks and opportunities 	<ul style="list-style-type: none"> CO₂ reduction (Scope 1&2) Calculation of Scope 3 emissions Disclosure based on TCFD Utilization of renewable energy 	<ul style="list-style-type: none"> Expressed support for the TCFD recommendations (final report) and took actions to enhance climate related measures and information disclosure Identified important climate related risks and opportunities in terms of Group strategy and estimated their financial impacts Group partner companies developed CO₂ emissions reduction targets to contribute to achieving the net zero targets set by the government of each country Calculated Scope 3 emissions in Australia, in addition to Japan, expanding the scope of Scope 3 emissions calculation globally Reduced GHG emissions by 8% and energy consumption by 14% globally (FY2021) For more information, see "Environment & Safety" on page 79.
Resources and environment	    	<ul style="list-style-type: none"> Impact on business activities from depletion of energy and water resources Tightening of regulations on wastes and increase of waste disposal cost Changes in customer needs related to raw materials 	<ul style="list-style-type: none"> Expansion of the market for environmental products Enhanced competitiveness by advancing recycling technologies, improving resource efficiency, and utilizing diverse raw materials 	<ul style="list-style-type: none"> Management of waste, water resource consumption, and environmental pollutants 	<ul style="list-style-type: none"> Establishment of global policy statements for waste materials and water Establishment of KPIs for each partner company based on the global policy 	<ul style="list-style-type: none"> Developed and disclosed a global policy for waste materials and resources, protection toward environmental pollution, and water Set the priority of initiatives related to waste materials and water and targets in priority areas in each country Continued activities for reduction and proper treatment, tighter management, and recycling of waste materials in each country Increased the recovered amount of waste materials by 4% and reduced the quantity of water intake by 4% globally (FY2021) For more information, see "Environment & Safety" on page 79.
Safe people and operations	  	<ul style="list-style-type: none"> Significant impact on operations if a major accident occurs at a production site Impact on safety assurance due to changes in manufacturing processes accompanying substantial increases in production 	<ul style="list-style-type: none"> Improving worksite safety and hygiene by sharing best practices and education plans from around the world Improving employee motivation and Company competitiveness for acquiring human resource talent 	<ul style="list-style-type: none"> Disaster (fire accident) prevention and process safety Fatality and injury prevention 	<ul style="list-style-type: none"> Establishment of a global policy statement for safety of our people and operations Establishment of KPIs for each partner company based on the global policy 	<ul style="list-style-type: none"> Developed and disclosed a global policy for safe people and operations Reinforced safety education and use of technology in each country Reviewed and strengthened the management of safety measures by sharing occupational accidents that occurred in each country Reduced accidents with lost time by 10% globally (FY2021) For more information, see "Environment & Safety" on page 79.
Diversity & Inclusion	   	<ul style="list-style-type: none"> Difficulty of securing human resources that satisfy diversity requirements with a decrease in the university graduated population Slowing of business activities that reflect diversity in customer needs 	<ul style="list-style-type: none"> Securing diverse and competent human resource talent as a global company Creating wealth for companies, workers, and local communities by creating diverse and inclusive organizations 	<ul style="list-style-type: none"> Increase the percentage of women in management posts Improvement of employee engagement 	<ul style="list-style-type: none"> Gender diversification for the Board of Directors and managers Visualization of human capital Implementation of human rights risk assessment 	<ul style="list-style-type: none"> Confirmed diversity of each country/region and visualized human capital Made investment in human capital for sustained growth in each country (NIPSEA Group provides training programs at different job levels (387,243 hours in FY2021)) Nippon Paint Holdings has two female Directors, one Executive Officer, and one Corporate Officer (as of June 30, 2022) For more information, see "People & Community" on page 87.
Growth with communities	    	<ul style="list-style-type: none"> Significant damage to the corporate brand if the company is not perceived as a corporate citizen by local communities Damage to the public image of the paint industry caused by inadequate activities oriented toward the local community 	<ul style="list-style-type: none"> Improving public awareness of the corporate brand through value chain investment in communities Promoting the sound growth of communities through social contribution activities to increase the positive public view of our Group 	<ul style="list-style-type: none"> Strategic implementation of social contribution activities 	<ul style="list-style-type: none"> Establishment of the NIPPON PAINT Group Global Outreach Program to enhance social contribution activities Establishment of 3E (Education/Empowerment /Engagement) action policy through business activities as a priority area 	<ul style="list-style-type: none"> Stepped up social contribution activities under the 3E action policy and gathered and disclosed the impact/effects of those activities globally Established a global conference on social contribution activities and strengthened information sharing and collaboration within the Group Invested a total of USD7.08 million in global activities in FY2021 (204 projects/benefited around 0.29 million people) For more information, see "People & Community" on page 87.
Innovation for a sustainable future	   	<ul style="list-style-type: none"> Significant hindering to future corporate earnings owing to inability to generate innovation due to slow response to new markets 	<ul style="list-style-type: none"> Expansion of market for products that contribute to controlling and adapting to climate change Products and services that address social issues that contribute significantly to society and help boost corporate earnings in the long term 	<ul style="list-style-type: none"> Promotion of cross-industrial collaboration Development of products that benefit society Stricter management of chemical substances 	<ul style="list-style-type: none"> Establishment of the definition of sustainable products and data collection Stricter management of chemical substances and development of alternative products for harmful substances Development of products that benefit society and are environmental friendly Promotion of open innovation 	<ul style="list-style-type: none"> Developed and launched anti-viral paint products across the Group Developed products that help reduce CO₂ emissions from customers Promoted the research and development on products for next-generation automobiles Promoted technology sharing and capability leveraging globally R&D expenses totaled 24.3 billion yen and filed 200 new patent applications (FY2021) For more information, see "Innovation & Product Stewardship" on page 91.