Our Medium to Long-Term Management Strategy for Achieving MSV

Chapter 3

Overview and Updates on Medium-Term Plan (FY2021-2023)

Viability of our Asset Assembler model reaffirmed

As we completed Year 2 of Medium-Term Plan (FY2021-2023) (MTP) in FY2022 and entered its final year in FY2023, we reaffirmed the viability of our Asset Assembler model for pursuing MSV. Despite the dramatic changes in the business climate for our Group compared to when we formulated MTP in March 2021, our existing businesses showed resilience and achieved solid growth and all our excellent assets acquired with low financing cost are contributing significantly to EPS accretion. We will continue to pursue growth based on our Asset Assembler model with the goal of achieving MSV.

FY2021-2023 financial plan

(Billion yen)

	FY2021 Results[3]	FY2022 Results	FY2023 Guidance: MTP guidance (Mar. 2021)[4]	FY2023 Guidance: February 2023 updates[5]	CAGR target for FY2024 onwards
Revenue	998.3	1,309.0	1,100.0	1,400.0	High single digits
Operating profit	87.6	111.9	140.0	140.0	Profit growth exceeding revenue growth
OP margin	8.8%	8.5%	c.13.0%	10.0%	
EBITDA[1]	120.4	159.9	175.0	190.0	
EBITDA margin	12.1%	12.2%	c.16.0%	13.6%	
Profit attributable to owners of parent[2]	67.6	79.4	105.0	98.0	
EPS (yen)	29.41	33.82	45.00	41.73	

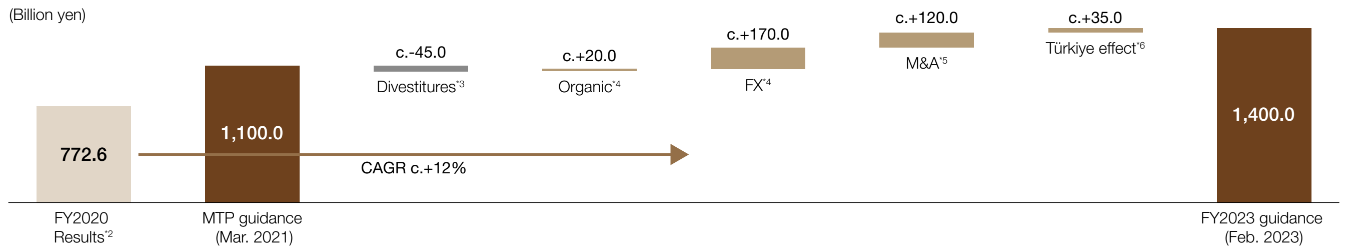
*1 EBITDA: Operating profit + depreciation and amortization + impairment loss + gain on negative goodwill
*2 Targets for profit attributable to owners of parent are calculated by multiplying operating profit by effective tax rates
*3 Continuing operations basis
*4 Exchange rate assumptions: USD/JPY 106 yen; RMB/JPY 15.7 yen; AUD/JPY 75 yen; naphtha price: 40,000 yen/kl
*5 Exchange rate assumptions: USD/JPY 125 yen; RMB/JPY 19 yen; AUD/JPY 90 yen; naphtha price: 72,000 yen/kl

Analysis of differences between MTP guidance (Mar. 2021) and FY2023 guidance (Feb. 2023)

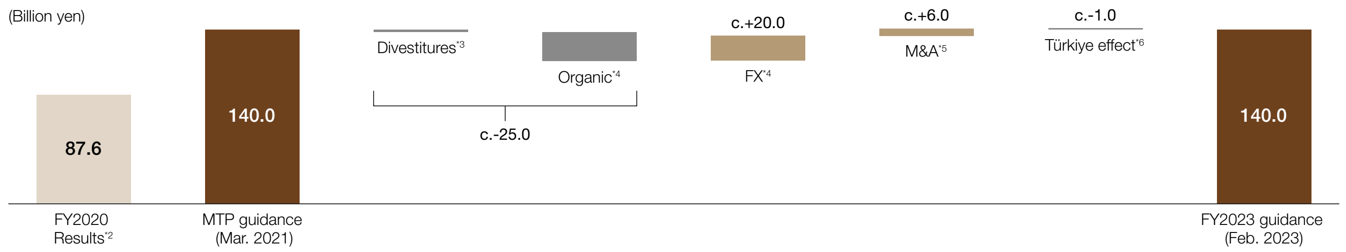
Our FY2023 revenue guidance is JPY1,400 bn. This is more than JPY300 bn higher than MTP guidance despite the negative impact of divestitures, due to higher-than-expected revenue growth at existing businesses except the Turkish business, the weaker yen, the acquisitions of Cromology and JUB, and the overall effect of Türkiye including the application of hyperinflationary accounting. Operating profit guidance is the same as MTP guidance at JPY140 bn. We believe that the positive effects of the yen's depreciation and M&A will largely offset the negative effects of divestitures and the high cost of raw materials on existing businesses and the effect of Türkiye.

Despite the challenging business environment, we have achieved organic revenue growth that exceeded our expectations. Coupled with contributions from M&A, we expect the steady growth to continue in FY2023.

Change factors contributing to FY2023 revenue guidance[1]



Change factors contributing to FY2023 operating profit guidance[1]



*1 All figures are rough estimates and reflect changes in factors from MTP guidance as of March 2021.
*2 Continuing operations basis and after retrospective adjustments to reflect a change in the accounting policy regarding cloud computing agreements. Nippon Paint (India) was an equity-method affiliate in 2020
*3 Including Nippon Paint (India)
*4 Excluding Türkiye
*5 Only includes Cromology and JUB
*6 Changes in yen-based assumptions including organic growth, FX, and hyperinflationary accounting

Analysis by region

Based on the analysis by region, we expect revenue growth that exceeds MTP guidance in most regions due to pricing actions and market share gains. Strong revenue growth is expected, notably at NIPSEA China driven by market share gains due to higher-than-expected growth in the TUC market and at Malaysia Group, Singapore Group and Thailand Group in NIPSEA Group driven by pricing actions and growth in the adjacencies business. Revenue growth at DuluxGroup excluding newly consolidated Cromology and JUB was driven by pricing actions and bolt-on acquisitions (those aimed at complementing and strengthening existing businesses) in the adjacencies business. In our Turkish business, we expect higher revenue growth than our MTP guidance despite the impact of hyperinflationary accounting, driven by pricing actions as well as market share gains achieved through the successful implementation of the brand promotion strategy.

We expect operating profit in most regions to be in line with MTP guidance. However, we expect that operating profit in Japan Group and NIPSEA China will be below MTP guidance.

MTP guidance (Mar. 2021)

Revenue (Billion yen)	Revenue FY2020 Results (Tanshin)	FY2021-2023 CAGR target (in LCY)
Japan	159.6	c.+5%
NIPSEA China	268.1	c.+10%
Asia Except NIPSEA China	88.5	+5–10%
New consolidations (Indonesia/India)	47.4[1]	c.+15%
Oceania (Pacific[2])	148.3	c.+5%
Americas	70.1	+5–10%
Other (Betek Boya)	36.2	+10–15%

February 2023 updates

Revenue (Billion yen)	FY2021 Results (Tanshin)[3]	FY2022 Results (Non-GAAP)	YoY	FY2023 Guidance (in LCY)
Japan	174.0	184.2	+5.8%	c.+5%
NIPSEA China	379.1	395.1	+4.2%	+5–10%
NIPSEA (NIPSEA Except China)[4]	103.8	119.5	+15.1%	+0–5%
Betek Boya (Türkiye)	49.2	123.6	+151.3%	c.+30%
PT Nipsea (Indonesia)	39.5	45.8	+15.9%	c.+15%
DuluxGroup (consolidated)	176.2	187.3	+6.3%	+5–10%
Cromology (Europe)	–	–[5]	–	+5–10%
JUB (Europe)	–	–[5]	–	+5–10%
Americas	76.4	83.1	+8.8%	+0–5%

*1 Unaudited pro forma figures
*2 Australia, New Zealand and Papua New Guinea
*3 FY2021 results have been revised retrospectively following the change in reportable segments beginning with FY2022 1Q
*4 Figures after deducting Betek Boya and PT Nipsea from the total for NIPSEA Except China
*5 Cromology was newly consolidated in January 2022 and JUB in June 2022 and are not included in Non-GAAP FY2022 results

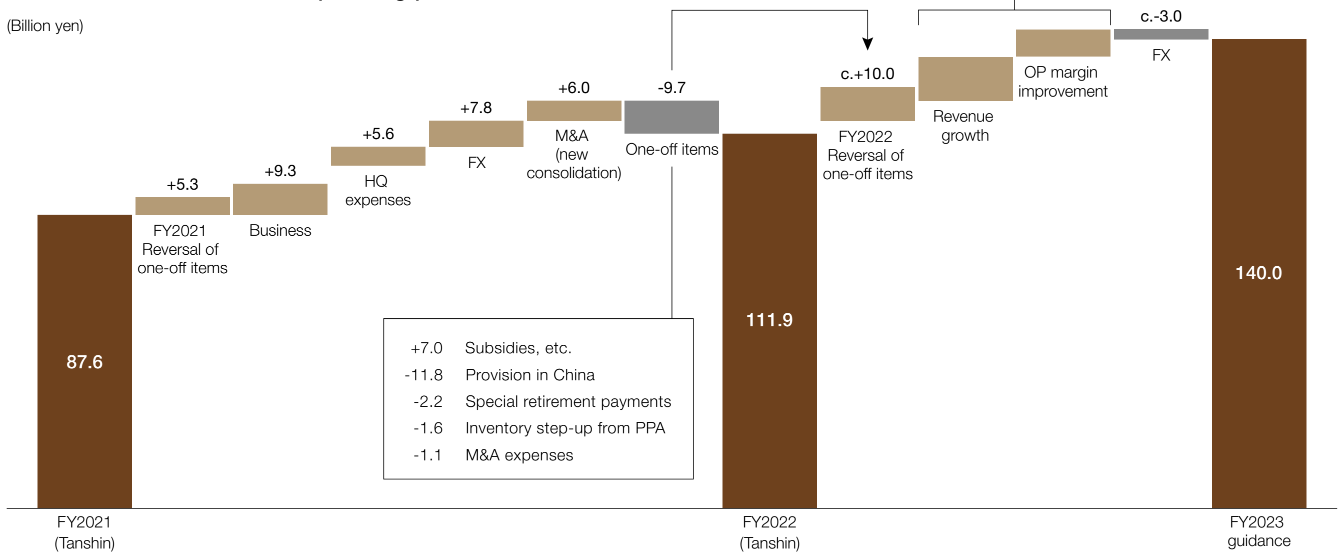
Overview and Updates on Medium-Term Plan (FY2021-2023)

Towards FY2023—the final year of MTP

We have a generally negative outlook for the market environment in FY2023. However, we will aim for steady revenue growth in every region through market share gains despite slow market growth as well as a full-year contribution from pricing actions. We expect an increase in operating profit, despite the negative effect of FX because of the initial assumption of a stronger yen in FY2023, due to revenue growth, margin improvements due to pricing actions, and the absence of one-off items such as a credit loss provision in China and special retirement payments.

After taking all these factors into account, our FY2023 guidance is revenue of JPY1,400 bn, operating profit of JPY140 bn, profit of JPY98 bn, EPS of JPY41.73, and annual dividends of JPY13 per share. We plan to maintain a dividend payout ratio of a little over 30% with a dividend increase for the third consecutive year.

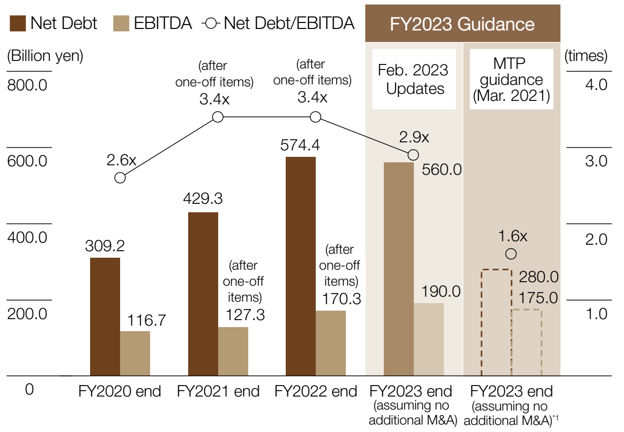
Illustration of FY2021-2023 operating profit



Financial position

Net Debt/EBITDA remained unchanged at 3.4 times through to the end of FY2022 due to an increase in EBITDA despite an increase in interest-bearing debts resulting from the acquisition of Cromology and JUB. However, Net Debt/EBITDA at the end of FY2023 is expected to decrease to around 2.9 times assuming no additional M&A activity. In terms of capital allocation, operating cash flows over the three years of MTP are expected to be approximately JPY30 bn below MTP guidance. However, capital expenditures and dividends are expected to be in line with MTP guidance.

Net Debt/EBITDA trends



*1 Includes the impact of full integration of the Asian JVs and acquisition of Indonesia business
*2 Continuing operations basis

Capital allocation

(Billion yen)

		FY2021-2023 Forecast		
		Feb. 2023 Updates		MTP guidance (Mar. 2021)
	FY2021-2022 Results	FY2023 Forecast	FY2021-2023 Forecast	FY2021-2023 Guidance
+) Operating CF*2	182.6	120.0	c. 300.0	~330.0
-) CAPEX*3	76.0	55.0	c. 130.0	~125.0
-) Dividend*4	49.3	30.0	c. 80.0	~85.0
Total	57.3	35.0	c. 90.0	~120.0
-) M&A (net cash of acquired companies)	293.4	–	c. 290.0	Debt repayment M&A

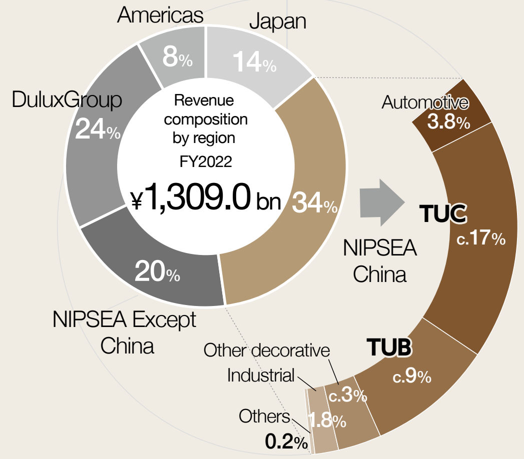
*3 Excluding CAPEX on leased assets. FY2021-2022 results are Tanshin basis (continuing operations)
*4 Total dividend payments (including some payments in the following fiscal year or afterward)

The Impact of China's Macroeconomic Data on the Earnings of Nippon Paint Group

Stock market players are paying attention to the trends of macroeconomic data relevant to our Group's Chinese decorative paints business (TUB/TUC). As a result, NPHD stock price tends to fluctuate more on news flow rather than based on our earnings results.

Although there is some correlation between the performance in the TUC and TUB businesses and certain real estate market data, we believe that there is not a simple correlation between China's macroeconomic data and our Group's consolidated earnings results based on the following analysis: (1) Revenue growth in the TUC and TUB businesses has been outpacing the real estate market data almost over the entire period and (2) TUC revenue accounts for c. 17% of the consolidated revenue and TUB revenue accounts for c. 9%.

For your reference, the analysis of trends in the TUC/TUB business performance by NIPSEA China's management is provided below. Please note that NIPSEA China uses multiple indicators for benchmarking and uses the results of multifaceted analysis of these indicators in their marketing activities.



The trends of TUC/TUB businesses based on comment from NIPSEA China's management

TUC revenue growth has been significantly outpacing growth of commercial and residential property sales areas

One of the strengths of NIPSEA China's TUC business is its dominant market share and the leading position in the Tier 0 as well as Tier 1-2 cities. These metropolitan areas are characterized by a higher percentage of commercial and residential property sales areas and quicker market recovery compared to Tier 3-6 provincial cities. Due to these reasons, TUC revenue growth tends to be higher than growth of property sales areas.

The high revenue growth in the TUC business is also attributable to NIPSEA China's extensive distribution networks, a large number of CCM (computer color matching) machines installed, high brand awareness and quality.

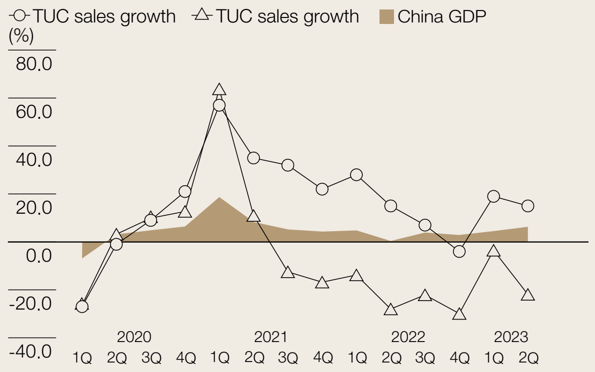
By taking into consideration the arrival of the era of stock housing and our market share gains in provincial cities, we expect that the TUC business will continue to achieve growth that outperforms competitors.

TUB revenue growth has been outpacing the new residential construction areas

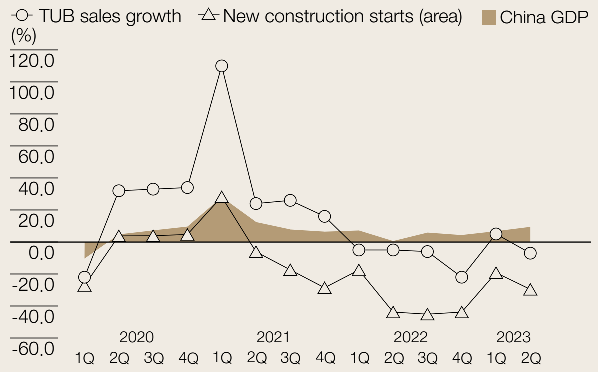
Since March 2020, TUB revenue growth has constantly been outpacing growth of new residential construction areas. This strong performance is attributable to (i) working with more financially stronger real estate developers, (ii) growing contribution from non-real estate developers e.g. healthcare, industrial, infrastructure (iii) growing contribution from decoration companies and contractors and (iv) pushing non paint segment growth e.g. substrates and construction chemicals.

We expect that the TUB business will remain on a steady growth track due to the arrival of the era of stock housing and by focusing on the development of six key channel businesses. (▶ See page 90.)

TUC (QoQ)



TUB (QoQ)



Our Finance and M&A Strategies to Achieve MSV Presented by Co-President Wakatsuki

Yuichiro Wakatsuki

Director, Representative Executive Officer & Co-President

We are pursuing our medium to long-term management strategy based on our Asset Assembler model. In this section, Co-President Yuichiro Wakatsuki explains our approach, characteristics, and competitive advantages of our finance and M&A strategy.

Finance Strategy

How Shareholder Value Is Maximized

See page 5.

Conscious of our cost of capital

While maximizing EPS and PER, we also maintain our policy to have ROIC (return on invested capital) surpassing WACC (weighted average cost of capital: approximately 6%) eventually for M&A.

Capital efficiency is on a slight decline as a result of recognizing goodwill linked to our M&A activities. With EPS accretion expected in Year 1 of acquisition, the acquired company is also expected to attain an ROIC surpassing the WACC (on a consolidated basis) within 3 to 4 years. This will be accomplished through post-acquisition profit growth and a shortened cash conversion cycle (CCC), leading to improved capital efficiency.

Vigilant monitoring of any decline in capital efficiency is essential, as it can result in increased risk. However, we also recognize the importance of striking a balance between ROIC and profit growth, as being excessively focused on ROIC might lead to opportunity losses for quality M&A. With the advantageous risk/return profile of the markets we operate in, coupled with our strong balance sheet and low funding costs, we are confident in our ability to effectively manage risk and accelerate EPS accumulation.

The table on page 55 shows the year-on-year improvement in individual ROIC for the major assets acquired since FY2019. This progress can be attributed to profit growth and effective balance sheet management following the acquisitions. Notably, Betek Boya achieved an ROIC above the consolidated WACC in its second year post-acquisition, while PT Nipsea is expected to reach this milestone in its fourth year of ownership, specifically in FY2024. DuluxGroup (Pacific) is projected to experience a gradual improvement in ROIC, with a positive spread anticipated in FY2024.

Finance strategy that drives our Asset Assembler model

Our capital policy revolves around enhancing TSR (Total Shareholder Return) by achieving consistent EPS growth, all the while upholding financial discipline and giving priority to growth investments.

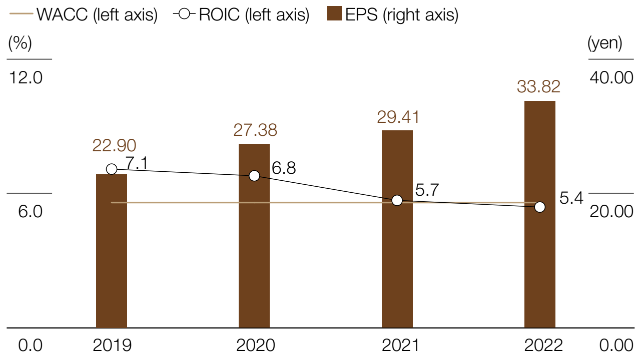
Our financial discipline rests on three key principles: (1) prioritizing debt financing, (2) maintaining leverage capacity, fostering communication with financial institutions and rating agencies, and (3) considering the option of raising equity only accompanied by EPS accretion. The paint and adjacencies businesses represent significant cash flow generation capacity, and we are actively capitalizing on our low funding costs to meet our capital needs actively pursuing M&A opportunities.

Regarding capital expenditures, we also take proactive measures to implement investments that foster sustainable growth in the future noting current businesses require relatively limited capex compared to scale of revenue and cash flow. We are, however, making new investments, such as expanding production capacity and reinforcing our DX (Digital Transformation) and R&D efforts around the globe with discipline. With that, M&A is indeed the main source for additional capital needs. Based on our Asset Assembler model, we will continue to accumulate “good and low risk M&A” at a reasonable valuation.

When it comes to shareholder returns, we give paramount importance to investing in growth mainly in M&A, with a primary goal of enhancing TSR through EPS growth.

Our dividend policy is to maintain stability with a payout ratio of approximately 30%, also considering various factors such as performance trends, future investment opportunities, and dividend payout ratio in a comprehensive manner.

WACC / consolidated ROIC / EPS



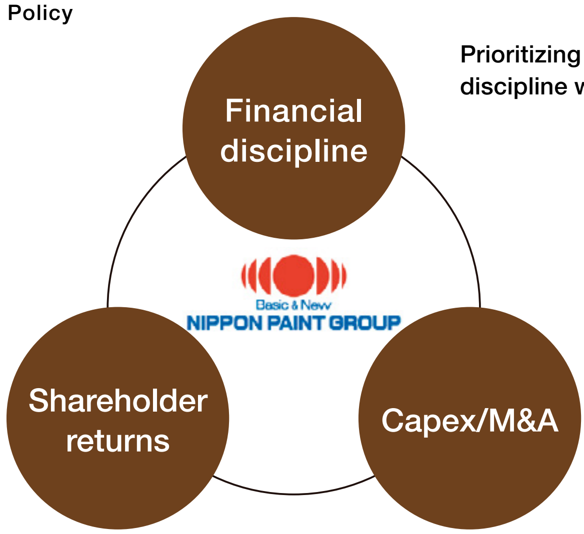
ROIC of individual companies[*1]

	Year 1[*2]	Year 2	Year 3	Year 4
DuluxGroup (Pacific)	1.2%	3.2%	3.9%	5.3%
Betek Boya	3.5%	9.4%	11.8%	8.1%
PT Nipsea	3.7%	5.3%	-	-

*1 ROIC (IFRS): after-tax operating profit (after PPA amortization on intangible assets) / acquisition cost (including transfer consideration and subsequent capital increase, etc.) After conversion into the Japanese yen using actual exchange rates

*2 ROIC for DuluxGroup (Pacific) is calculated based on four months' results and for Betek Boya six months' results

Capital Policy



Prioritizing growth investment and M&A while maintaining financial discipline with the focus of increasing TSR through EPS accretion

Financial discipline

- Pursue optimal capital structure with balanced leverage
- Allow for temporarily higher leverage for strategically important M&As

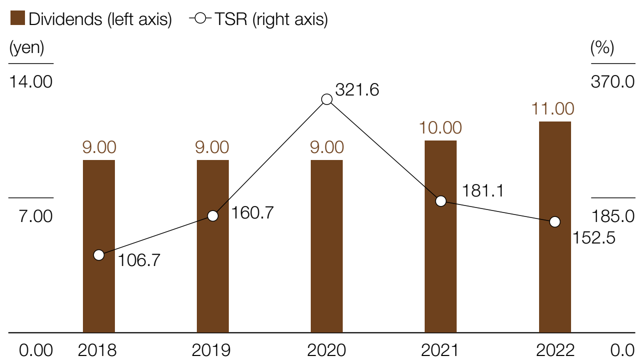
Capex/M&A

- Proactively implement capex and M&A for future sustainable growth

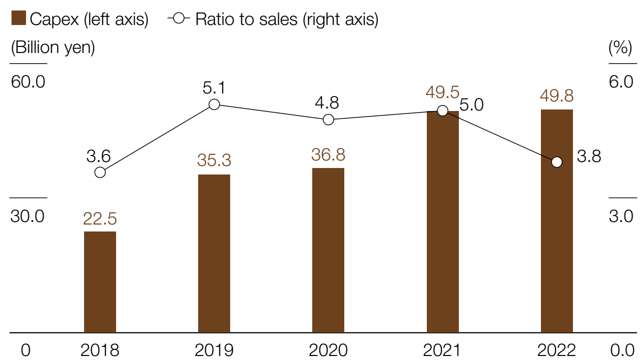
Shareholder returns

- Maintain a dividend payout ratio of 30%
- Increase TSR through growth investment and M&A

Dividends / TSR



Capex / Ratio to sales



Our Finance and M&A Strategies to Achieve MSV Presented by Co-President Wakatsuki

Effective balance sheet management achieved by adhering to financial discipline and building optimal capital structure

Regarding financial discipline, we prioritize debt financing over equity while maintaining leverage capacity to continuously secure low-cost financing.

It is crucial to seek proper understanding of our risk nature from financial institutions and rating agencies. We actively engage in active dialogues with these institutions while continually enhancing our disclosure materials.

Regarding our balance sheet management, we also take CCC as a key performance indicator (KPI). Our partner companies strive to shorten CCC by reevaluating transaction terms across different regions and business units. Additionally, we have continuously undertaken measures to reduce cross shareholdings through their recent sale.

Fixed assets (tangible, intangible and goodwill) have been growing driven mainly by our M&A endeavors and we actively monitor asset efficiency and profitability and occasionally take strategic actions such as the transfer of the European automotive business and the India businesses, along with implementing structural reforms in Japan Group and the marine business.

We also endeavor to mitigate goodwill impairment risk through a smooth PMI (Post-Merger Integration) backed by autonomous and decentralized management practices while maintaining discipline to accumulate high-quality M&As at reasonable valuation.

Our financial leverage is anticipated to be 3.4x net debt/EBITDA (adjusted for one-off items) by the end of FY2022 and approximately 2.9x by the end of FY2023, assuming no further M&A activities. (▶ See "Overview and Updates on Medium-Term Plan (FY2021-2023)" on page 51.)

All debt financing is primarily denominated in yen, boasting an average maturity of 3.5 years and an average pre-tax interest rate of 0.35% as of 2022 year end. Our focus remains on achieving an optimal capital structure, ensuring enough debt capacity to pursue new opportunities, also establishing strong trust and confidence among borrowing financial institutions and rating agencies.

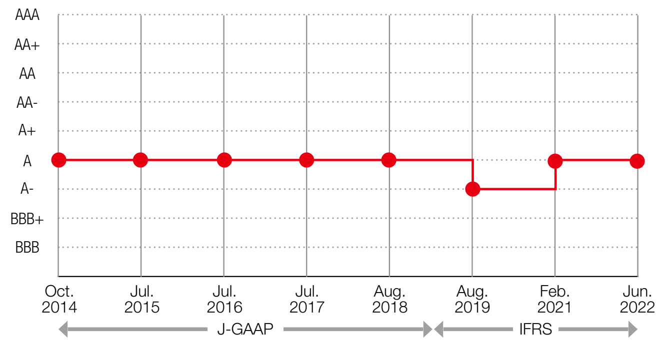
Capital allocation approach for sustainable growth

In comparison to the previous Medium-Term Plan (N-20, FY2018-2020, "MTP"), which saw an operating cash flow of approximately JPY240 bn, the current MTP (FY2021-2023) showcases an enhanced cash flow generation capability. This improvement can be partially attributed to the elimination of minority interest outflows, achieved by the full integration of the Asian JVs in FY2021.

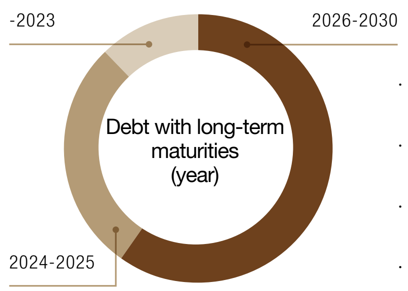
Throughout the three years of the current MTP our projections indicate an anticipated operating cash flow of approximately JPY300 bn. To achieve continuous revenue and profit growth we plan to invest around 3%-4% of consolidated revenue in capital expenditures, leaving us with the remaining JPY170 bn in cash flow. Approximately half of this operating cash flow will be distributed to shareholders as dividends with a payout ratio of around 30%. The remaining cash flow will either pay down existing debt, or be spent directly for emerging opportunities, with the former and latter difference being a matter of timing.

With the support and understanding of financial institutions and rating agencies, as well as our equity investors, we are committed to actively pursuing M&A opportunities that align with our growth strategy beyond FY2024.

Transition of credit ratings (R&I)



Status of debt



· Procured stable yen-based funds
· Average maturity: 3.5 years
· Average interest rate: 0.35%
· Long-term credit rating: A (R&I)

Balance sheet management policy

As of December 31, 2022

Assets

"Cash and equivalents"
"Trade and other receivables"
- Review the CCC to reflect the impact of the pandemic and deterioration of the conditions in the Chinese real estate market (e.g., review the trade terms and conditions)
- Take actions to respond to future credit collection risk (e.g., recording a provision for possible credit loss in China)

"Other financial assets (non-current assets)"
- Examine the rationality of continuing to hold cross-shareholdings every year (disposed of some cross-shareholdings also in FY2022)

"Property, plant and equipment"
- Take actions to improve asset efficiency and profitability through business divestiture and structural reform (e.g., transfer of the European automotive business and the India businesses, structural reform of Japan Group and the marine business)

"Goodwill" and "Other intangible assets"
- Minimize PMI risk based on autonomous and decentralized management and reduce impairment losses by accumulating "high-quality M&A"

Assets

"Cash and cash equivalents"	¥242.6 bn
"Trade and other receivables"	¥311.3 bn
"Other financial assets (non-current assets)"	¥26.1 bn
"Property, plant and equipment"	¥376.8 bn
"Goodwill"	¥825.5 bn
"Other intangible assets"	¥400.1 bn
Total	¥2,442.3 bn

Liabilities

"Trade and other payables"	¥256.8 bn
"Bonds and loans payable"	¥722.1 bn
Total	¥1,287.0 bn

Liabilities

"Bonds and loans payable" (Interest-bearing debts)
- Prioritize debt financing and maintain the leverage capacity (the expected net debt/EBITDA at the end of FY2023 is around 2.9 times assuming no further M&A activities)
- Evaluation from credit rating agencies (maintained the "A" rating from R&I)
- Stable finance procurement capability in yen (low interest rate/long-term maturity)

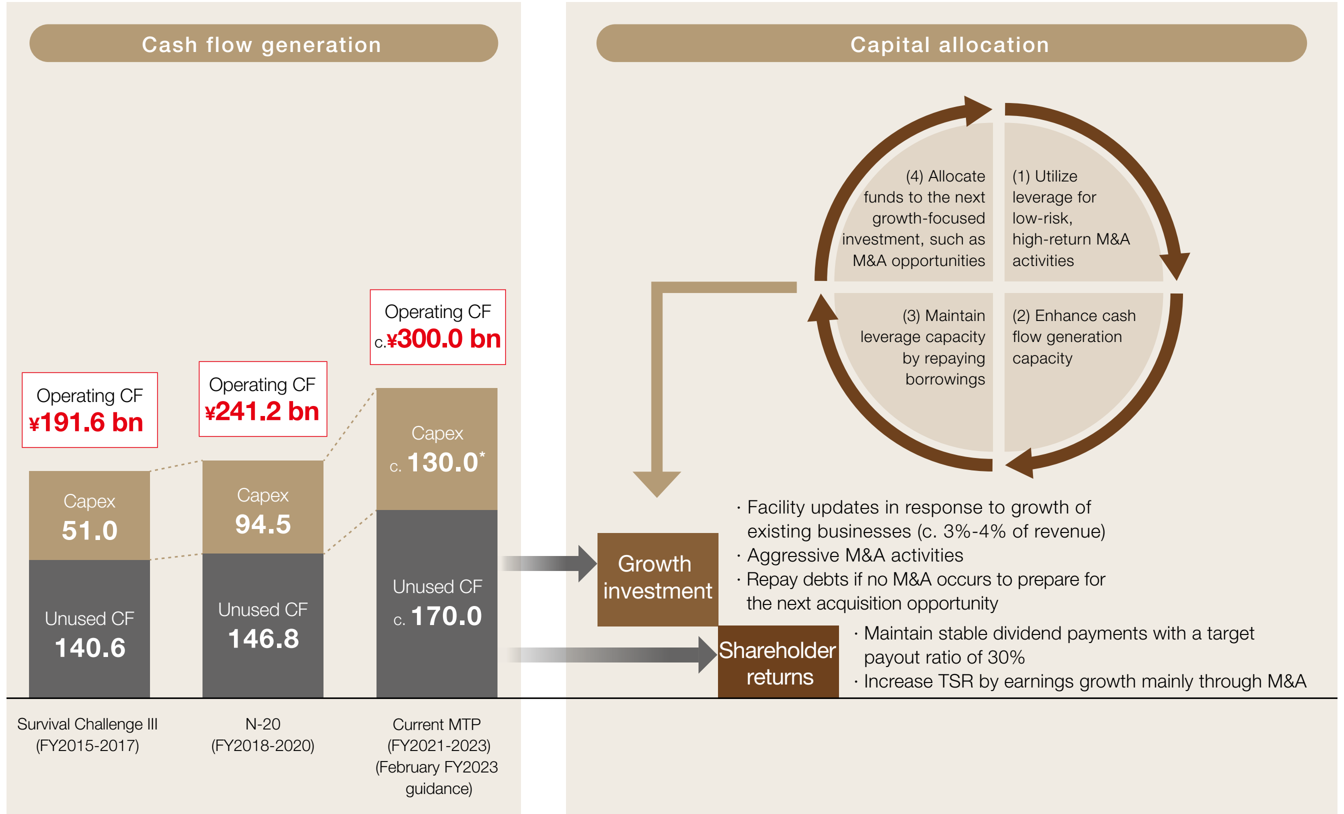
Equity

"Capital"	¥671.4 bn
"Retained earnings"	¥272.5 bn
Total	¥1,155.4 bn

Equity

"Capital" "Retained earnings"
- Reinforce financial base to prepare for growth investment such as M&A (capital increase based on new share issuance through a third-party allotment)
- Equity-based capital raising remaining an option with EPS accretion as a premise
- Take capital efficiency into the consideration of M&A decisions, including achieving ROIC that exceeds WACC
- Aim to maintain the dividend payout ratio at 30%

Capital allocation approach

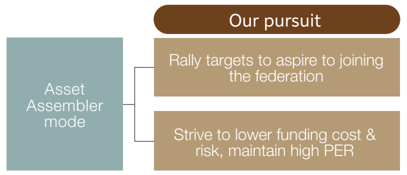


* Excluding capital expenditures on leased assets

M&A Strategy

How Shareholder Value Is Maximized

▶ See page 5.



M&A basic policy

Our M&A basic policy is to promote M&A activities by leveraging our three pillars of competitive advantage underlying our Asset Assembler model as outlined on 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 and (3) our unique appeal to management-class talents who empathize with our modus operandi. Based on this policy, our current focus lies in promoting M&A activities in the paint and adjacencies areas, which offer a compelling risk/return advantage. (▶ For more information, see "The Basis of Our Asset Assembler Model" on page 37.) Notably, the decorative paints market represents a significant portion of the paint and coatings market. It operates on a local production for local consumption basis, with each country and market adopting unique business models encompassing raw material procurement, consumer preferences, sales networks, and environmental regulations. Apart from facing a low threat of substitute products, paints, particularly decorative paints, exhibit significant regional characteristics. Critical success factors in this market are as follows: (1) strong brand power; (2) a well-established distribution network; and (3) the establishment of operations with local expertise. Achieving the No. 1 market share based on these factors provides a substantial advantage, making it challenging for competitors to reverse the trend. This market leadership enables further expansion in market share, followed by increased profits, creating a virtuous cycle of growth.

The key points of our M&A based on Asset Assembler model is outlined in the table below. We select acquisition targets which (1) contain low risk and stable earning flow, (2) possess strong brand and talented management teams, and (3) is expected to show EPS accretion from year one.

Key partner companies which joined our Group since FY2014 have achieved strong growth in both high growth and mature markets as outlined in "Asset Management Report" on page 23.

We will strive to maintain our track record of accumulating successful M&A deals to widely convey the benefits of joining our Group to acquisition targets, while at the same time building expectations from the stock market as a company capable of consistently accumulating and expanding EPS.

M&A selection process

The diagram on the right page illustrates our M&A selection process. After creating a long list of target companies, we assign priorities, examine feasibility, and hold thorough discussions, going into details such as the timing and proposal structure of M&A. When choosing targets, the sole criterion is their potential contribution to MSV. Notably, personal egos, such as the desire to just pursue size or personal achievements, do not influence our decisions. For our Company, achieving the title of the world's largest company in terms of sales would hold little significance if the journey towards that goal were to harm shareholder value.

Therefore, when we examine a specific acquisition, we make judgment after holding multifaceted discussions on the degree of PMI led by Partner Company Groups and other risks involved with sound vigilance at all times. In the context of "Asset Assembler" model, human capital holds significant importance. To mitigate risks effectively, we have implemented mechanisms that involve commitments with local management and succession plans.

One essential financial discipline for us is to contribute to EPS accretion from the very first year. We refrain from making overly optimistic assumptions about justifying acquisition synergies, e.g. hoping for positive EPS only after three years of acquisition. In our value calculations, we take into account not only metrics like PER and EV/EBITDA but also evaluate how executing the deal will impact the cushion in the Group's balance sheet.

A Platform that drives growth of both existing businesses and acquired companies

The strength of our platform based on Asset Assembler model lies in its ability to generate growth synergies for both existing and acquired businesses. This leads to higher earnings growth compared to the pre-M&A period. Notably, our approach goes beyond mere cost-cutting synergies often seen in the Western model.

Unlike many failed M&A by Japanese companies where impairments are often observed after several years post acquisition, all of our deals since FY 2019 when we accelerated our M&A efforts have surpassed our expectations. This success in of itself is the evidence of our strength in platform. In the following, I will elaborate on the key success factors.

Co-Presidents maintain constant communication with local management while delegating authority and defining responsibilities for achieving results only after establishing a high level of trust based on factors such as their track record and commitment to growth. A streamlined decision-making process with local approval is adopted, ensuring swift and effective actions. Having management dispatched from headquarters can create a disconnect with the local staff, while a top management composed solely of e.g. Japanese may lead to a loss of motivation among talented local employees.

The role of our headquarters is to offer support to talented local management. In addition to fostering a direct consultative relationship with Co-Presidents, we provide Japanese yen-based funds for growth investments, leverage the Nippon Paint brands, and facilitate an autonomous collaboration platform among the partner companies.

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

The strength of our platform extends beyond associates collaborating across borders, if needed, to achieve the common goal of MSV. It also encompasses active sharing of growth strategies for countries with both mature and emerging markets, brands and know-how from existing and new businesses, and raw material purchases among partner companies. Moreover, these partner companies have the freedom to make choices without being forced by headquarters. This blend of trust and accountability for results empowers us to foster growth through both existing businesses and M&A.

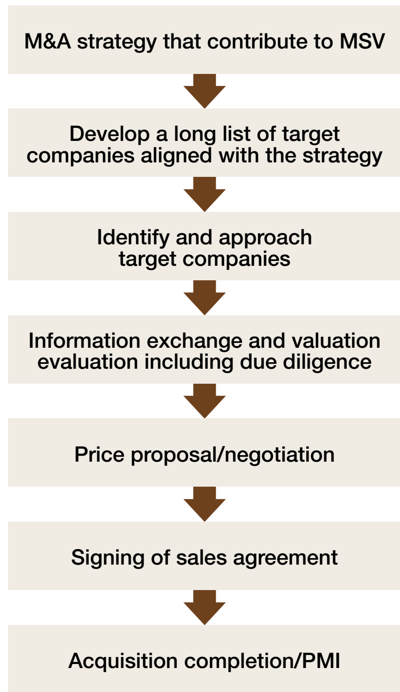
As a result, local management with a passion for growth can fully showcase their management skills, leading to an increase in companies that express interest in joining our Group.

Key points of the M&A strategy

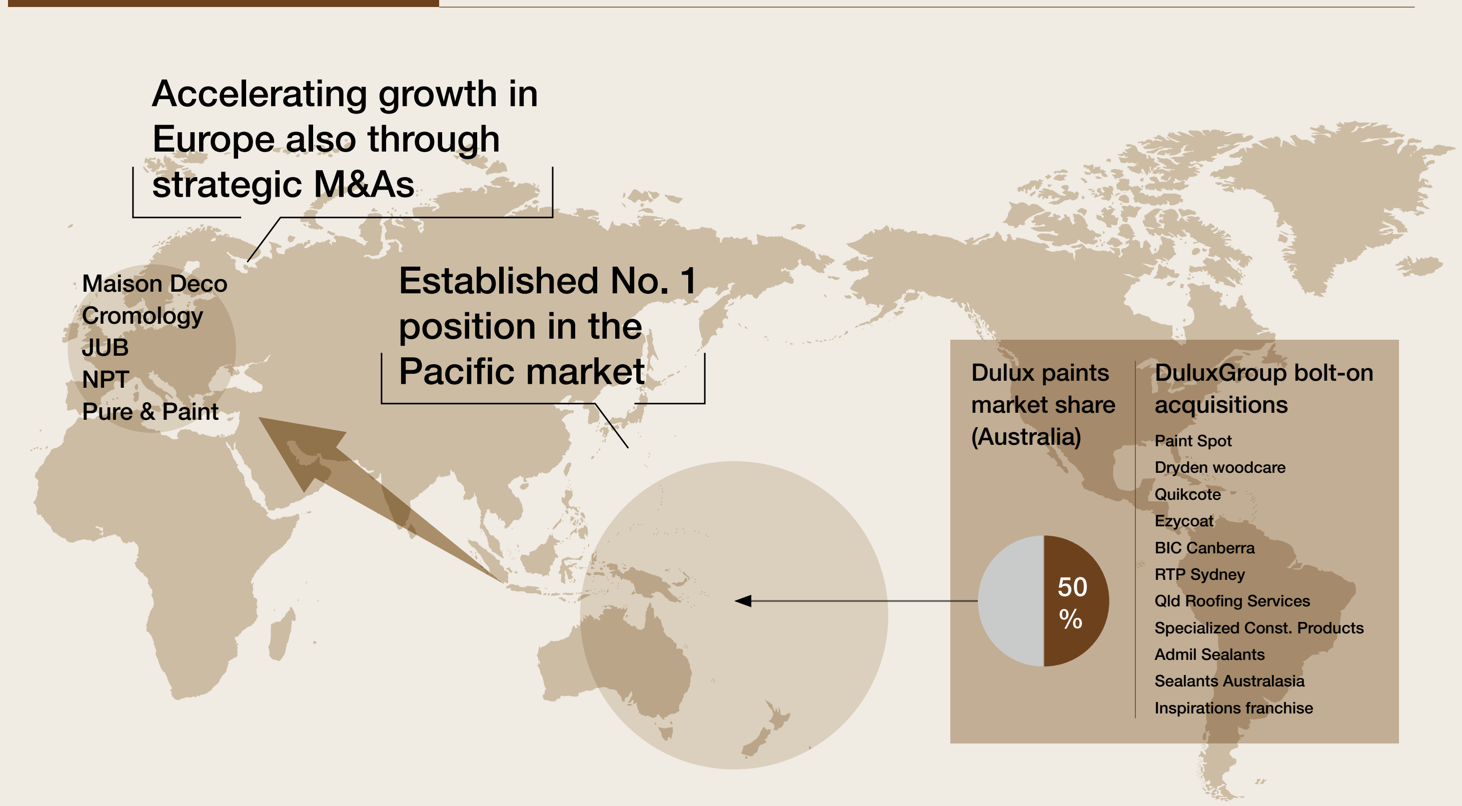
Targets	① Business segments: Paint (decorative/industrial), adjacencies and Paint++ ② Geography: Not limited ③ Potential targets: Strong corporate/product brand and excellent management team	① Entities of low risk and stable profitability as represented by paint and adjacencies ② No restrictions in terms of target locations as long as acquisition contributes to MSV. Distant location to be carefully examined ③ Continue to build up assets leveraging strengths of our three pillars of competitive advantage
Our Strengths	① Financial soundness ② Ability to finance in Japan, with stable currency and stable market ③ Full access to Nippon Paint Group's platform ④ Excellent management teams enabling autonomous and decentralized business model	① Stable cash generating ability and strong financial position ② Low interest rate borrowings, safety and liquidity of the stock market ③ Sharing expertise, products, and technologies within the Group ④ Minimize PMI risk
Financial Discipline	① Contribution to EPS ② ROIC*1>WACC*2 ③ Sufficient leverage capacity ④ Debt financing prioritized; equity financing also an option	① Aim to achieve EPS accretion in Year 1 after acquisition ② Take capital efficiency into consideration ③ Secure financial soundness to prepare for future M&As ④ EPS accretion also a must in rare case of equity financing

*1 Return on invested capital (after one-off expenses) *2 Weighted average cost of capital

M&A target selection process



Feature Article (1) M&A Success Case



What are the factors that enabled DuluxGroup to accelerate growth after joining Nippon Paint Group?

DuluxGroup has continued to deliver steady growth in Australia, while improving its market share—its growth has even accelerated since joining Nippon Paint Group in 2019. DuluxGroup has aggressively pushed the frontiers of operations not only in the Pacific market but also in the European markets.

This section will guide the reader through how DuluxGroup is executing on its growth strategy by leveraging the Group's platform.

DuluxGroup has a long history of strong performance and resilient profit growth

From its origins in 1918, DuluxGroup has thrived through a range of ownerships, including as part of global giant ICI World Paints up until 1997, and as an independently listed company on the Australian Securities Exchange (ASX) from 2010 to 2019.

During its time as an ASX listed company, DuluxGroup was valued for its reliable profit and dividend growth every year, placing it in the top five percent of ASX200 companies for total shareholder returns over that period. More than doubling its profits over that time, DuluxGroup grew its market valuation from approximately AUD0.8 bn to approximately AUD4 bn upon being acquired by NPHD in 2019.

In its core mature Pacific markets, DuluxGroup has grown faster than the market through its continued focus on the fundamental capabilities of consumer insights, strategic brand marketing, innovation and customer service. Importantly, DuluxGroup's strong culture, which drives its world-class employee engagement scores and underpins its success, continues to endure. DuluxGroup's latest engagement score is well above the global norm for high performing companies.

DuluxGroup and Nippon Paint Group are a powerful combination

Prior to our acquisition, and as a regional market leader with a global heritage, we had admired Nippon Paint Group's achievements as the world's fourth largest paint company and as the market leader in Asia. Above all, the Group has a strong growth mindset, which is very consistent with DuluxGroup's growth ambitions.

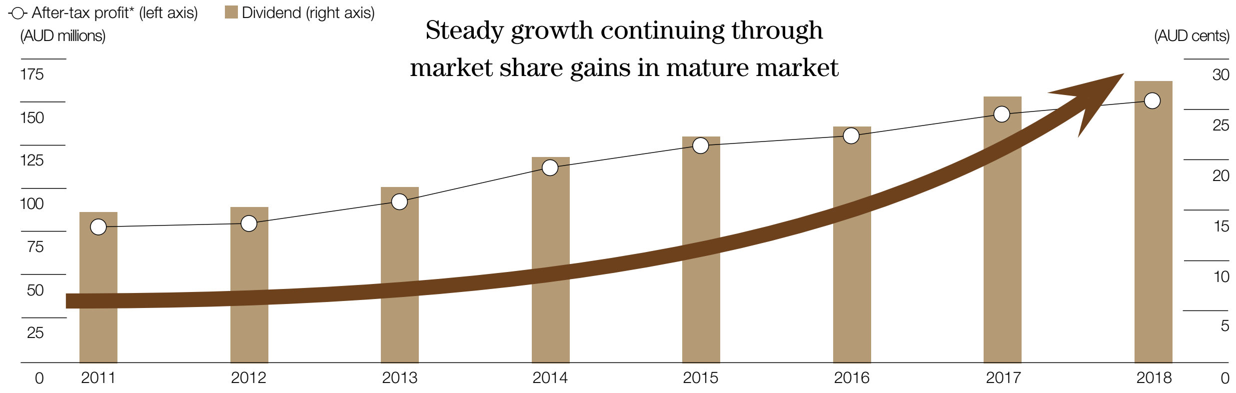
Since joining the Group, we have accelerated our growth trajectory through a powerful combination of DuluxGroup's market leading capabilities, leadership and culture with the Group's global scale, unique Asset Assembler model, financial firepower and extensive footprint in Asia. This has provided us with strategic autonomy to drive growth in the Pacific and western markets alongside accountability for pursuing MSV and the collaboration opportunities with other partner companies across the Group, particularly in Asia with NIPSEA Group.

Access to the Group's financing capacity and global platform allowed us to think more ambitiously about how and where to grow, while remaining focused on MSV. DuluxGroup had the proven capability to grow market leading brands but lacked the scale to deliver real step-change growth.

2010

Became independent from Orica Limited and went public on Australian Stock Exchange

Market cap: c. AUD 0.8 bn



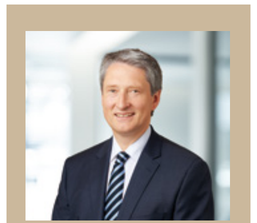
* Before deduction of non-recurring items

2019

Joined Nippon Paint Group

Stock value: c. AUD 3.76 bn

Key points of acquisition
- Dependability of continuing to deliver stable growth through steady market share gains in the mature market
- Excellent management team that can achieve stable growth



Patrick Houlihan
DuluxGroup
Chairman and Chief Executive Officer

2022

Accelerated growth after joining Nippon Paint Group

Revenue: JPY 314.9 bn
Growth since the acquisition (FY2019) : +133.4%

Operating profit: JPY 29.7 bn
Growth since the acquisition (FY2019) : +87.0%

Market share (Australian paints): 50%
Growth since the acquisition (FY2019) : +2pp

Feature Article (1): M&A Success Case

DuluxGroup has step changed its growth as part of the Group, with M&A as a key enabler

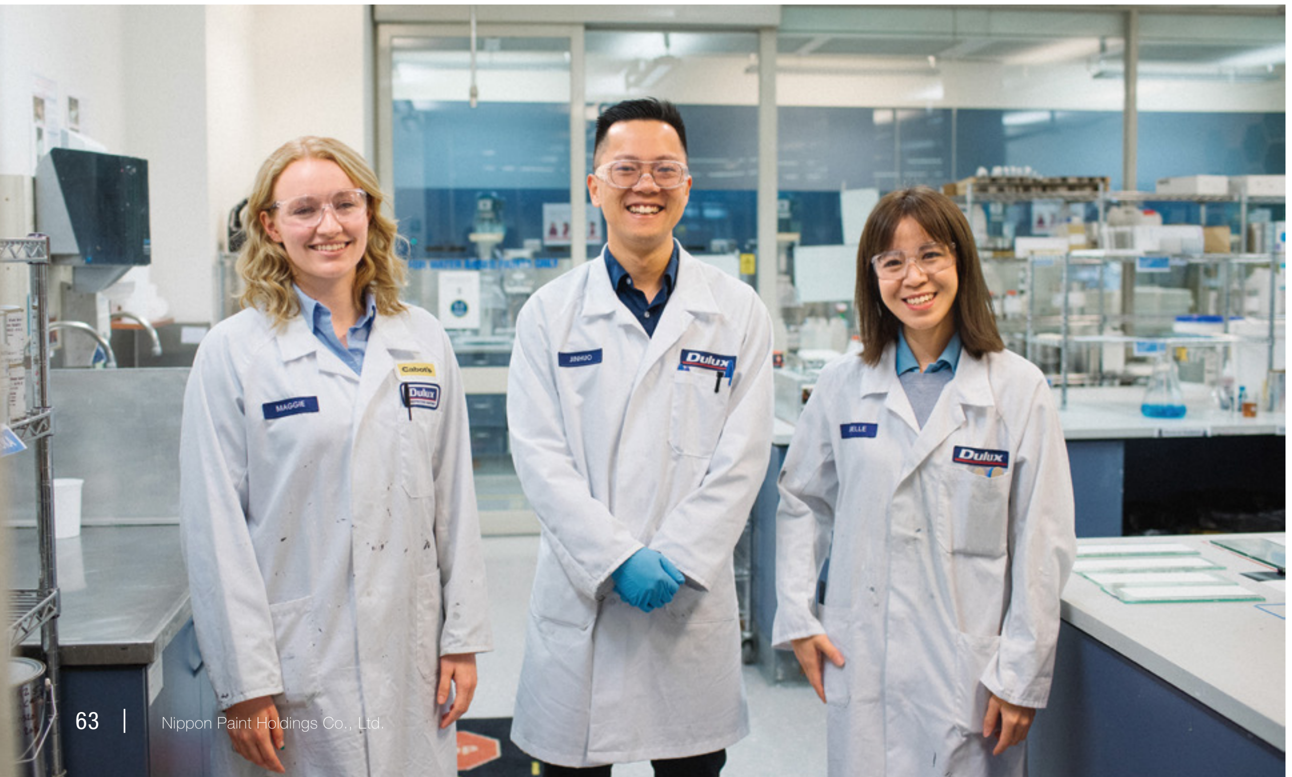
During our time as an ASX listed company, DuluxGroup complemented organic growth with nine acquisitions over nine years. Since joining the Group, ongoing organic growth in our existing businesses has been complemented by 23 strategy enabling acquisitions.

In the Pacific, we have complemented our leading positions with multiple bolt-on acquisitions that have extended our customer and product market reach, expanded our strategic brand portfolio, and further strengthened our technical and supply chain capability. Some examples include:

- Dulux strengthening its trade customer channel with the acquisition of the Inspirations Paint franchisor network, encompassing more than 100 franchise and company owned stores.
- Yates extending its reach in the consumer and commercial organic fertilizer market with the acquisition of Seasol — acquiring market leading brands as well as access to new markets, consumer segments and technical expertise.
- Dulux Papua New Guinea leveraging its capability and customer channel networks to market the Nippon Paint brand.

In Europe, having already established a small foothold with niche brands Maison Deco and Craig & Rose, we saw an opportunity to build a material decorative paints business using the Group's scale and resources alongside DuluxGroup's expertise in premium brands, consumer-led marketing, innovation, and retail and trade channel management. The acquisition of European paint market leaders Cromology and JUB now provides a meaningful platform for growth in a market with a similar consumer, customer and competitive landscape to DuluxGroup's traditional Pacific markets. More recently, this has also provided momentum to establish a European platform to grow in the adjacent sealants & adhesives categories through our joint venture with leading Italian-based SAF company NPT which has, among other things, global leading technology and European supply chain capabilities.

To complement our M&A agenda across DuluxGroup and our organic growth in the Pacific, we saw opportunities as part of the Group's global platform to grow by collaborating with other group partner companies. In particular, the Group's strength as the leader in Asia has allowed us to grow the reach of our ANZ market leading Selleys sealants, adhesives & fillers (SAF) business through NIPSEA's extensive customer distribution network and its superior local market knowledge and expertise. We will seek to strengthen this collaboration with the NPT SAF business in Europe now being part of DuluxGroup.



Dulux R&D team members at Dulux's paints & coatings Innovation Centre in Melbourne, Australia

DuluxGroup will continue to seek profitable growth moving forward with the aim to maximize shareholder value

DuluxGroup aims to continue delivering consistent, profitable growth by focusing on three strategic growth pillars:

1. Extending our market leading positions in the Pacific — Australia, New Zealand and Papua New Guinea (PNG);
2. Leveraging capability for growth into the mature European paint and coatings market; and
3. Leveraging capability for growth into global sealants, adhesives & fillers (SAF) segments

Extending DuluxGroup's market leading positions in the Pacific

In relatively mature ANZ markets, DuluxGroup has invested in and leveraged its market leadership position and regional scale in well-structured market segments to deliver consistent and profitable growth.

Organic growth — underpinned by a relentless and enduring focus on brands, innovation and customer service — will be complemented with bolt-on, earnings-accretive, and strategy enabling acquisitions where possible.

We will continue to invest in skills, capability and leadership development to maintain an engaged, motivated and committed workforce enabled to deliver on our growth ambitions.

Leveraging capability for growth into the mature European paint & coatings market

The acquisition of major market leaders French-based Cromology and Slovenian-based JUB has provided the market position and regional scale needed to drive DuluxGroup and the Group's growth ambitions in the world's second largest decorative paints market (after China). They each have premium brands, leading market positions across western and central Europe respectively, capable management teams, local market know-how, strong trade and retail distribution, well-established manufacturing assets and supply chain capability.

We are targeting growth opportunities leveraging the product portfolio, technology, marketing and innovation, procurement and customer channel management capability of DuluxGroup — enabled by the global scale and resources of the wider Group — to drive European decorative paints growth over the medium to long term. We will complement this organic growth with bolt-on, earnings-accretive, and strategy enabling acquisitions where possible.

Leveraging capability for growth into global SAF segments

DuluxGroup will continue to build on its successful collaboration with NIPSEA Group, to help build a material, sustainable and market leading SAF business in Asia through transferring our Selleys capabilities including consumer insights, marketing, product, technical and supply chain expertise.

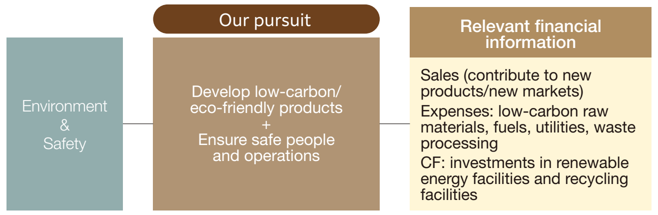
Further, DuluxGroup aims to grow into global SAF segments in markets where structures are similar to Selleys' ANZ experience and where we know we can successfully compete.

The recent acquisition of leading Italian-based SAF company NPT provides a highly regarded brand and technology portfolio with well-established local and export market positions, first-class manufacturing and experienced management team. The addition of NPT is consistent with our strategic criteria of opportunities that offer premium established brands, local product, locally compliant technology, strong supply chain capability, distribution reach, management talent and deep SAF experience. From this base, DuluxGroup will look to generate long-term sustainable growth.

Environmental Strategy

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

How Shareholder Value Is Maximized ▸ See page 5.



Our approach to achieving MSV

During 2022 each Partner Company Group (PCG: PC group by region/ business) has continued to make progress on their individual ambitions, targets, and priorities within each of these material impact areas. This has been supported by a newly established Environment and Safety working group comprising senior environment and safety leaders from each PCG, that has focused on benchmarking, sharing best practice, and agreeing common metrics to improve understanding of consolidated performance progress for material environmental impacts.
Full implementation of these metrics across all PCGs will take some time, but good progress has been made during the year, including new metrics for renewable energy, renewable electricity, and water consumption. Future metrics will include Scope 3 carbon for additional PCGs, water withdrawal and consumption in regions of high water stress, and VOC emissions. The work on metrics during the year has also included improved accuracy of collected data, leading to some revisions for prior year reported performance. Supporting and enabling improved management and understanding of the impacts, risks, and opportunities for both climate change and resources and the environment, will be the primary focus of the working group in the coming year.

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

Reports based on TCFD recommendations

Governance	Sustainability as the Prerequisite for MSV ▸ page 41 Discussions by the Board of Directors ▸ page 108
Strategies	Environmental Strategy -Climate-related scenario analysis ▸ page 66 Research and development strategy ▸ page 77
Risk management	Sustainability as the Prerequisite for MSV ▸ page 41 Risk Management ▸ page 121
Metrics and targets	Environmental Strategy -Ambition & improvement ▸ page 66 -Performance ▸ page 67

Climate Change

Group policy

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.

Risks & opportunities

The key risks and opportunities associated with climate change are summarized in the table of the materiality page (Sustainability as the Prerequisite for MSV P41). There is some variation across individual PCGs, including in the associated identification of priority actions as part of their sustainability strategies and action plans. Here we show the risks and opportunities for each scenario.

Climate-related scenario analysis

	Risks	Opportunities
1.5°C	Regulatory changes and impacts, such as carbon pricing and greenhouse gas emission reduction targets. *1	Market growth for sustainable products (e.g. low-carbon, improved performance). *2
	Increased supplier costs from climate adaptation and decarbonization actions.	Development of new products and services to capture climate-related business opportunities.
	Changes in customer and consumer expectations and behavior during the transition to a low-carbon future.	-
4°C	Increased extreme weather events (e.g. floods) and climate impacts (e.g. water stress) impacting operations and supply chain.	Market growth for sustainable products (e.g. low-carbon, improved performance in temperature extremes).
	Product claims and brand damage due to performance deterioration (e.g. tempera-ture extremes).	Development of new products and services to capture climate-related business opportunities.

*1 Based on the net zero scenario (IEA), the carbon price (impact on our Group) is estimated to be JPY4.3 billion in 2030 and JPY7.4 billion in 2040 (Assumptions: carbon price of USD130 for Advanced economies and USD90 for Selected emerging market and developing economies in 2030; and USD205 for Advanced economies and USD160 for Selected emerging market and developing economies in 2040. The exchange rate is the actual rate for FY2022 (USD/JPY =132.1).)
Our Group plans to avoid this impact through emission reductions and other initiatives.
*2 In the automotive coatings business of Japan Group, we expect sales of low-carbon products, including low-temperature baking products, to increase about threefold from 2023 to 2025.

Ambition & improvement

Each PCG has continued to develop their individual goals and improvement plans for climate-related impacts, risks, and opportunities during the year. The current targets and plan progress for each PCG are summarized in the following table.

Targets by Partner Company Group

PCG	current targets		2022 progress & 2023 plans
	GHG emissions (Scope 1 and 2) reduction	Energy consumption	
NIPSEA Group	2025: 15% reduction 2060: Net zero	2025: 8% reduction of energy consumption	· Individual sites continued to progress with initiatives to achieve the 2025 targets, including solar installations at 8 factories in China and a further 13 factories planned in 2023. · Scope 3 footprint to be calculated in 2023.
DuluxGroup (Pacific)	2030: 50% reduction 2050: Net zero	2030: 50% renewable electricity consumption	· Developed action plans to achieve 2030 targets and commenced implementation, which will continue in 2023, including site energy efficiency plans, solar installations, preparation for renewable power purchase, and preparation for fleet electric vehicle transition. · Climate risks and opportunities analysis completed, together with ongoing development of business continuity plans for critical supply chains. · Scope 3 footprint calculated for fourth year, with reduction analysis to be completed and potential reduction target determined in 2023.
DuluxGroup (Europe)	-	-	· Cromology commenced 100% renewable power purchase in all European countries. · JUB commenced large solar installation at Serbia plant, with planned completion in 2023. · Carbon and energy reporting to be implemented and potential targets developed in 2023.
Japan Group	2030: 37% reduction 2050: Net zero	-	· Renewable power purchase commenced, with levels to be increased in coming years. · Scope 3 footprint calculated for third year.
Dunn-Edwards	-	-	· Scope 1 and 2 reporting to be implemented in 2023 and reduction targets to be considered in the future.

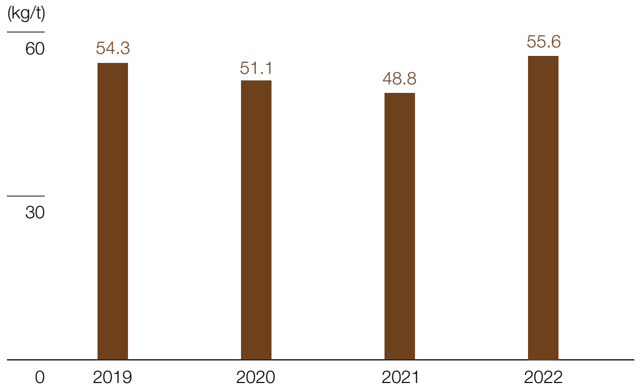
Performance

Total greenhouse gas emissions (Scope 1 and 2) and total energy consumption increased during the year, as did the consumption of renewable energy and electricity. Significant contributors to these performance changes were the European acquisitions of Cromology and JUB within DuluxGroup, while other individual factors within each PCG also contributed.

Greenhouse gas emissions (Scope 1 and 2) increased 14% to 55.6 kilograms per tonne (kg/t). The overall increase was driven by the Cromology acquisition, inclusion of previously unreported sites in NIPSEA Group, reduced production in DuluxGroup Pacific due to a major flooding event at the Dulux Rocklea plant, together with changes in production mix across different business units.

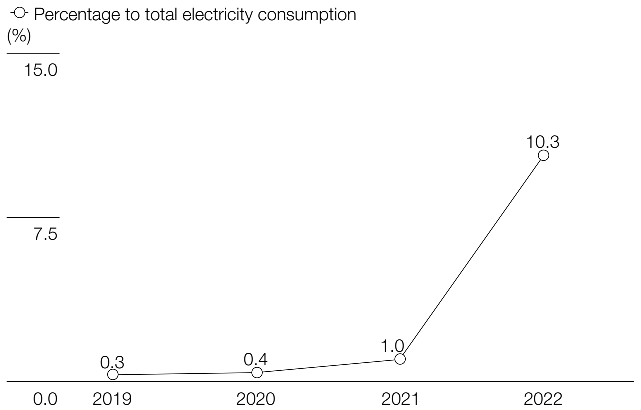
Total energy consumption increased 27% to 0.51 kilograms per tonne (kg/t), renewable energy consumption increased 4.1 pp to 4.6% of total energy consumption and renewable electricity consumption increased 9.3 pp to 10.3% of total electricity consumption. The increase in total energy consumption was driven by the same factors that impacted Scope 1 and 2 emissions performance, while the increase in renewables was driven by renewable power purchase in Cromology and Japan Group, together with solar installations in NIPSEA China, DuluxGroup Australia, and JUB Serbia.

Greenhouse gas emissions — Scope 1 and 2



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

Renewable electricity consumption



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

Greenhouse gas emissions — Scope 3 by category (t-CO_2)

	DuluxGroup (Pacific) + Japan Group	2022
1	Purchased goods and services	1,742,146
2	Capital goods	129,501
3	Fuel-and-energy-related activities	45,755
4	Upstream transportation and distribution	55,717
5	Waste generated in operations	21,824
6	Business travel	4,083
7	Employee commuting	18,258
8	Upstream leased assets	0
9	Downstream transportation and distribution	115,722
10	Processing of sold products	0
11	Use of sold products	8,706
12	End-of-life treatment of sold products	60,763
13	Downstream leased assets	9,487
14	Franchises	0
15	Investments	16,313
	Other	1,385
	Total	2,229,660

2022 performance and changes versus the prior year for individual PCGs are summarized in the following table, together with the key performance drivers for the changes.

Performance by Partner Company Group (PCG)

PCG	Carbon	Energy			Key performance drivers
	GHG emissions (Scope 1 and 2) (kg/t)	Total energy consumption (GJ/t)	Renewable energy consumption (% of total energy consumption)	Renewable energy consumption (% of total electricity consumption)	
NIPSEA Group	48 (+17%)	0.32 (+28%)	1.6% (+0.9 pp)	2.8% (+1.6 pp)	· Inclusion of solar installation at 8 factories in China.
DuluxGroup (Pacific)	146 (+4%)	0.99 (+11%)	1.6% (+0.7 pp)	3.0% (+1.4 pp)	· Reduced production at Dulux Rocklea plant due to major flood event. · Solar installation completed at Cabot's Dandenong plant and installations commenced at multiple Dulux Trade Centers. · Changes in production mix across different business units.
DuluxGroup (Europe)[1]	30[2]	0.80	31.6%	66.2%	· Cromology renewable power purchase in all European countries. · Solar installation commenced at JUB Serbia.
Japan Group	153 (-7%)	3.31 (-2%)	1.9% (+1.9 pp)	7.3% (+7.3 pp)	· Commenced purchase of renewable power. · Changed from oil to gas at Okayama plant.
Dunn-Edwards	-	0.19 (-5%)	-	-	-

*1 Businesses were acquired in 2022, hence no prior year comparison is available for performance metrics.
*2 Excludes JUB

DuluxGroup - greenhouse gas emissions reduction -

Photo shows solar installation on roof of DuluxGroup Dandenong South factory.

DuluxGroup established targets in 2021 for the Pacific businesses (Australia, New Zealand, Papua New Guinea) to achieve a reduction in greenhouse gas emissions (Scope 1 and 2) of 50% by 2030 and net zero by 2050, together with 50% renewable electricity consumption by 2030. Significant planning to achieve these targets was undertaken during 2022 and identified the required actions and timing to ensure achievement, including site energy efficiency improvements, solar installations, renewable power purchase, and electric vehicle fleet adoption. Implementation of these actions commenced late in 2022, including installation of a 250 kW solar panel system at the Cabot's, Fosroc, and Dulux Protective Coatings factory in Dandenong South, Melbourne, Australia. Further solar installations are planned for completion at multiple DuluxGroup sites in 2023.

Resources and Environment

Group policy

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.

Risks & opportunities

The key risks and opportunities associated with resources and environment are summarized in the table of materiality page (Sustainability as the Prerequisite for MSV P41). While these are largely common across the consolidated group, individual PCGs do have some different focus areas and action priorities that reflect the local maturity of their improvement journeys.

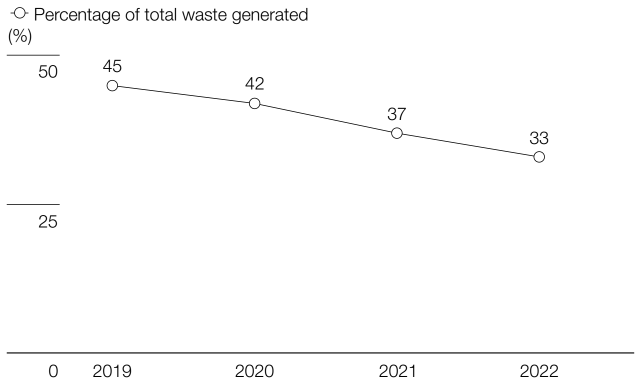
Improvement & performance

Waste generated, waste recovered, water withdrawn, and water consumed all increased during the year. A significant contributor to these performance changes were the European acquisitions of Cromology and JUB within DuluxGroup, while other significant individual factors within each PCG also contributed.

Total waste generated increased 43% to 15.9 kilograms per tonne (kg/t), while the hazardous waste proportion decreased 4 percentage points (pp) to 33%. Waste recovered (recycled, reused) increased 43% to 6.3 kilograms per tonne (kg/t), which is equivalent to 42% of the total waste generated, an increase of 1 pp. The waste recovered performance excludes Cromology, where data is not currently available. Overall, these waste performance changes were primarily driven by the Cromology and JUB acquisitions, inclusion of previously unreported non-hazardous waste for NIPSEA China, and increased waste in DuluxGroup Pacific due to clean-up from the major flooding event at the Dulux Rocklea plant.

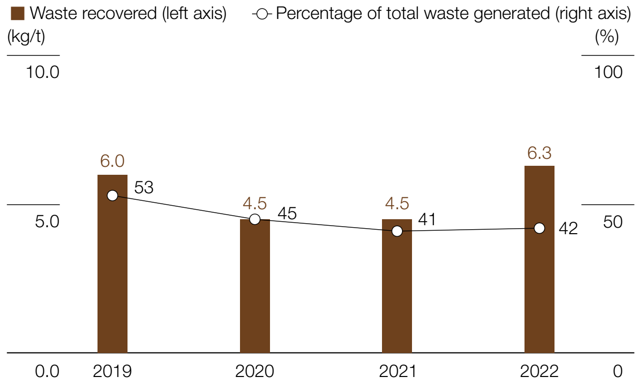
Water withdrawal increased 7% to 0.58 kiloliters per tonne (kL/t), while water consumed increased 8% to 0.39 kL/t. These performance changes were primarily driven by the Cromology and JUB acquisitions, changes in production mix for NIPSEA Group, and increased consumption in DuluxGroup Pacific due to clean-up activities following the major flooding event at the Dulux Rocklea plant.

Hazardous waste generated



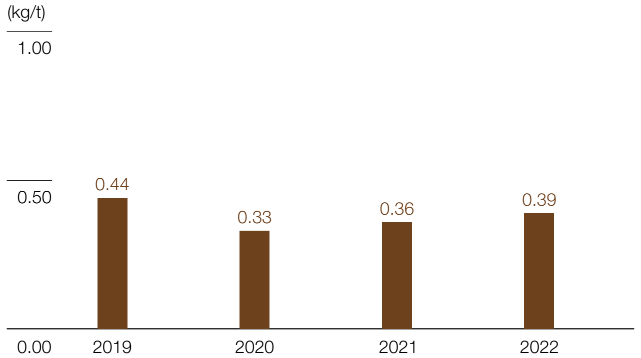
* The scope of coverage: Japan Group, NIPSEA Group, DuluxGroup (including Cromology and JUB beginning in FY2022), Dunn-Edwards (beginning in FY2020)

Waste recovered (recycled, reused)



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

Water consumed



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

2022 performance and changes versus the prior year for individual PCGs are summarized in the following table, together with the key improvement priorities for the year.

Performance by Partner Company Group (PCG)

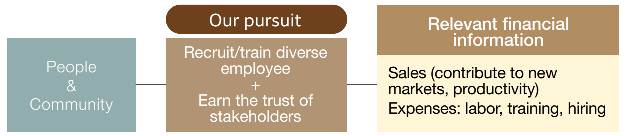
PCG	Waste			Water		2022 improvement drivers & priorities
	Total waste generated (kg/t)	Hazardous waste generated (% of total waste generated)	Waste recovered (% of total waste generated)	Water withdrawal (kL/t)	Water consumed (kL/t)	
NIPSEA Group	10.5 (+46%)	43.2% (-1.7 pp)	23.9% (0 pp)	0.52 (+6%)	0.38 (+8%)	· Target: 8% water intensity reduction by 2025. · Increased waste due to China reporting non-hazardous waste data for the first time as part of comprehensive 2022-2023 plan. · Betek Boya implemented waste-water recycling, rainwater recovery, and polymer recovery from waste water. · China Jinshan implemented thermal oxidizer to treat volatile organic compounds (VOCs) emissions.
DuluxGroup (Pacific)	65.6 (+10%)	32.1% (-3.3 pp)	51.4% (+1.8 pp)	0.41 (+14%)	0.23 (+64%)	· Target: 50% landfill waste reduction by 2030. · Waste and water increased due to Dulux Rocklea site flood clean-up activities. · Developed action plan for 2030 waste to landfill reduction target and commenced implementation. · Commenced bulk bag recycling at Yates Wyee and improved waste segregation and recovery across Dulux Trade Centers.
DuluxGroup (Europe)*	33.5	15.9%	-	0.75	0.47	· Waste water treatment plant installation at three Cromology factories (France, Italy).
Japan Group	50.1 (-12%)	14.3% (-3.6 pp)	96.5% (+17.1 pp)	1.62 (-7%)	0.61 (-24%)	· Wastewater treatment plant sludge reduction. · Improved waste segregation. · Increased recycling of wash water.
Dunn-Edwards	11.1 (+1000%)	0% (0 pp)	10.3% (-44 pp)	0.57 (-17%)	0.52 (-23%)	-

* Businesses were acquired in 2022, hence no prior year comparison is available for performance metrics.

Human Resource Strategy

As a Japan-origin global corporate group operating in 45 countries and regions worldwide, including in China and other parts of Asia, Nippon Paint Group is committed to contributing to Maximization of Shareholder Value (MSV) by leveraging the diversity and strengths of its human capital, as well as fulfilling its obligations to stakeholders, which is the premise of MSV.

How Shareholder Value Is Maximized See page 5.



Our approach to achieving MSV

Our primary approach in our human resource strategy to achieve MSV is to build a strong and diverse organization with excellent human capital. This will enable us to consistently achieve strong growth.

People play a vital role in an organization as they are the driving force behind business growth. In successful partner companies, powerful teams consisting of diverse individuals, along with excellent leadership teams, act as the driving force. It's important to recognize that achieving goals cannot be done alone.

Given that the market undergoes long-term changes, we need a human resource base that can not only adapt to these changes but also capitalize on them with agility. People can embrace change and seize opportunities, even if they encounter failures while taking risks to pursue their objectives, as long as they accept and learn from those failures. To attain MSV, it is crucial to foster a dynamic and open corporate culture, as well as a pleasant and rewarding work environment that encourages every employee to take on challenges and fully showcase their unique qualities and abilities in generating new value and businesses.

We will make appropriate investments in human capital to establish an organization that can grow sustainably. From a technological standpoint, this means investing in human capital with a long-term perspective towards developing innovative and productive technologies, while also implementing tailored personnel systems.

The People & Community Team conducts activities around two categories of Materiality: Diversity & Inclusion as well as Growth with Communities. Our activities are conducted in each country and region with focus on the three pillars of (1) Increasing the ratio of women in managerial positions, (2) Celebrating diversity, and (3) Building and enabling local communities

See "Growth with Communities on page 82.

Our goal is to achieve sustainable EPS growth through productivity improvement enabled by maintaining employee motivation and increasing employee engagement, as well as reducing expenses for employee recruitment and retention. We are also committed to fully fulfilling our obligations to employees.

The key initiatives for building strong teams include enhancing the training programs by using the amount of training hours and education investments as KPIs as detailed in the following pages and implementing various actions such as promoting women's empowerment based on the ratio of women in managerial positions as KPI with the goal of raising the ratio to 35% by 2025 at NIPSEA Group and to 10% in 2025 in Japan.

However, achieving these KPIs is not the objective of our initiatives. Rather, these initiatives are aimed at increasing the Group's social recognition as an organization that embraces diverse thinking and is willing to transform. We believe this will attract more excellent talent regardless of age, gender, nationality, ethnicity, religion and other factors, who will be the driving force for further transformation of the Group, creating synergies. What we see as crucial is to create an environment that allows our excellent talent to play greater roles and add value. We believe such an environment will have a positive impact on the top line and bottom line by improving work efficiency and bringing about transformation, and in turn may contribute to MSV.

Key indicators related to human capital (FY2022)

	NIPSEA	DuluxGroup	Dunn-Edwards	Japan Group
Ratio of female employees	25.0%	32.7%	30.0%	22.5%
Ratio of women in managerial positions	25.2%	31.5%	34.5%	5.4%
Employee satisfaction levels	75%	80% (FY2021)	—	81%

Human resource development measures essential for achieving MSV

For Nippon Paint Group to grow in a sustainable manner, it is essential that we secure skilled human resources and offer a corporate culture and working environment in which it is pleasant and rewarding to work, thus allowing people to leverage their individuality and capabilities to the fullest.

We focus on developing talent and capability of employees and attract talent and skilled individuals by promoting opportunities for professional growth and advancement, rewarding employee performance.

The Group promoted the enhancement of human resources by investing in human capital through the intensification of training programs developed autonomously by each partner company according to the challenges faced.

We believe expanding training programs will have a direct benefit of enhancing employees' skills, as well as other benefits such as maintaining employee motivation and engagement, improving competitive advantage in hiring new college graduates and mid-career people and reducing the turnover ratio. Accordingly, it is a key initiative for enhancing the human resource portfolio.

DuluxGroup

At DuluxGroup, we know that a motivated, skilled and diverse workforce is the key to our continued success. We have a culture of development, where our leaders are focused on continuously developing their people. This is supported by formal learning programs specific to the relevant business, geography and role.

DuluxGroup Pacific offers a comprehensive learning program covering leadership, professional skills, functional skills and product training, including residential programs, external programs, virtual programs, livestreams and podcasts. Each year we run a "Learning Festival" – three days of learning on a broad range of topics, including well-being, future skills and deeper insight into our business – available to all of our employees. We encourage our employees to "Own your Growth" and take advantage of the formal and informal learning opportunities.

Similarly, Cromology and JUB offer relevant learning programs to support the business and professional skills of their employees. This includes employee induction; compulsory training to meet legislative and internal regulations; professional skills training and leadership skills.

NIPSEA Group

NIPSEA Group recognizes the importance of training and development in the overall growth and success of the organization. To ensure the holistic development of our employees, our learning and development plans are designed at country level to meet the specific needs of the local workforce. Through the annual Training Needs Analysis exercise, we are able to create a more effective learning experience that focuses on upskilling their capabilities and competencies required at different job levels.

To further enhance the learning capabilities of its employees, NIPSEA Group has progressively introduced a Learning Management System in FY2021/2022. This system interface supports multiple languages, which enables countries to customize their learning needs accordingly.

Our programs cover topics including, but not limited to, NIPSEA Leadership Competencies (AGILE), functional training, health safety & environment, information technology, and physical & mental wellness.

In FY2022, NIPSEA Group clocked a total of 1,626,370 hours on employee training.

Dunn-Edwards

At Dunn-Edwards, our training objective is to continuously develop and deliver programs that not only provide our team members with the skills and knowledge necessary to be successful in their current roles, but also those that will aid them in long-term professional development. In this process, we leverage both technology (learning management systems, interactive programs, etc.) and current training techniques (micro learning, hands-on sessions, etc.) to ensure our team members are provided a wide variety of tools and resources to build successful careers in an ever-evolving workplace.

Internal training programs include New-hire Orientations customized by department, position-specific programs in Sales, Product Performance, Retail and Business Management, Labor Law, Harassment Prevention, Risk Management, Safety, Hazardous Materials (HAZMAT), Diversity and Inclusion and more.

We also offer a generous Tuition Assistance Program, that is available to all employees (both full-time and part-time) and provides access to not only degree programs from accredited institutions, but also professional certification programs, vocational programs, and educational seminars.

Japan Group

Japan Group offers training for all employees, such as training by job level according to the expected roles and career stages of individual employees (new employee orientation training for new grads and mid-careers, follow-up training, new manager training, and annual training). As a new program started in FY2022, leadership training was provided targeting some team leaders. In addition, the HR department conducted a communication program (1-on-1 meeting, feedback, coaching). We also offered English skill training programs for selected employees who often communicate with people from overseas partner companies and business partners.

In FY2022, the total amount of training hours in Japan Group was 28,000 hours.

Building up human capital with diversity

Building up human capital with diversity serves as one of the most critical cornerstones of our Asset Assembler model.

We know that our diverse, skilled and engaged workforce is critical to achieve MSV. To this end, we foster the promotion of human resources with a diverse background and the promotion of education and awareness of diversity, equity, and inclusion; eliminate the discrimination, harassment, and violence based on race, gender, religion, and any other form of diversity in the workplace; and create a more welcoming work environment where everyone feels welcomed and respected.

Each of our PCs are building up human capital by taking actions that are suitable for the countries and regions where they conduct business activities.

The Global Code of Conduct, which was established in January 2022, articulates our focus on diversity and respect for human rights. In addition, our PCs around the world carry out human resource management activities designed to secure and increase diversity. Moreover, our Corporate Governance Policy stipulates that the Group values ensuring diversity.

Roadmap

	2022	2023	~2025
NIPSEA	· Kicked off D&I Week to raise employee awareness · Implemented Global CSR Framework	· Launching D&I Policy · Encourage countries to own the roadmap towards achieving 35% female representation in both management & emerging leader category · Weave D&I into Employee Engagement campaigns	· Initiated the NIPSEA Female Mentorship Program · Implementation of roadmap towards the goal of achieving 35% female representation in both management & emerging leader category · Monitor progress towards the goal
DuluxGroup	· Revised draft D&I framework and strategy, encompassing dimensions beyond gender (indigenous reconciliation; disability; cultural diversity) · Regular reporting to the CEO and the Executive Team on our progress against our diversity ambition	· Promote our Employee Value Proposition to all employees, but particularly to women in Supply Chain and Sales · Engage each of our Strategic Business Units to develop their own Diversity, Inclusion and Belonging strategy and actions	· Meaningful actions to sustain our momentum toward gender balance, particularly in leadership · Meaningful internal programs to foster inclusion
Dunn-Edwards	· Launched DEI Training	· Launched phase 2 of DEI curriculum for all employees · Share DEI curriculum with NPHD People and Community DEI Committee · DEI committee building company-wide interactive activity for April's celebration of diversity, highlighting the diversity that exists within Dunn-Edwards	· Continuously review and adapt company polices to ensure that all charter objectives are met
Japan Group	· Kicked off D&I Committee Japan. Launched activities to support the skill development and active participation of women employees, revitalize the organization and accelerate business growth	· Developed action plans towards 2025 · Act on Promotion of Women's Participation & Career Advancement in the Workplace	· Increase the ratio of women in managerial positions to 10% · Selects and trains the next generation of women leaders from non-managerial positions for their skills and career building

DuluxGroup

At DuluxGroup, we believe that diverse perspectives and experiences drive innovation and enhance performance. Our leaders, at all levels, are focused on creating an environment where everyone feels they belong and can do their best work.

We are committed to gender equality. Through a focused effort in our recruiting strategies, our internal talent management processes and development of our people, we have increased female representation at all levels of the organization, particularly in leadership, where we have more than doubled the percentage of women in our Top 200 in the last 10 years.

By actively promoting career development opportunities and a compelling employee value proposition, including flexible work arrangements, we aim to not only attract and retain talented women, but also break down gender stereotypes in our industry.

Dunn-Edwards

At Dunn-Edwards, we're proud to have built an organization that reflects the diverse melting pot that is the North American market, and we're committed to fostering an inclusive and diverse environment, where all employees feel welcomed and valued, and where everyone has equal access to opportunities, guidance, and support.

Based on this guiding principle, in 2020, we established our Diversity, Equity, and Inclusion (DE&I) Committee to steer our efforts in this area. In the time since, all activities and initiatives undertaken have been developed based on company-wide survey data, gauging the sentiment of our workforce around the company's current state of and efforts toward DE&I.

To date, we've expanded resources for career development and career pathing, launched a DE&I training curriculum for team members at all levels, and launched a new Intranet and communication strategy to improve transparency across the organization. As we go forward, we'll continue to use a data-driven approach to shape future activities to ensure a welcoming and supportive environment.

NIPSEA Group

NIPSEA Group takes pride in fostering a diverse and inclusive workforce that embraces people of different genders, generations, nationalities, and expertise. We recognize the importance of having a diverse team in producing better business outcomes for its customers and the communities it operates in. As part of its commitment to Diversity & Inclusion ("D&I"), we have formed a dedicated committee that champions initiatives around "People and Community." This committee plays a vital role in ensuring that the company's D&I policies and programs align with its overall commitment and approach to D&I.

NIPSEA Group is working towards the goal of achieving 35% female representation in both management and emerging leader categories.

To achieve this goal, we have created a supportive work environment that aims to attract, retain, and develop female talents across the organization. These initiatives include mentorship programs, coaching, and leadership development opportunities.

Japan Group

Japan Group has taken the following actions to achieve the goal of increasing the ratio of women in managerial positions to 10% by 2025: development of next-generation female leadership candidates, implementing various actions to help with career visioning, and mindset reform in employees for promotion to managerial positions. Specifically, we are working on the development of next-generation female leadership candidates as part of activities of the D&I Committee Japan launched in July 2022. Through this activity, we provide all supports and development opportunities necessary to encourage ordinary female employees to set their career goals in a more proactive manner. In addition, our employees will declare their career goals once a year and have one-on-one meetings with their supervisors to continuously support their career goal achievements. This opportunity has allowed all employees including female employees to become aware of the importance of building their careers by themselves, thereby contributing to mindset reform. Female candidates will not be given preferential treatment in our annual appointment of managerial positions. Both management and supervisors make sure to promote the right person regardless of gender, ensuring that talented female employees are not overlooked in promotion decisions.

Benefits expected from improving employee satisfaction levels

Increasing employee engagement will lead to creating an environment where excellent human resources can consistently perform to their fullest potential. We regularly monitor and survey employee satisfaction levels of partner companies that join the Group under our Asset Assembler model.

The survey results of each partner company will be compared and analyzed using benchmarks, such as the peer average in the same region, and historical data to examine actions necessary to improve employee satisfaction levels.

NIPSEA Group scored an overall engagement score of 75% in FY2022. It was 5 pp higher than in FY2019 and higher than the APAC average score.

DuluxGroup's engagement score reached 80% in 2021, 8 pp higher than the 72% achieved before joining Nippon Paint Group. DuluxGroup uses a number of other methods to track employee engagement, including pulse surveys in different business areas and exit interviews with departing employees. At DuluxGroup, we believe that our leaders are key to driving high employee engagement. Leadership teams at DuluxGroup regularly reflect on the engagement of their teams and drive high levels of engagement through regular feedback and development conversations with their teams.

Dunn-Edwards utilizes interviews with former employees in place of the employee satisfaction survey. The analysis of data obtained through interviews of former employees has shown that the two-year period from joining the company is most important for building connections with the company and factors that are important for employee retention include the compensation and retirement benefit system (401 (k)) and leadership of people in managerial positions. To provide an attractive and competitive system in this area, Dunn-Edwards has established its compensation and retirement benefit policy and developed and enhanced training programs designed for career advancement for employees at all career stages.

In Japan Group, for instance, the result of our employee engagement survey, conducted regularly by Nippon Paint Labor Union, is shared with the management team.

▶ See page 95 for more information.

Japan Group's approach to human capital to achieving MSV

The goal of the human resource strategy in Japan Group is to improve EPS through business expansion and profitability improvement.

Toward achieving this goal, we have designated D&I indicators, such as the ratio of women in managerial positions, and the engagement indicator, such as employee satisfaction level, which are indicators that will be the focus of our human resource strategy.

We are taking actions, such as human capital investment including aggressive recruitment of new college graduates and mid-career workers as an ambitious initiative to build a strong human resource base that can contribute to sustainable growth. Our goal is to transform our human resources and organizations to ones that embody our J-LFG action guidelines which promote the active participation of diverse human resources and create the culture that encourages people to take on challenges.

We are currently providing various supports and training opportunities to enable our female general employees to more proactively plan their career goals as an initiative to develop candidates for next-generation female leaders. Specifically, we provide an opportunity once a year for all employees to declare their career goals, which we continuously support through 1-on-1 meetings with their supervisors. This has allowed not just female employees but all employees to become aware of the importance of building their career by themselves and changes in mindset.

In addition, when we hold briefing meetings on promotion to managerial positions, we explain to leaders of business divisions the gap between the current status and the target for FY2025 in the ratio of women in managerial positions to urge them to keep the KPIs in mind.

Japan Group is paying attention to the impact on its employees from the structural reform for profitability improvement that is currently underway.

As measures to improve employee satisfaction levels, we are enhancing communication with employees.

▶ See page 95 for more information.

Gender pay gap for Japan Group

At every PC in Japan Group, wages are determined based on roles played and significance of job tasks. We have gender pay parity in like-for-like roles and job tasks.

Based on our analysis, the primary cause of the gender pay gap is the lower ratio of women in managerial positions than men. Japan Group is taking actions, such as providing skill development programs for female employees and their supervisors with the goal of achieving the numerical target of increasing the ratio of women in managerial positions to 10% by 2025. We believe that the gender pay gap will decrease with the increase in the ratio of women in managerial positions.

Gender pay gap ratio (FY2022)

	All workers	Regular employees	Non-regular employees
Nippon Paint Automotive Coatings Co., Ltd. (NPAC)	66.9	75.8	67.3
Nippon Paint Industrial Coatings Co., Ltd. (NPIU)	77.8	79.8	81.4
Nippon Paint Co., Ltd. (NPTU)	73.6	77.2	76.3
Nippon Paint Corporate Solutions Co., Ltd. (NPCS)	77.4	79.6	77.8

* The survey targets are partner companies with more than 300 employees
* Women's wages relative to men's (indexed to 100)

(For reference) Pay gap analysis for NPAC

The larger overall gender pay gap is mainly attributable to the gender pay gap among non-regular employees of 67.3% because NPAC has more non-regular employees than other PCs. Based on our analysis, the gender pay gap among non-regular employees is primarily due to the difference in the composition of workforce (the ratio of employees reemployed after retirement: 64% for men and 2.9% for women).

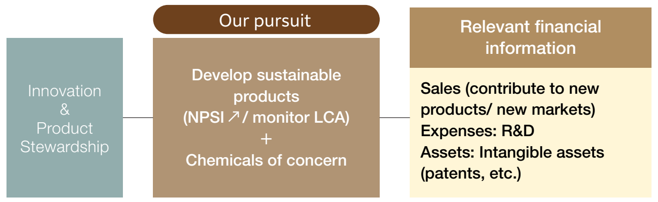
Human resource strategy of Japan Group

EPS improvement	KPI	Human resources and organizations that embody J-LFG (OUTPUT)	Human capital investment (INPUT)
Business expansion	D&I indicators • Ratio of women in managerial positions	Active participation of diverse human resources • Stable supply of young talented human resources • Improve the inequality of human resource distribution among age groups/reduce gaps in age groups	Aggressive recruitment (new college graduate recruitment, mid-career recruitment) • Restart of new college graduate recruitment for FY2025 • Strategic mid-career recruitment
		Create a culture of encouraging employees to take on a challenge • Supporting proactive actions by employees and increase work fulfillment • Improve employees' awareness of management participation	Fair evaluation, compensation, and rewarding systems • Revise the bonus system • Introduce J-LFG Awards, Reward
Profitability improvement	Engagement indicators • Employee satisfaction level	Talent management • Enhance the pipeline of talent • Stable supply of successors to key positions • Utilize the talent management system (visualization of human resources)	Autonomous growth and supporting frameworks • Reinforce OJT program • Reinforce 1-on-1 meetings • Enhance selection-based training/elective training programs
		Increase job satisfaction and work fulfillment • Work styles suited to different life styles • Work styles with high productivity	Create a comfortable work environment • Reinforce healthcare support • Enhance mental health education • Promote the use of paid leave • Prevent working long hours

R&D Strategy

The world is seeing the emergence of numerous problems that are difficult to solve by using methods of prior years. To help solve these problems, we will use many partnerships to further upgrade our ability to create innovative ideas.

How Shareholder Value Is Maximized See page 5.



Our approach to achieving MSV

Our technology mission is to drive and sustain growth and market share in Japan and globally as a leading technology organization for coatings and adjacent markets. Our innovation strategy has three pillars: 1) build an adaptive organization; 2) develop core enabling technology competency; and 3) expand into adjacent and emerging markets. These are initiatives for Maximizing Shareholder Value (MSV) from a technology perspective. We believe that our technology organization's culture of being customer centric, socially responsible and collaborative is the key driver to success. Importantly, technology collaboration and intellectual property sharing among our partner companies around the globe are under the principle of our Asset Assembler model, which Nippon Paint Group strategically employs to manage the business of partner companies. The technology teams of partner companies are highly autonomous to effectively address the needs of their respective markets and customers.

We started LSI (Leverage, Share & Integrate) activity aimed at driving technology sharing and capability leveraging among partner companies to facilitate technology exchange platforms and cross-PC projects. We have established adaptive ways to enhance global technology collaborations for increasing the added value of intellectual property. The technology teams in various fields such as decorative paints or paints for automotive have formed a global technical community to share best practices and leverage research capabilities in joint technology development projects, helping address the needs of local consumers in each country.

Roadmap

	2022	2023	~2027
Sustainable Products	· NIPSEA Group: Redefined sustainable products · NIPSEA Group, Japan Group: Developed Sustainability Scoreboard · DuluxGroup: Established sustainable products targets and developed roadmaps for ANZ*1 businesses	· Life Cycle Assessment (LCA) of selected products can be calculated at each Partner Company · DuluxGroup: Develop GHG emissions (Scope 3) reduction roadmap	· Manage the performance of Sustainability Scoreboard of each partner company every quarter · Promote creation of more innovative sustainable products · DuluxGroup: Implement sustainable products and GHG emissions (Scope 3) roadmaps
Chemicals of Concern	· Each Partner Company responded to US Environmental Protection Agency (EPA) and REACH · DuluxGroup developed position statements for 50% of high concern CoC · Dunn-Edwards: Incoming Chemical Management / Selection per Chemicals of Concern	· Consider the phase out plan of Chemicals of Concern in each partner company · NIPSEA Group: Focus on 4 hazardous heavy metals*2 · DuluxGroup: Complete position statements for 75% of CoC and develop a structured program of CoC in Europe	· Create sustainable products based on phase out plan
R&D	· Developed Green Design Review	· R&D activities for sustainable products from Partner Companies beyond Japan and NIPSEA Group, e.g. DuluxGroup, Dunn-Edwards, etc.	· Drive innovation towards UN SDGs and carbon neutrality
Product Stewardship	· DuluxGroup established packaging recycled content targets and developed roadmaps for ANZ businesses	· Identify inquiry items · Stakeholder questionnaire · NIPSEA Group: Reinforce PS&RA*3 team · DuluxGroup: Implement Product Vision to help with formulation management & regulatory tracking	· Implement inquiry management database · Inquiry response training · Training for customers and business partners · DuluxGroup: Implement packaging roadmaps

*1 Australia and New Zealand
*2 Lead, Chromate (Cr6+), Cadmium, and Mercury
*3 Product Stewardship & Regulatory Affairs

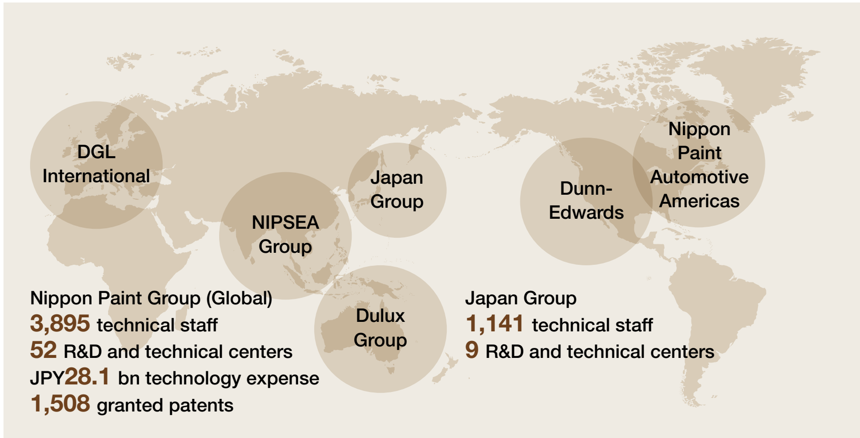
R&D framework and core technologies

Nippon Paint Group has 3,895 technical staff working worldwide, including 1,141 in Japan. They are the nucleus of our innovation power and core competitiveness for achieving sustainable business growth in the marketplace. We have technology teams at 52 R&D and technical centers to serve our customers and consumers worldwide, including our major R&D centers in Tokyo and Osaka in Japan, Shanghai in China, Singapore, Melbourne in Australia, Los Angeles and Cleveland in the US, and France in Europe. In 2022, R&D expenditures at Nippon Paint Group in Japan was over JPY28.1 bn and there were 169 patent applications. As of the end of 2022, the Group had more than 1,508 patents.

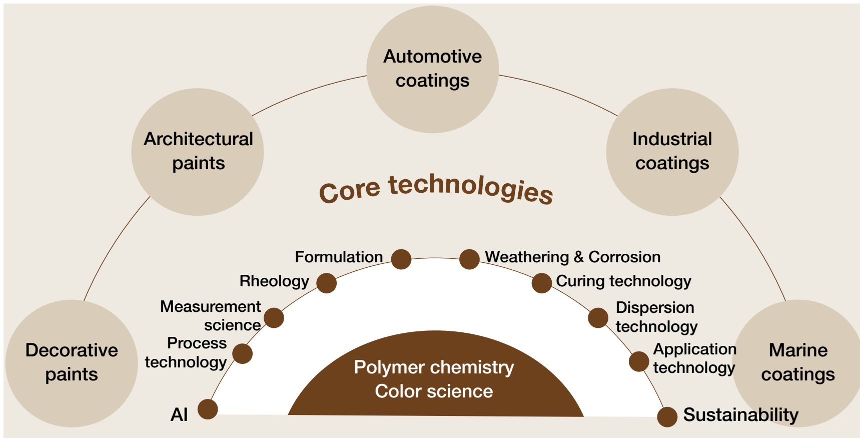
Nippon Paint Group has classified its core technologies involving paint and coatings and manages its intellectual property portfolio in 12 categories: polymer chemistry, color science, formulation, curing technology, dispersion technology, application technology, process technology, rheology, weathering and corrosion, measurement science, AI and sustainability.

Experts in each core technology field are working in core R&D teams in the R&D centers and collaborating with scientists from the global network of technical centers to support product development across the group. Nippon Paint Group possesses a broad open innovation network with universities and academic research institutions worldwide.

R&D organization



Core technologies



In 2020, Nippon Paint Group entered into a strategic research partnership with The University of Tokyo, resulting in the establishment of the University of Tokyo & Nippon Paint joint laboratory. The partnership aims to create innovative coating technologies in three fields, namely, infectious disease risk reduction, social cost and environment burden control, and contributions to smart society. In Singapore, NIPSEA Group has been collaborating with the research institutes of A*STAR (Agency for Science, Technology and Research) for decades. Recently, NIPSEA Group has strategically joined hands with A*STAR to develop disruptive technologies in the fields of smart surface enabling autonomous driving and the use of artificial intelligence in coating research.

Moreover, in 2023, Nippon Paint Group joined the Massachusetts Institute of Technology Industrial Liaison Program (MIT-ILP), which is dedicated to creating and strengthening mutually beneficial relationships between MIT and companies worldwide.

Innovation initiatives and programs

The New Product Sales Index (NPSI) is one of the indicators for measuring technology output. At Nippon Paint, new products are categorized into several categories, ranging from products upgraded through improvements in stages and to new-to-market products with disruptive innovations. NPSI is achieved with the joint efforts of technical teams with business and supply chain operation teams, where strong collaboration brings together our commitment to the MSV. In 2022, Japan Group and NIPSEA Group together have achieved NPSI of 20% and launched 12,000 new products.

R&D Strategy

Creation of sustainable products will drive long-term business success

Sustainability of our products

We believe that sustainable features are essential elements of our products to benefit society and achieve the long-term success of our businesses.
We define sustainable products and technologies based on the principle of product life cycle and according to the framework of the United Nation's Sustainable Development Goals (SDGs). This is a systematic approach, covering the following three main stages of a product's life cycle.

1. Production
2. Use
3. Service

Furthermore, in each stage, the advantages over the mainstream products in the market are assessed by translating the SDGs into the attributes of paint and coatings products. In the production stage, manufacturing efficiency, raw materials, logistic and packaging are the key aspects for assessments. In the product use stage, the advantages are helping customers and consumers when using products by reducing energy and material consumption, chemical emissions, and chemical hazards. In the service stage, products are assessed in terms of product service life, use in clean technologies, contribution to health and well-being, as well as end-of-life treatment. Under those sustainability principles, the Sustainability Scoreboard for new product assessment has been developed and is implemented in the NPSI systems of partner companies, Japan and NIPSEA China. In 2022, of the new product sales of Japan Group and NIPSEA China together, 52% were from newly developed sustainable products.
The Green Design Review has been developed and is used in the R&D project management systems of Japan Group and NIPSEA Group. In the project portfolios of Japan Group and NIPSEA Group, 47% of R&D projects are in the focus areas of creating sustainable benefits according to the Green Design Review principles.

Sustainable product data

New Product Sales Index (NPSI)

20%

Sustainability product sales ratio of the new product sales

52%

Sustainability product development project ratio in R&D expenses

47%

Results of sustainability products

Dulux enviroO_2 ™

Dulux enviroO_2 ™ is a premium low odour, low VOC acrylic paint that delivers superior performance.

In 2022, the Dulux business achieved 50% recycled content in packaging for the enviroO_2 ™ range.

Dulux enviroO_2 ™ is also the only major Australian paint brand with a Global GreenTag™ certification.

Decorative films

Nippon paint group also developed products for Solar Power system and Lithium-ion Batteries (LIBs) toward realization of sustainable low carbon society.

Toyota Motor Corporation and Nippon Paint Automotive Coatings jointly developed decorative films for photovoltaic modules that provide design and color flexibility to photovoltaic modules.

High adhesion primer

Nippon Paint Surf Chemilal developed a high adhesion primer, SURFCOAT NR-Z for pouch-type LIB package. Excellent adhesion after prolonged immersion in electrolyte was achieved.

Our products comply with the Hazardous Chemical Substance Regulation

Chemical substance management

In 2021, Japan Group launched the "Green 30" chemicals management system to minimize the impact of chemicals on the environment and public health. The system is designed to manage chemicals of concern based on regulations or treaties such as REACH regulations in EU, TSCA in the USA and CSCL in Japan.
We classify chemical risks in three categories (Rank A, Rank B, Rank C)* according to the laws and regulations in the countries where we operate. Japan Group started using this system in 2021 and the system is being expanded to our partner companies outside Japan.

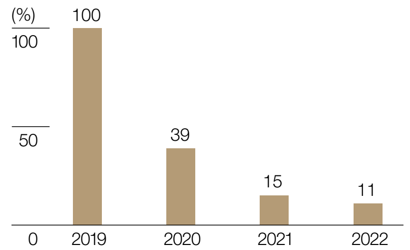
Alkylphenol ethoxylates (APEs) are mainly used for surfactants and include the subcategory of nonylphenol ethoxylates (NPEO/NPE). Nonylphenols (NP), raw materials for NPE, are regulated by REACH and TSCA. Nippon Paint Group has been steadily phasing out APEs-containing surfactants.

In addition, we have been replacing UV absorbers such as UV-328 and UV-327 that are considered as persistent organic pollutants (POPs) with other substances. Our next plan is to completely phase them out in all products sold in Europe by the end of 2023. We are also reducing the use of UV-328 in Japan Group.

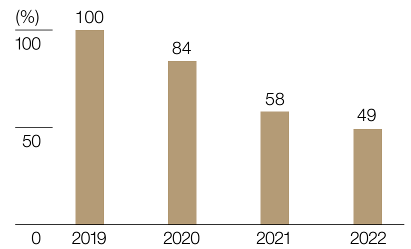
Moreover, we are lowering the use of other POPs such as Medium-chain chlorinated paraffins (MCCP, carbon chain lengths in the range C14-17 and chlorination ratio ≥45% by weight) in Japan.

DuluxGroup has continued its focus on identifying, managing, and addressing chemicals of emerging concern to make safer products available to the market. Some examples of our chemicals of concern initiatives in 2022 include:
—Removed APEs from Cabot's Aquadeck and Intergrain Ultradeck ranges and from an additional one million liter of products in our Dulux NZ business.
—Launched a safer Selleys paint stripper that is free of DCM (Dichloromethane) and removed toluene, cyclic siloxanes and UV-327 from several Selleys products.

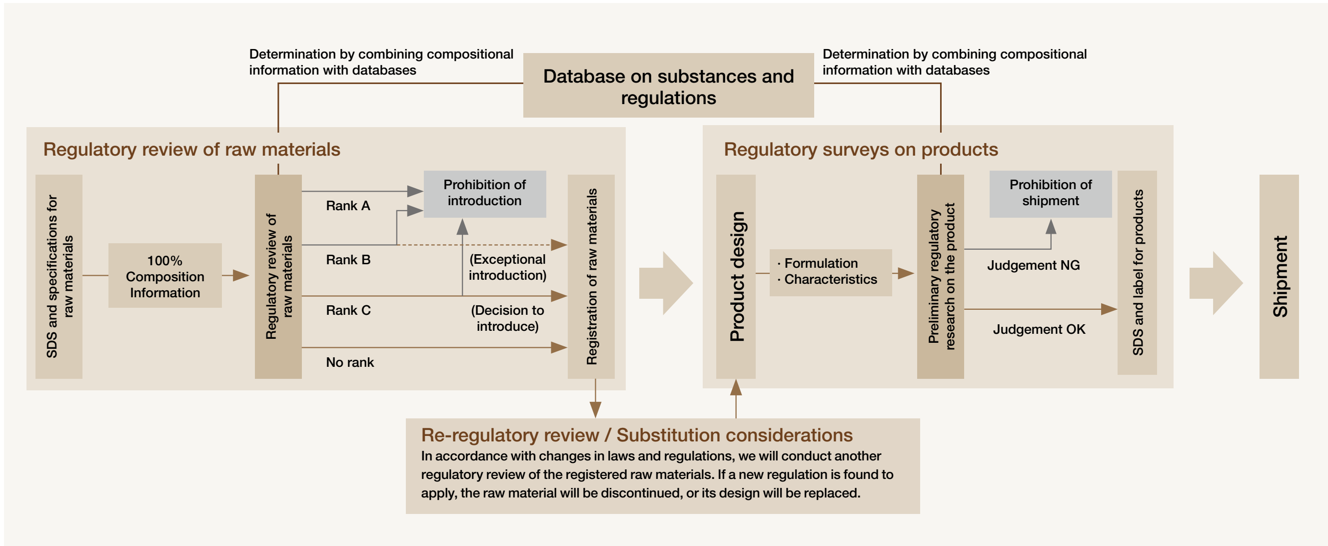
UV-328 usage (2019=100)



MCCP usage (2019=100)



Chemical substance management flow



* The definitions of categories
Rank A (Prohibited): Prohibition of introduction
Rank B (Restricted for new introduction): Prohibition of new introduction with some exceptions
Rank C (Avoid new introduction): Decide whether or not to introduce based on regulatory trends, environmental impact, and the business environment
No rank: No impact on raw material introduction

Safe People and Operations

Managing significant safety and health risks effectively to ensure the protection of our people, operations, and communities is a key imperative and priority for the organization. Given the high-consequence disaster and fatality risks associated with our operating plants in particular, this is a material sustainability impact for Nippon Paint Group and a critical focus to ensure our maximization of shareholder value.

Our approach to achieving MSV

During 2022 each PCG has continued to make progress on their individual improvement priorities for safe people and operations, including both high-consequence risks and everyday injury risks. This has been supported by the newly established Environment and Safety working group comprising senior environment and safety leaders from each PCG, that has focused on benchmarking, sharing best practice, and agreeing common metrics to improve monitoring of performance progress for significant safety and health risks. Full implementation of these metrics across all PCGs will take some time and they are primarily focused on improved understanding and oversight of high-consequence risk management, including process safety events (e.g. flammable solvent losses of containment) and high potential incidents (e.g. serious near misses involving fatality risks). Improving high-consequence risk management effectiveness will be the primary focus of the working group in the coming year.

Group policy

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.

Risks & opportunities

The key risks and opportunities associated with safe people and operations are summarized in the table of materiality page (Sustainability as the Prerequisite for MSV P41). While these are largely common across the consolidated group, individual PCGs do have different focus areas and action priorities that reflect the local maturity of their safety and health risk management improvement journeys.

Improvement & performance

There were no fatalities across the group during the year, which is a pleasing outcome given the occurrence of two fatality events in NIPSEA Group in the prior year. Three fatalities were previously reported for 2021, but it has since been confirmed that one of these was a non-work related, commuting event.

The recordable case rate for employees and contractors decreased 1% to 0.90 recordable injuries and illnesses per 200,000 hours worked, while the lost workday case rate for employees and contractors increased 31% to 0.50 lost time injuries and illnesses per 200,000 hours worked. These changes were primarily associated with the first-time inclusion of the recently acquired Cromology and JUB businesses within DuluxGroup. Performance across the other PCGs either improved or showed minor variation versus the prior year.

The 2022 performance and changes versus the prior year for individual PCGs are summarized in the following table, together with the key improvement priorities for the year.

Performance by Partner Company Group (PCG)

PCG	Fatalities	Recordable case rate (per 200,000 hours)	Lost workday case rate (per 200,000 hours)	2022 improvement drivers & priorities
NIPSEA Group	0 (-2)	0.42 (-4%)	0.22 (+5%)	· Key focus on traffic accidents for safety training and improvement activities.
DuluxGroup (Pacific)	0 (0)	1.50 (+3%)	0.80 (0%)	· Completed new Periodic Hazard Studies at three process safety factories and implemented improvement actions.
DuluxGroup (Europe)*	0	2.25	1.70	· Commenced significant risk audits of major sites and implementation of prioritized actions for high consequence disaster and fatality risks.
Japan Group	0 (0)	0.39 (-33%)	0.08 (-50%)	· Risk assessment review and action implementation, with a focus on the priorities of contact with hot/old objects and falling.
Dunn-Edwards	0 (0)	4.60 (-40%)	2.01 (-20%)	· Comprehensive safety assessments of all Dunn-Edwards properties.

* Businesses were acquired in 2022, hence no prior year comparison is available for performance metrics.

Growth with Communities

Based on our CSR framework and long-term community engagement strategy, we will build a better community that includes all stakeholders and achieve sustainable business growth.

Our approach to achieving MSV

Since its inception, our Company has been dedicated to creating innovative solutions that bring colors and joy to people's everyday lives. As part of our commitment to sustainable development, the Group strives to support and promote the well-being of communities through our business activities. To achieve this, we have established three priority areas known as the "Three Es" under Nippon Paint Group's global CSR initiative, "Coloring Lives." These areas encompass Education, focusing on nurturing future stakeholders; Empowerment, which involves supporting socially vulnerable individuals through vocational training and identifying talent among younger generations; and Engagement, emphasizing collaboration with local communities and stakeholders. Investing in society presents potential opportunities for the Group, such as increased business prospects in thriving local communities, enhanced employee engagement and commitment to our Group companies, and stronger connections with local communities, all of which contribute to our mission of Maximization of Shareholder Value (MSV). Conversely, neglecting our obligations to stakeholders poses potential risks. These risks include a loss of trust from local communities, resulting in diminished ability to attract and retain talented employees and reliable business partners, reduced consumer and customer loyalty, and ultimately, a decline in shareholder confidence and the opportunity to fulfill our promise of MSV.

Results of social contribution activities

In FY2022, the Group allocated funds exceeding US$7.75 million for approximately 448 activities that had a positive impact on the lives of around 10.65 million people worldwide. One notable example is NIPSEA Group's AYDA Awards, an esteemed interior design and architectural competition in Asia that fosters global stakeholder relationships, promotes sustainable design practices, and encourages collaboration among designers.

Additionally, within Japan Group, we have consistently donated pesticide-free vegetables harvested at Nippe Fun Farm, an establishment that employs individuals with disabilities, to children's cafeterias on a monthly basis for approximately three years. This initiative has garnered local recognition for its support of the Social Welfare Council's efforts.

These initiatives demonstrate the Group's dedication to making a meaningful difference in various communities and exemplify our commitment to fostering sustainable development and social well-being.

Investment in social contribution activities and its results and impacts in FY2022

Country/region		39
Number of projects		> 448
Resources input	Money spent on the activities	> USD7.75 million
	Time spent on the activities	> 125,000 hours
	Employees and volunteers who participated in the activities	> 33,000 participants
	Paint used in the activities	> 0.24 million liters
Results and impacts	People impacted	> 10.65 million people

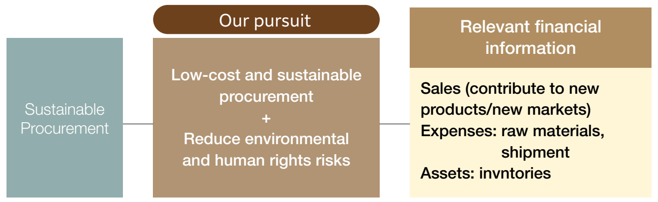
Pillars of social contribution activities and examples of activities

Pillar	Description	Example of activities
Education	Activities for children and students who are our potential future customers or employees	NIPSEA Group: AYDA Awards (An esteemed annual international competition and awards platform specifically designed to nurture architectural and interior design students; DuluxGroup: Design Institute of Australia (Supporting The Australian Interior Design Awards)
Empowerment	Support activities and vocational training for socially vulnerable people, and activities to find talented individuals	Japan Group: Nippe Fun Farm (Employment support for the physically challenged); Dunn-Edwards: Albuquerque Pride Parade Float (Paint donation for the local Pride Parade)
Engagement	Collaborations with local communities and stakeholders, cooperation with NGOs, and disaster relief	Japan Group: Industry-University Collaboration Activities with the University of Tokyo (Collaboration to create innovations for the future society); DuluxGroup (Cromology): UNICEF (Cash donations to help children and families in Ukraine)

Sustainable Procurement

Nippon Paint is firmly committed to doing business ethically and responsibly. Sustainable procurement is the integration of Nippon Paint's ESG principles into our procurement processes and decisions while maximizing shareholder value.

How Shareholder Value Is Maximized ▸ See page 5.



Our approach to achieving MSV

We engage our suppliers to ensure the sustainable procurement of products and services through environmentally, socially and economically responsible processes. Nippon Paint has developed a Supplier Code of Conduct 2022 to clarify our global expectations for suppliers in the areas of compliance, environment, social and governance. We will conduct survey for existing and new suppliers to understand their commitment to the ESG principles set forth in our Supplier Code of Conduct.

Suppliers are our important partners in our ESG journey, and we encourage them to adopt progressive practices that align with our approach to ESG. A Supplier ESG Assessment for on-site audit is to be developed. This will help to identify areas for improvement in our supply chain.

Roadmap

	2022	2023	2024	2025
Activities	· Launched the global team · Organize regional teams · Developed Supplier Code of Conduct · Developed supplier questionnaire	· Conduct supplier questionnaire (target top 40% by value) · Explore sustainable projects · Establish indicators	· Conduct supplier questionnaire (target top 75% by value) · Define supplier assessment methodology and measurement · Define sustainable initiatives and measurements	· Conduct supplier questionnaire (target top 90% by value) · Conduct supplier assessment (trial) · Track sustainable projects and measurements (trial) · Refine reporting metrics

Key items of the Supplier Code of Conduct

Compliance	Environment	Social	Governance
· Legal Compliance · Subcontractor Compliance · Environment, Health and Safety Compliance	· Minimize Impact · Waste Management	· Child Labor · Forced Labor · Discrimination · Working Conditions · Conflict Minerals · Product Safety and Compliance · Safety Training · Freedom of Association	· Anti-Corruption · Gifts and Entertainment · Conflict of Interest · Confidentiality · Record Keeping · Fair Competition · International Trade · Subcontractor ESG Compliance

Our approach to greenhouse gas emissions in procurement

Raw materials account for a large percentage of our greenhouse gas emissions (Scope 3). As a result, we regard Greenhouse Gas emissions in procurement as an important issue that needs to be addressed. We will consider using biomass materials and fuels in response to customer requirements.

Our approach to raw material procurement

Our Group's businesses depend on the supply of a broad range of products and services, such as raw materials, equipment, other materials, and information services. Maintaining a sound relationship of cooperation with suppliers is essential for the sustainable growth of our businesses. We will create new opportunities by building closer communication and stronger trust with suppliers.

Japan Group

We established the Procurement Guidelines, which are aligned with the Supplier Code of Conduct 2022 and clearly set rules and procedures to be followed by the Group and its suppliers for responsible procurement. From the social perspective, the guidelines are consistent with major international frameworks and standards for social activities, including frameworks for the respect for human rights. The guidelines also define our environmental activities for the understanding and practice of environmental measures. This includes complying with all laws and regulations in every country and region and implementing measures to manage chemicals of concern and minimize our environmental impact.

NIPSEA Group

We remain committed to operating as a responsible business that is held to high standards and strives to create a positive impact on sustainable development. Our Supplier Code of Conduct, which outlines clear business conduct expectations for new and existing suppliers, ensures that our business partners uphold the same high standards that we do. We also encourage our suppliers to attain additional accreditations by local advocacy groups that cover a wider range of green assessments that include water, material, and power management.

DuluxGroup

We are committed to the sustainability of the communities in which we work and to integrating responsible corporate behavior into every aspect of our business. We seek to understand, manage and enhance the environmental and social impacts of our products and operations, including the procurement of raw materials, packaging, finished products and services. Accordingly, our sourcing processes aim to ensure that environmental, health and safety, labor conditions and human rights considerations are embedded in procurement procedures.

Dunn-Edwards

We take seriously our commitment to operating as a responsible corporate steward. Our sourcing process aims to ensure we partner with suppliers with the same foundational pieces regarding the environment, health and safety, labor conditions, governance, and compliance. Our Supplier Sustainability Questionnaire is one tool used to clearly articulate our commitment, detail expectations for new and existing suppliers, and audit compliance.

Supplier risk assessment and engagement

The Group conducts supplier risk assessment at each partner company using the questionnaire sheet based on the Code of Conduct. For suppliers who are determined not to comply with the criteria, we conduct supplier engagement activities for risk improvement.

NIPSEA Group & Japan Group

Since 2022, we have decided to adopt Supplier Sustainability Questionnaire newly developed by our group to standardize survey method globally.

If nonconformance is found at a supplier site, we discuss and agree with the supplier in question on corrective actions to be implemented within a specified period of time.

DuluxGroup

We manage modern slavery risks throughout our supply chain through our the Supplier Procurement Program. The program is designed to accord with standard global supply chain systems and guidance, including International Labour Organization (ILO) conventions, the Ethical Trading Initiative (ETI) base code, ISO 14001 and the SEDEX code, with the aim of identifying and addressing modern slavery risks and maintaining a responsible and transparent supply chain. The program includes undertaking on-site audits of suppliers (and their facilities) to verify compliance with our Sustainable Procurement Standard and identify any required improvement actions.

Dunn-Edwards

We respect the inherent worth of each individual, and we strive to conduct all our business with the highest sense of ethics, integrity and responsibility. To that end, our partners with suppliers that share the same values - working together to ensure the supply chain is free from forced labor, child labor, human trafficking and slavery. This effort includes initiatives aimed to clearly articulate our shared expectations and audit for compliance through our Supplier Code of Conduct initiative.

Supplier Sustainability Questionnaire results

In conjunction with the Supplier Code of Conduct 2022, we have developed a Supplier Sustainability Questionnaire to survey suppliers on their ESG commitment. The group survey started from October 2022, and to date more than 166 suppliers have responded in agreement to our Supplier Code of Conduct. These suppliers represents about 22% of Nippon Paint's total procurement value. Prior to this group survey, various countries have conducted similar sustainability surveys. Altogether 481 suppliers are deemed approved and they represent about 61% of Nippon Paint's total procurement value. We have achieved our target of 40% for 2023.

Our target is to increase this ratio to 90% by 2025.

Results of supplier sustainability questionnaire

	NIPSEA Group	Japan Group	DuluxGroup	Dunn-Edwards	Total
Number of approved suppliers	—	—	—	—	481
Ratio to the total procurement value	52%	78%	89%	80%	61%

* Exclude Cromology, JUB, NPAA

Strategy by Asset

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

How Shareholder Value Is Maximized

▶ See page 5.

Our pursuit

Strive for market share & profitability

- Relentless pursuit of technologies, talents. Intensive use of IT
- Vigorous pursuit of higher quality, lower cost, capex efficiency

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

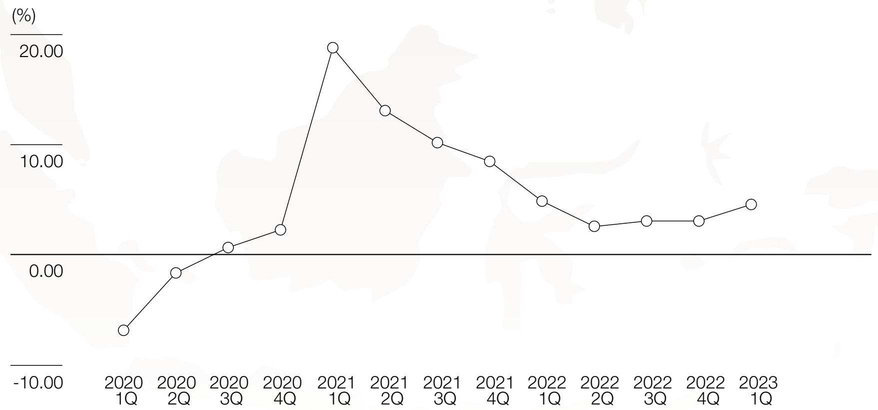
In the first quarter of 2023, China's GDP grew by 4.5% year on year, surpassing the expected value of 4% and accelerating by 1.6 pp compared to the previous quarter. Consumer confidence gradually recovered, with a year-on-year increase of 10.6% in total retail sales of consumer goods in March.

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.

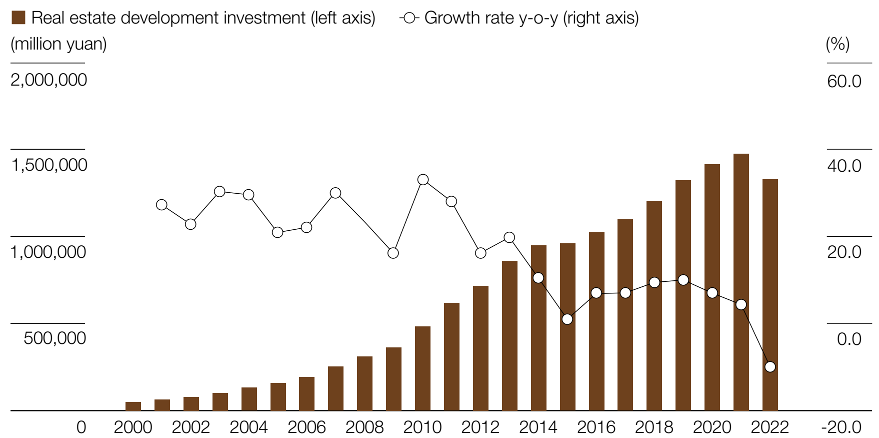
Although China's real estate market showed a decline in 2022, the forecasts into 2023 and 2024 are still optimistic. In fact, overseas forecasts institutions have high expectations for future economic growth potential in China and projects 5% GDP growth rate for both 2023 and 2024.

GDP growth rate



Source: National Bureau of Statistics of China

Real estate development investment



Source: National Bureau of Statistics of China

Strategy by Asset

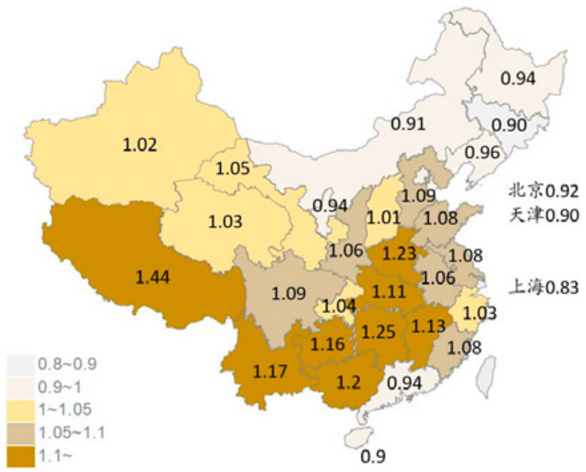
Rapid expansion of repainting market driven by arrival of stock housing era

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.

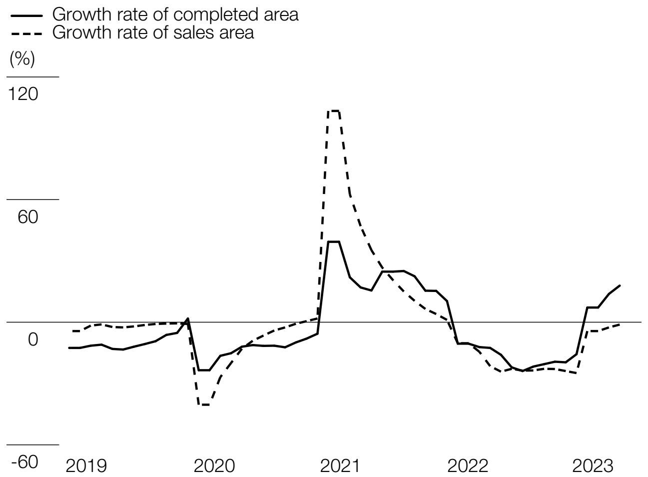
2) The "20th National Congress of the Communist Party of China (二十大) Report" emphasizes the positioning of housing as a place for living, not for speculation. Efforts will be made to accelerate the establishment of a housing system that features multiple entities supplying housing, multiple channels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

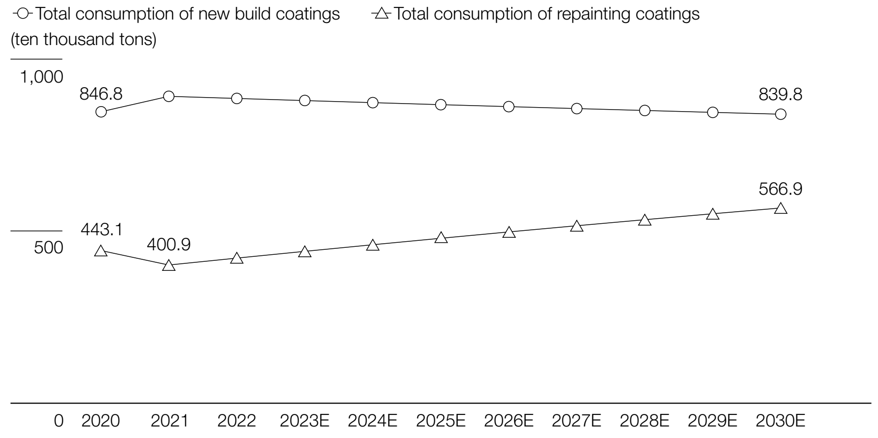
Commercial residential building development and sales



Source: National Bureau of Statistics of China

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."

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.

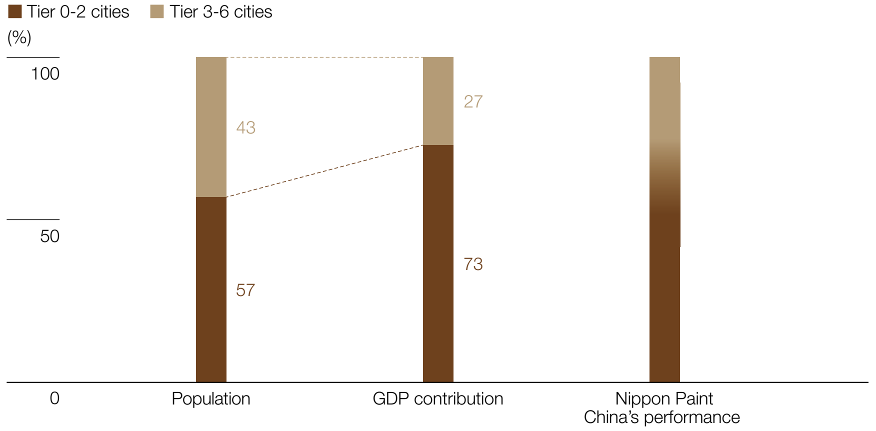
Strategy by Asset

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

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.

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 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.

The situations in TUB segment

1. According to the current operation of TUB in the six major business scenarios, the market capacity in 2023 is estimated to be RMB107.1 bn. Among them, the commercial and residential channel is RMB53.9 bn, the affordable housing channel is RMB11.6 bn, the industrial channel is RMB18.8 bn, and other comprehensive channels are RMB23.2 bn.
2. The market capacity of 38 central cities is RMB32.5 bn, the market capacity of 91 secondary central cities is RMB39.7 bn, and the market capacity of 211 peripheral cities is RMB35.3 bn.
3. In terms of regions, the ongoing projects in the Yangtze River Delta and the Pearl River Delta cities are more than other regional cities, such as Jiangsu, Zhejiang, Shanghai, Guangdong, and other provinces.
4. From the perspectives of market capacity, new construction projects, and the capital adequacy rate of development enterprises, the southern region is better than the northern region, and the eastern region is better than the western region.

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 stated-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:

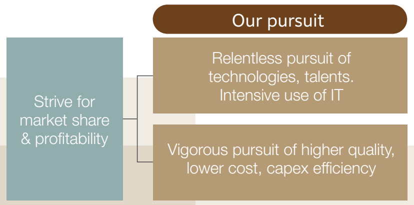
· Conduct in-depth market insights analysis, identify market opportunities, create market maps, and implement targeted strategies. Develop precise and clear targets for cities, channels, and products based on market insights.
· Identify target customers in cities, channels, and product categories according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

Strategy by Asset

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.



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.

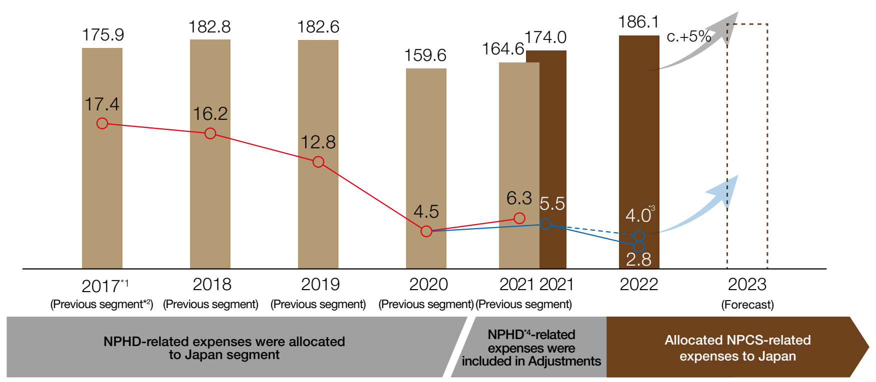
Having agreed on the root problem, the first order of the day was to address these issues while preserving the core ability of the organization to continue to meet current and future customer needs. Eight task forces were launched to address specific aspects of production, quality, and SG&A elements 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)	· 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)	· 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)	· 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)	· 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)	· 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)	· 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)	· 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)	· 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

Strategy by Asset

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, wont' stop	Be relentless, be resilient, unending quest

Positioning of J-LFG

Our sole mission
MSV
Maximization of Shareholder Value

↑ **J-LFG**

Our shared identity
Purpose
Business Philosophy
・Prosper Together
・Powerful Partnerships
・Science + Imagination

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.)

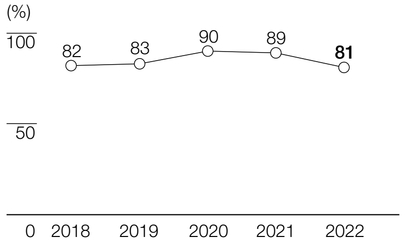
In addition, to improve EPS, Japan Group is taking actions for transforming how tasks are performed and organizations (See the chart below.) For instance, we are transforming our organizational structure to create a powerful framework for growth, efficiency, and productivity. We also implemented the 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.

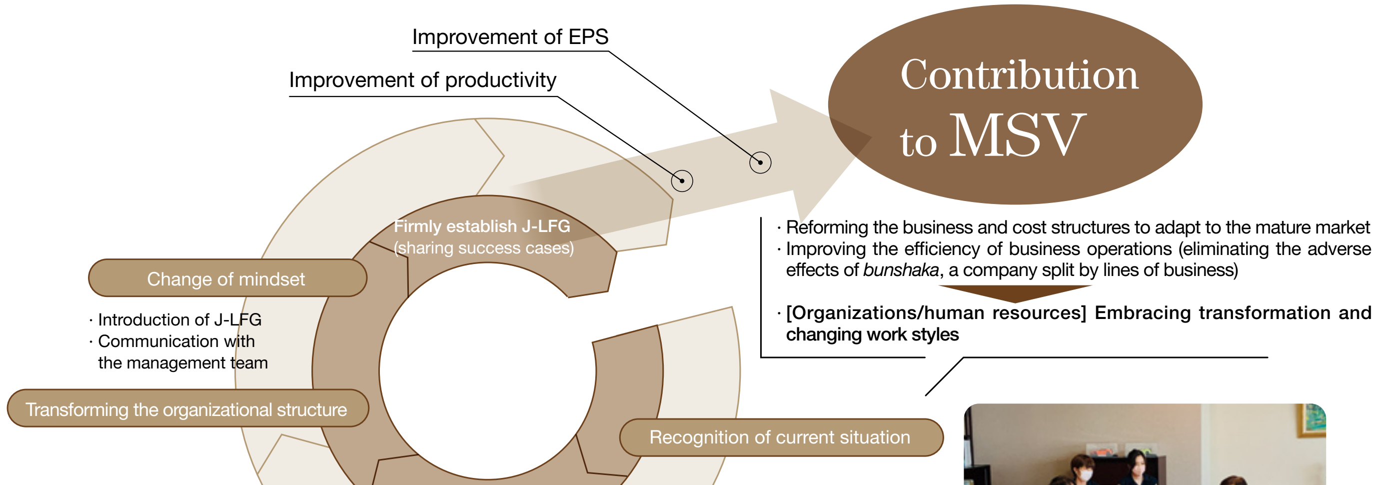
According to the survey conducted by Nippon Paint Labor Union at the end of FY2022, employee satisfaction declined to 81%, decreasing for the second consecutive year. In response to this survey, we are taking actions such as providing workplaces where people can realize their full potential and designing 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.

Employee satisfaction level (Japan Group)*



* Surveys by Nippon Paint Labor Union.

Actions/initiatives for improving EPS



Communication between Co-President Wee and employees

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 in FY2022

There were many entries for both team and individual awards even though FY2022 was the first year of this award program. Six teams received the J-LFG Excellence Award and one team received the Co-President Award for excellent teams. In addition, 30 individuals received Inspired by You Awards for outstanding performances by individuals.

We will share these initiatives involving J-LFG and VITALS (Vigilance, Insatiable appetite, Teamwork, Agility, Leanness, Stamina) to inspire each other to create a new corporate culture and achieve sustained growth.

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