Sustainable Message from the Management

Our Medium to Long-Term Management Strategy for Achieving MSV

Corporate Information

We believe that fulfilling our obligations to customers, suppliers, employees, society and other stakeholders is the premise for all initiatives for the maximization of EPS and PER. To fulfill these obligations, we have a broad range of activities involving key themes (materiality) that we established in 2020 by using a global perspective. Linking these initiatives directly with business opportunities and entering new markets, is the primary goal. By complying with future laws and regulations and responding ahead of competitors to changes in the demands of society, we expect to avoid significant increases in expenses and reduce vulnerability to business risk itself. We use a medium to long-term perspective for monitoring a broad range of risks and opportunities involving materiality. At the same time, we are working to turn these risks and opportunities to creating innovations that support growth strategies based on our Asset Assembler model while watching for changes in materiality. By taking these actions, we aim to achieve MSV by increasing earnings and investors’ expectations of Nippon Paint Group (maximization of EPS and PER).

Materiality identification process

Stakeholder opinions

Preliminary list
First, we created a long list of 75 items where we have an obligation. The basis for this list is 11 global standards such as ESG disclosure guidelines, recognition by ESG evaluation organizations, and the code of conduct. This was reduced to a 32-item preliminary list through a process of consolidation and selections.

Internal discussions
The importance of materiality items for stakeholders and for Nippon Paint Group was used to determine our candidate materiality items from the standards of business sustainability. We placed particular importance on discussions with overseas partner companies and reaching agreements with these companies.

Stakeholder opinions
We interviewed a broad range of stakeholders and Independent Directors to hear their thoughts about candidates for designation as a materiality. This was followed by internal discussions to produce a final proposal.

Approval
In July 2020, the ESG Committee (at that time) held discussions and in August the Board of Directors gave final approval to the materiality proposal.

Incorporation of global risk factors
To incorporate global risk factors in this process, discusssions included chemical sector risk scenarios based on information in the Vigeo Eiris Controversy Risk Assessment and other reports. We also used as reference peer companies, which we defined as multinational chemical companies and Japanese companies at the forefront of new trends.

Internal discussions
Our Business Model: Asset Assembler

Sustainability
Materiality (material issues)

Maximization of shareholder value (MSV)

Our Business Model: Asset Assembler

Sustainability

Partner companies around the world and functional divisions

Board of Directors
Entrustment
Report (when necessary)

Dialogue
Stakeholders external experts

Directors, Representative Executive Officers & Co-Managers
Proposals
Nomination
Entrustment

Sustainability Department

Five Sustainability Teams
Environment & Safety
People & Community
Innovation & Product Stewardship
Governance
Sustainable Procurement

Basic Policy on Sustainability

Nippon Paint Group recognizes an opportunity for sustainable growth from taking actions such as protecting natural capital including the environment, enhancing human resources by embracing diversity, and creating innovation with social benefits. Our group partner companies autonomously develop sustainability strategies and conduct business activities. Furthermore, we identify risks and opportunities related to Materiality based on sound group governance with the sole mission of Maximization of Shareholder Value (MSV) after adequately fulfilling our legal, social and ethical obligations to customers, suppliers, employees, society and other stakeholders.

Key points

- The policy states that MSV is the goal of sustainability.
- Formulated to align with our Asset Assembler model and autonomous and decentralized management.
- The proposed Basic Policy on Sustainability was discussed by the Directors and approved. (March 2023)

Positioning of MSV
The policy states that progress with a sustainability improvement plan will create new business opportunities and help achieve MSV.

Business model
The sustainability policy was created for the paint and coatings business and articulates actions for accomplishing goals.

Procedure for establishment of the Basic Policy on Sustainability
Discussions about a sustainability policy took place mainly at the ESG Committee (at that time) and the results of these discussions were reported to the Board of Directors. (August 2023)
**Team** | **Our pursuit** | **Materiality**
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**Climate change** | 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. | **Climate change**

**Environment & Safety**
Develop low-carbon/eco-friendly products | Ensure safe people and operations | **Resources and environment**
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.

**Safe people and operations**
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.

**Diversity & Inclusion**
Respect for the people around us, respect for human rights and active acceptance of diversity are important for our sustainable growth. We value diversity of ideas and thinking to foster innovation and growth.

**People & Community**
Recruit/train diverse employee | Earn the trust of stakeholders | **Growth with communities**
We will invest in communities through our value chain and to achieve sustainable business growth. We will strengthen brand and good relationships with local communities.

**Innovation & Product Stewardship**
Develop sustainable products | Chemicals of concern | **Innovation for a sustainable future**
In today's society, problems that are difficult to solve with past methods are becoming more and more apparent. We will strengthen our innovation output with active utilization of partnerships.

**Corporate Governance**
Oversee management | Encourage risk-taking | **All Materiality categories**

**Sustainable Procurement**
Reduce environmental and human rights risks | **All Materiality categories**

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**Relevant SDGs**

- Regulatory changes and impacts, such as carbon pricing and greenhouse gas emission reduction targets
- Increased extreme weather events (e.g. flooding) and climate impacts (e.g. water stress) impacting operations and supply chain
- Increased supplier costs from climate adaptation and decarbonization actions
- Changes in customer and consumer expectations and behavior during the transition to a low-carbon future
- Product claims and brand damage due to performance deterioration (e.g. temperature extremes)
- Development of new products and services to capture climate-related business opportunities

**Risks**

- Regulatory changes and impacts, such as waste disposal restrictions and increased costs
- Supply constraints and increased costs associated with resource scarcity
- Major site incident or contamination (e.g. soil/groundwater) causing harm to people and community
- Changes in customer and consumer expectations and behavior during the transition to a circular economy future

**Opportunities**

- Market growth for sustainable products (e.g. renewable content, post-consumer waste recovery)
- Enhanced competitiveness through development and use of recycling technologies, resource efficiencies, and circular raw materials
- Market growth for sustainable products (e.g. low-carbon, improved performance in extreme temperatures)
- Minimizing risks through adoption and sharing of global best practice, particularly for high-consequence risks
- Enhancing brand reputation, employee engagement, and attracting talent as a safe employer
- Expanding product and service offerings to capitalize on climate-related trends and opportunities

**Sustainability as the Prerequisite for MSV**

*For more information, see “How Shared Value to Maximized” on page 5.*