

Climate Change



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

Report based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations

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

Governance

The Board of Directors supervises climate-related issues by themselves, formulates the Group's strategies, policies, and action plans for ESG initiatives at the executive level including climate-related issues, and holds the ESG Committee to evaluate and promote their progress, chaired by the Representative Executive Officer & Co-President.

The Representative Executive Officer & Co-President reports the progress of ESG initiatives, including activities on climate-related issues, to the Board of Directors at least four times a year. As an example of climate-related decision-making, in July 2020, the ESG Committee identified six materialities and decided to set climate change as a top priority within the materialities.

Strategies

We have identified climate-related risks and opportunities that are critical to the strategies of our Group, and are working to assess their financial impact. In light of the increasing interest in climate change countermeasures in recent years, there are concerns that the global warming tax will be raised, resulting in increase in operating energy costs and additional costs related to capital investment and technology development for decarbonization.

In addition, in the event of increase in the severity and frequency of floods and other events caused by extreme weather, there is a risk of sales decline due to the damage on our plants resulting in the suspension of production.

Global warming, on the other hand, is of interest to the entire society, including our Group's major customers. While global warming entails physical and regulatory risks, it can be linked to business opportunities to expand our business by strategically addressing it. Specifically, such opportunities include expanding sales of products that improve ship fuel efficiency, help reduce CO₂ emissions at automobile manufacturing plants, and mitigate the rise of road surface temperature.

Risk management

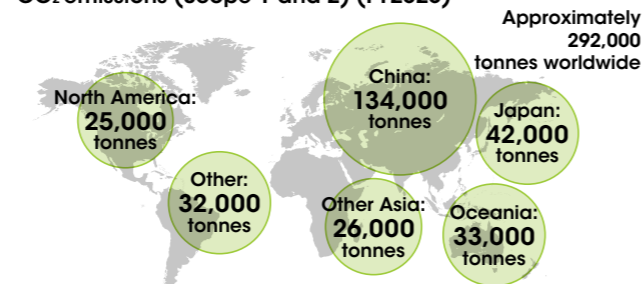
The ESG Committee, commissioned by the Board of Directors, formulates our Group's strategies, policies, and action plans for ESG and sustainability initiatives, including climate change issues, and evaluates and promotes their implementation. For the identification of risks, the ESG Committee and its subordinate organization, the Global Working Team1, determine the importance of risks based on evidence, scope, and business opportunities and time frame, with the criteria of factors directly related to our operations (the amount of raw materials used, energy, water and CO₂ in the manufacturing processes) and external factors (users' needs for usage and needs for product features).

Once identified and assessed, risks and opportunities and their action plans are proposed to the ESG Committee. The Committee discusses and decides relevant company-wide targets and action plans, and submits them to the Board of Directors. Our Group's partner companies formulate business plans in line with the company-wide targets and action plans above.

Metrics and targets

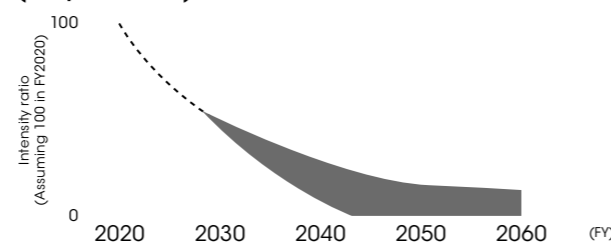
We will accelerate responses to climate change by conducting activities to reduce CO₂ emissions based on the net zero targets and the carbon neutral policy of the

Nippon Paint Group's estimated annual CO₂ emissions (Scope 1 and 2) (FY2020)¹



¹ The data does not include Nipsea Indonesia.

Nippon Paint Group's CO₂ emissions reduction target (Scope 1 and 2)



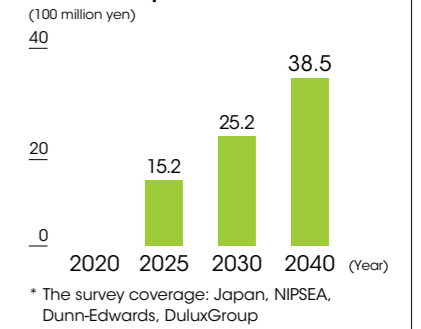
government of each country and contributing to net zero in our operating regions around the world. As concrete measures, we will focus on reducing emissions per unit in emerging countries, where markets are expanding, by introducing renewable energy and replacing equipment with

energy-saving and electrified models. We will also consider renewable energy introduction targets (power generation targets). We currently calculate Scope 3 emissions from our operations in Japan and have taken steps to calculate them from our operations around the world.

Estimated financial impact of carbon tax

Our Group consumes a large amount of energy, especially in the manufacturing processes, such as cooling water required in the process of dispersing and stabilizing pigments and other raw materials. We have identified the carbon tax as the greatest risk that could directly affect our operations, and anticipate cost increase due to the rise of the carbon tax prices. Therefore, we have started considering the sourcing of renewable energy as a workaround. The carbon tax has already been introduced in some countries, and it is expected that the tax rates will be gradually raised to achieve the net zero targets of each country. According to the International Energy Agency (IEA), there is a report that carbon prices in developed countries will increase to 100 USD/tCO₂ in 2030 if a shift to decarbonization proceeds worldwide. IEA also estimates that if CO₂ emissions in 2030 remain unchanged from the 2020 levels, the impact would be around 2.5 billion yen. There are concerns that carbon prices will have an even greater impact on operating costs, given the potential increase in emissions associated with future business expansion of our Group.

Potential impact of carbon taxes



Framework comparison between "TCFD" and "Our responses to CDP Climate Change 2021 Questionnaire" ²

	Governance	Strategies	Risk management	Metrics and targets
	Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosure item	a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
	C1.1b	C2.1a, C2.2a, C2.3, C2.3a, C2.4, C2.4a	C2.1, C2.2, C2.2a	C4.2
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	C1.2, C1.2a	C2.3a, C2.4a, C3.1, C3.3, C3.4	C2.1, C2.2	C6.1, C6.3, C6.5
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	
	C3.2	C2.1, C2.2	C4.1, C4.1b, C4.2	

² Items covered in the CDP's questionnaire that correspond to the recommended disclosure items in the TCFD recommendations are highlighted in gray color.



Prevention of global warming

Our Group is committed to the prevention of global warming in Japan mainly through efforts to reduce energy use.

In FY2020, both energy use and CO₂ emissions (Scope 1 and 2) decreased from the previous fiscal year due to production adjustment and telecommuting in response to COVID-19 while per unit emissions increased. Emissions increased in FY2017 and FY2019, mainly due to the expansion of the scope of data collection.

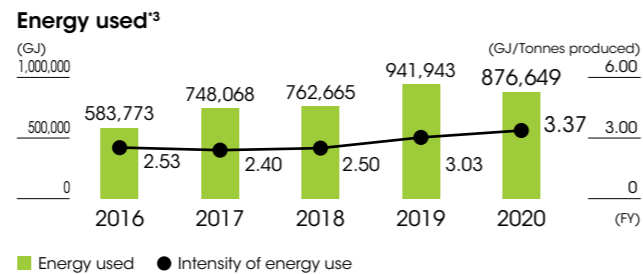
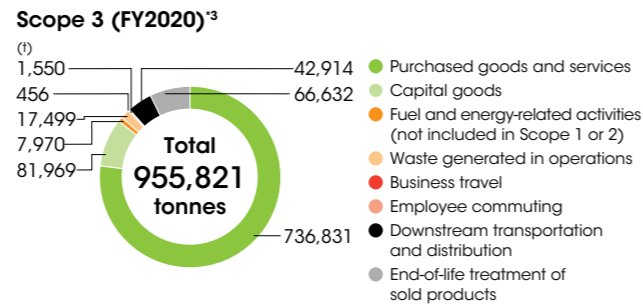
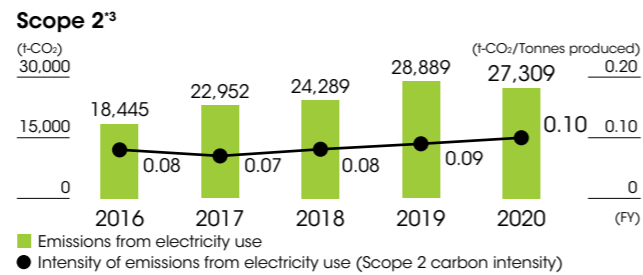
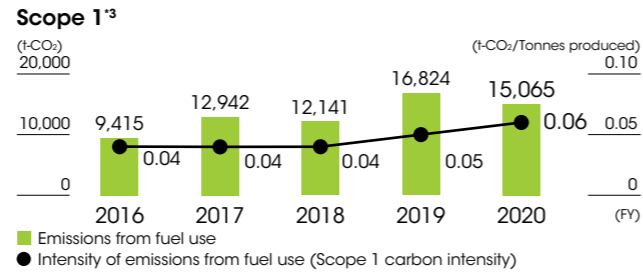
Efforts for net zero emissions

The following are examples of our Group's initiatives to achieve net zero CO₂ emissions.

- Replacement of air conditioning equipment and compressors with the latest energy-saving models
- Improvement of efficiency by reviewing operation methods of freezing/refrigeration units
- Adoption of LED lighting in offices and plants
- Energy conservation at manufacturing plants (improvement of paint dispersion processes, turning off unused lighting and manufacturing equipment, etc.)
- Energy conservation in offices (strict control of AC thermostat settings, turning off unused office equipment)

We will continue to consider measures such as replacement of production facilities to improve manufacturing and production efficiency. Specifically, we will consider and implement the following measures.

- Sourcing of renewable energy
- Adoption of energy-saving equipment at existing facilities
- Investment in renewable energy generation
- Estimating the financial impact of carbon pricing such as the carbon tax
- Decarbonization of new plants and the Head Office buildings
- Adoption of EVs and fuel cell vehicles (FCV)
- In addition to the above, we are considering and implementing sales of products and setting research themes that contribute to mitigation of climate change



³Coverage of data collection:
 FY2016 to FY2018: Nippon Paint Automotive Coatings (NPAC), Nippon Paint Industrial Coatings (NPIU), Nippon Paint (NPTU), Nippon Paint Surf Chemicals (NPSU), Nippon Paint Marine Coatings (NPMC) (April-December for FY2016)
 FY2019 to FY2020: NPAC, NPIU, NPTU, NPSU, NPMC, AS Paint (ASP), AS Resin (ASR), and Nippon Paint Anti-Corrosive Coatings (NAC)

Resources and Environment



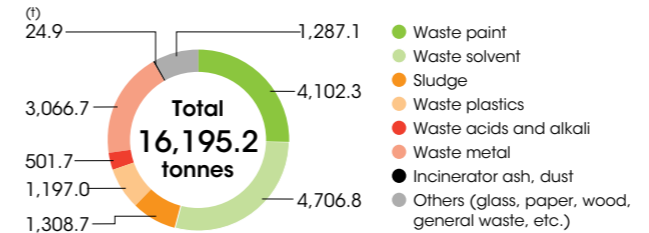
Effective use of resources such as water, energy, and raw materials, and prevention of environmental pollution are important matters for sustainable business. The Nippon Paint Group will advance these efforts throughout life cycle of products.

Reduction of waste, etc. and zero emissions

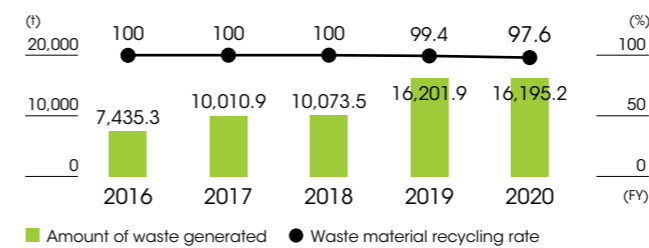
In Japan, our Group has adopted an integrated waste material management system that is compatible with the electronic manifest system. We make Group-wide efforts to reduce waste such as management of waste generation and proper disposal and effective use of waste generated.

Waste increased in FY2017 and FY2019, mainly due to the expansion of the scope of data collection. In FY2020, we failed to achieve 100% recycling due to the release of asbestos-containing waste from construction work at some sites and the release of bricks from the demolition of buildings. We will work to enhance waste management in order to reduce waste generation and achieve a recycling rate of 100%.

Breakdown of waste, etc. (FY2020)³



The amounts of waste, etc. generated and recycled by year³



Total cost of environmental fines and other penalties

In FY2020, the Nippon Paint Group was not subjected to any fines or other forms of punishment due to violations of environmental laws or regulations.

Comprehensive management of chemical substances

Initiatives in FY2020

Paints contain various chemical substances originating from their raw materials and some of them can be harmful

to the human body or the environment. We provide safety information on all products for countries that have adopted the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) by using SDS (safety data sheet) and labels in accordance with GHS classification. For the management of these chemical substances, the Group Product Safety Committee, which is set up under the Responsible Care Committee, holds discussions with Group companies and prepares management standards to standardize the handling of chemical substances and prevent incorrect operation. We properly responded to domestic and international laws and regulations in FY2020, including the submission of notifications in accordance with the revised Cabinet Order for the Designation of Poisonous and Deleterious Substances.

Measures to prevent the leakage and drainage of hazardous materials

We have implemented measures to prevent leaks and spills of hazardous materials and obtained materials for leakage treatment and also provide training dedicated to the prevention of the leakage and drainage of hazardous materials in an emergency drill organized in each area every year. For example, we assume a case where products have leaked on the road after an accident with a truck transporting them on a surface road and provide training for notifying related parties of the accident, preventing expansion of the leakage and recovering the products in order to develop the ability to respond quickly to emergency situations.

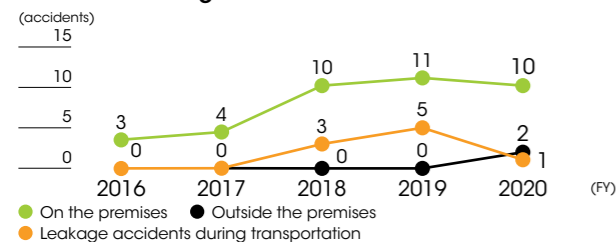
In FY2020, while the number of leakage accidents during transportation decreased, there were two accidents of leakage to the outside of the premises. The amount of leakage was very small in both cases, and prompt treatment prevented impacts on water and soil. However, we consider that the prevention and mitigation of leakage accidents is one of key issues to address, therefore we are enhancing measures such as adding items regarding transportation to the RC target guidelines.

Management of polychlorinated biphenyl (PCB) waste

PCB waste which is highly hazardous with impacts on human health and the environment, is being strictly controlled at storage facilities in accordance with the Waste Management and Public Cleansing Act and the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes and disposed of by the disposal deadline.



Number of leakage accidents³



Air and water pollution prevention

The Group complies with all laws and regulations pertaining to air pollution and water contamination through setting of voluntary reference values and periodic pollution load measurements in Japan.

In FY2020, the amount of water used and wastewater discharge decreased from the previous year due to production adjustment and reduction in the attendance rate through remote working in response to COVID-19. There was no significant change in the pollution loads of air and water. Since FY2017, the amount of water used, wastewater discharge, and air and water pollution loads have increased, mainly due to the expansion of the scope of data collection.

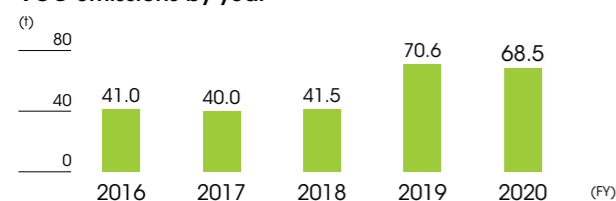
We will continue our efforts to prevent air and water pollution through improvements to the efficiency of cleaning processes at production sites, and recycling the solutions and water used for these processes.

Water management risks

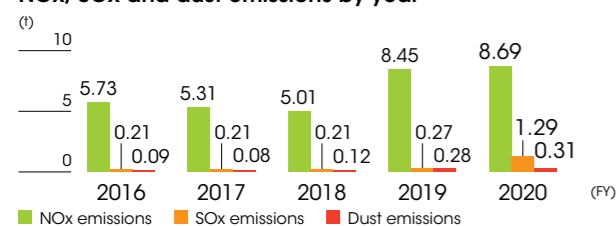
The water resources affects not only the water used in the production process but also the procurement of raw materials. Droughts, floods, and water quality deterioration might also affect our production activities.

We are working to develop business plans in line with group-wide targets and action plans, including formulating water management policies on a global basis and identifying risks by using AQUEDUCT provided by the World Resources Institute (WRI).

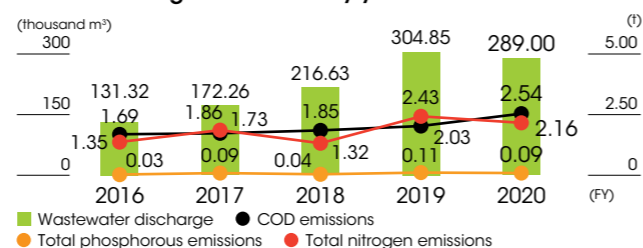
VOC emissions by year³



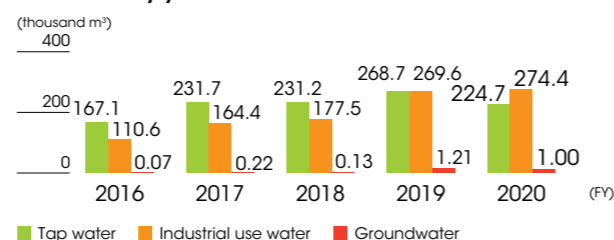
NOx, SOx and dust emissions by year³



Wastewater discharge and COD, total phosphorous, and total nitrogen emissions by year³



Water use by year³



Supply chain management

Group Procurement Policy

In accordance with the management philosophy of the Nippon Paint Holdings Group, Procurement Department complies with and promotes the following policy in its procurement activities with the suppliers, which are our precious partners:

- Legal compliance and respect for human rights:**
The Nippon Paint Holdings Group will conduct procurement in compliance with laws and international rules, with respect for human rights, and without any abuse of human rights including discrimination or unfair labor practice.
- Fair transaction:**
The Nippon Paint Holdings Group will conduct fair and equitable procurement based on free competition and make efforts to eliminate personal interests from the selection of suppliers.
- Selection of suppliers:**
The Nippon Paint Holdings Group will select suppliers in a rational manner based on management policies, ESG activities, promotion of environmental conservation and resource protection, continuous commitment to the control of safety and health risks, etc., in addition to quality, price competitiveness, stable supply, technical capabilities.
- Establishment of a trust relationship with suppliers:**
The Nippon Paint Holdings Group will place emphasis on dialogues with suppliers, work to establish a trust relationship, and promote sustainable procurement together. We will also promote the reduction of risks in procurement activities in cooperation with suppliers.

Approach to procurement of raw materials

Our Group's businesses depend on a steady and reliable supply of raw materials, equipment, supplies, information services and various other products and services. Maintaining healthy cooperative relationship with suppliers is therefore essential to our sustainable growth. Our Group has established and disclosed the procurement policy that is aligned with our basic approach to business transactions. We also have programs for everyone at our Group, as well as at our suppliers, to make sure that they understand and follow this

approach and policy.

To ensure that procurement activities are performed responsibly, we established procurement guidelines based on a policy that further clarifies the definition of the items that must be observed by suppliers and members of our Group. The procurement activities of our Group also place priority on quality, cost and delivery (QCD) as well as issues involving the environment, society and governance (ESG). Our goal is to further emphasize the sustainability of our supply chains.

Responsible procurement of raw materials

We have examined and updated the safety data sheets and product specifications in compliance with new and revised laws and regulations for the chemicals contained in all raw materials used to manufacture our products.

We utilize this information to provide customers with the information they require to use our products in compliance with regulations inside and outside Japan. Our Group also participates in the initiative of Japan Chemical Industry Association to promote the development of a mechanism to share relevant information on risk assessment of chemical substances in the supply chain, and supplies information at the request of customers.

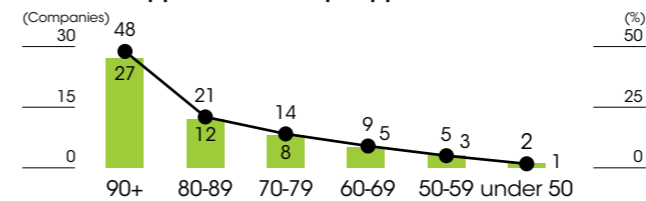
Product stewardship

Improving the impact of products on sustainability throughout their life cycles is an important issue. In particular, it is extremely important to manage risks associated with hazardous chemical substances used in products from the phases of raw material adoption and design. To manage these risks, our Group has established rules for prohibition and restriction of use in accordance with the local legal systems for risk mitigation. They include "Green 20" in Japan, "Chemicals of concern" in Australia, and "Negative substance list" in China.

CSR procurement survey

The survey was sent to the primary suppliers of the Nippon Paint Group which accounted for 90% of all purchases in 2020 in the amount of purchase. The graph below shows the results of a self-analysis survey that was prepared by the Global Compact Network Japan (GCNJ). We held discussions with suppliers that scored below 70 points and asked them to make improvements.

Scores of Nippon Paint Group suppliers



Conflict minerals survey

We used a Conflict Minerals Report Template to examine the samples of raw materials which we use that contain tin, tantalum, tungsten, gold or cobalt. The information obtained from these examinations was used to respond to requests from customers concerning conflict mineral surveys.

Business continuity planning

We are taking various measures in order to reduce the risk of supply disruption of a particular material, such as purchasing raw materials from at least two suppliers. Significant risk factors are monitored by using a simultaneous inquiry system, which was used eleven times in FY2020 to examine the impact of COVID-19, typhoons and earthquakes, and other events.

Basic policy for responsible care

— Basic Policy for Responsible Care —

Based on the principle of actively contributing to Responsible Care activities including environmental beautification and preservation through the creation of colors and landscape and the protection of materials and resources in the business activities, the Nippon Paint Holdings Group is committed to the activities through the coordination of all organizations in the Group, including all employees, with awareness of the respective missions and responsibilities, aiming to contribute to the establishment of relationships based on mutual trust with the global community, local communities, and customers. To this end, all of our business activities are required to follow the rules below:

- 1) We will endeavor to preserve the global environment and protect the ecosystem while striving to conserve energy and other resources in the course of all business activities.
- 2) We will promote the development of products with less environmental impact and technologies that help the products reduce such impact and will consider the impact of our products on the environment, safety, and health at all stages of their lifecycle from development to disposal.
- 3) We will work to reduce the environmental impact of our operations and ensure security and disaster prevention while striving to ensure the health and safety of local residents and employees.

Organizational structure

In consideration of the fact that the understanding and management of the environmental impact and safety of chemical substances is an important duty for paint manufacturers, we have re-established a management system to expand the scope to include occupational health & safety and chemical & product safety in addition to the environment, and have conducted Responsible Care (RC) activities since FY2010. We will encourage employees to act in a self-reliant and autonomous manner through the activities oriented to their primary duties for the efficient operation of the system while also continuously improving the system through the PDCA cycle.

Environment and work safety management

Nippon Paint Group received ISO 14001 multi-certification for seven operating companies in Japan and all (100%) of their subsidiaries (in total 63.) In addition, we provide active support to our Group partner companies overseas for their health and safety activities and take actions to deepen communications for sorting out problems. In Asia, we provide support to enable our partner companies to establish improvement activities. In other regions, we conduct activities and provide support for corrective actions on an as-needed basis.