

# Risks and Opportunities

Recognition of issues facing society and the environment is changing day by day. Amid this ever-changing social climate, the Group manages its business from both the perspective of responding to risks and providing opportunities for further growth.

In November 2021, Kansai Paint endorsed the TCFD recommendations (page 57). The Group is strengthening its risk management activities (page 84) by implementing a business continuity plan and measures against COVID-19 under the Risk Management Committee, and by setting up the Information Security Committee.

	Risks	Opportunities
<b>Climate change</b> Circular economy Depletion of water resources Environmental pollution Biodiversity loss Natural disasters	<ul style="list-style-type: none"> <li>Costs associated with the introduction of the carbon tax and tackling climate change</li> <li>Raw material supply issues due to restrictions on the use of chemicals and conversion of materials</li> <li>Changes in the business environment with existing customers</li> <li>Impact on the company and supply chains of abnormal weather, as well as wind and flood damage</li> <li>Business continuity risks due to global warming and a rise in sea levels</li> </ul>	<ul style="list-style-type: none"> <li>New demand for paint and coatings</li> <li>New needs associated with tackling climate change and resource recycling</li> <li>Emergence of new businesses due to changes in the industrial structure</li> </ul>
<b>Digitalization</b>	<ul style="list-style-type: none"> <li>Cyberattacks</li> </ul>	<ul style="list-style-type: none"> <li>Production innovation incorporating the Internet of Things (IoT)</li> </ul>
<b>Tight supply of raw materials, and soaring prices</b>	<ul style="list-style-type: none"> <li>Economic stagnation due to inflation</li> </ul>	<ul style="list-style-type: none"> <li>Differentiation through low-cost procurement and design</li> </ul>
<b>Conflict Infection</b>	<ul style="list-style-type: none"> <li>Increased geopolitical risk</li> <li>Significant transport delays due to surge in traffic volume from Europe, the United States, and China</li> <li>Withdrawal from business by a major raw material supplier</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for products that improve QOL</li> </ul>
<b>Diversity</b>	<ul style="list-style-type: none"> <li>Drop in quality and competitiveness of human resources due to changes in the market and business environment</li> <li>Outflow of talent due to loss of opportunities for diverse human resources</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced corporate value due to securing diverse and highly capable human resources</li> <li>Wealth creation for workers and society</li> </ul>
<b>Increasing environmental and social responsibility in supply chains</b>	<ul style="list-style-type: none"> <li>Damage to credibility due to human rights violations and environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>Improved corporate value and credibility due to consideration for the environment, human rights, labor, and communities throughout the supply chain</li> </ul>

## The Market Environment and Professionalism Required of Companies

The global coatings market continues to grow and expand.

However, the surge in raw material and logistic costs will not be temporary. It is expected to continue into the future, making it increasingly difficult to generate profits. And although demand will increase, the type of demand will change greatly with the need for sustainability. As such, a major change is

taking place in which companies that continue to follow the status quo will fall out of favor with society.

What will be required of paint manufacturers in the years ahead is the professionalism to respond to changes in demand, to create and provide the products and services that the world needs in the future.

### Market Environment

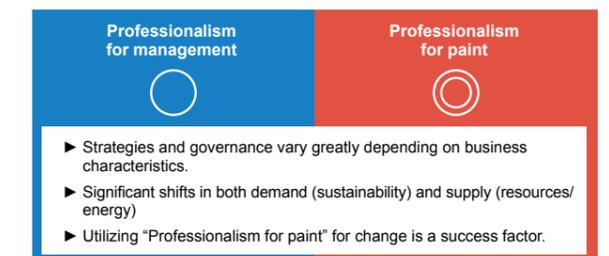
		Impact on Kansai Paint
Coatings industry environment	An essential business with <b>stable growth</b>	↗
	Soaring <b>raw material</b> and logistic costs due to resource and <b>energy shift</b>	↘
	A game change where <b>sustainability is the source of competitive advantage</b>	↕
	<b>Economic slowdown in China</b> and its impact on the global economy	↘
Business area	<b>Automotive</b> Volume continues to expand, mainly in China and India	↗
	<b>Industrial</b> Green deals and innovation start from Europe	↗
	<b>Architectural</b> Continued high growth in India, and gradual expansion in Africa	↗

### Professionalism Required of Companies

Period of stable expansion (pre-pandemic)



Present and future



Our strength lies in the three forms of professionalism we have cultivated in our BtoB business, including automotive coatings.

The first is our technological capabilities. We have been refining our technological capabilities to enhance our customers' competitiveness. We have the ability to manage the technologies and the technological capabilities that will contribute to future growth industries. The second is our ability to provide detailed service based on our thorough knowledge of what our customers expect from us as a coatings manufacturer. And the third is our ability to continue to supply paint, something we have cultivated by doing our very best to always keep the production line running.

Since our establishment, we have carefully nurtured our corporate culture and dependable, sincere employees.

In this time of great change, our professionalism, our people, and our culture are exactly what the world needs. We believe that taking on the challenge of dealing with the changing world offers an opportunity for significant growth.

After recognizing what our strengths are, in combination with an understanding of the ongoing changes, social issues, and our customer needs, we formulated a Growth Strategy centered on ESG management so that the Kansai Paint Group can make further strides in the years to come.

Based on our improved profitability, improved overseas governance, and organizational restructuring into business units that we had worked on during the 16th Medium-term Management Plan, we will progress further with the 17th Medium-term Management Plan to achieve our Growth Strategy of going from Good to Great.

### Where to use our strengths

#### Superior technological capabilities

- Expand sales of products to reduce CO<sub>2</sub> emissions (Automotive / industrial)
- Transition to EV-related markets
- Develop products to improve decarbonization/QOL (focus on mobility/life/ infrastructure)

#### Service capabilities

- Expand Automotive Parts Coatings business (global)
- Expand Industrial Coatings business (Europe/ India)
- Work to enter the BtoC market via E-commerce (Japan/ India/ Turkey/ other countries)

#### Paint supply capabilities

- Expand Automotive/Automotive Parts Coatings business
- Expand Industrial Coatings business
- Post merger integration driver for M&A