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 of 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 a 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, which would lead to an increase in operating energy costs and additional costs related to capital investment and technology development for decarbonization.

In addition, the 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 outlets of products that improve ship fuel efficiency, help reduce CO2 emissions at automobile manufacturing plants, and mitigate the rise of road surface temperature.

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

<table>
<thead>
<tr>
<th>Region</th>
<th>CO2 Emissions (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>13,400</td>
</tr>
<tr>
<td>China</td>
<td>33,000</td>
</tr>
<tr>
<td>Japan</td>
<td>42,000</td>
</tr>
<tr>
<td>Other Asia</td>
<td>26,000</td>
</tr>
<tr>
<td>Other region</td>
<td>13,400</td>
</tr>
</tbody>
</table>

1 The data does not include Nipsea Indonesia.

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 Team, 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 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/ton in 2030 if it shift to decarbonization processes worldwide. IEA also estimates that if CO2 emissions in 2030 remain unchanged from the 2020 levels, the impact would be around 2.5 trillion 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.

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

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>TCFD</th>
<th>“Our responses to CDP Climate Change 2021 Questionnaire”</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Describe the board’s oversight of climate-related risks and opportunities</td>
<td>a) Describe the board’s oversight of climate-related risks and opportunities</td>
<td>a) Describe the board’s oversight of climate-related risks and opportunities</td>
</tr>
<tr>
<td>b) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term</td>
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</tr>
<tr>
<td>c) Describe the risk management strategy for managing climate-related risks and opportunities</td>
<td>c) Describe the risk management strategy for managing climate-related risks and opportunities</td>
<td>c) Describe the risk management strategy for managing climate-related risks and opportunities</td>
</tr>
<tr>
<td>d) Describe the metrics and targets used to assess and manage climate-related risks and opportunities</td>
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</tr>
</tbody>
</table>

1 The survey coverage: Japan, NIPSEA, Down-Europe, DukeUSA

2 The framework comparison is based on TCFD’s recommendations and our responses to CDP Climate Change 2021 Questionnaire.

Nippon Paint Holdings Integrated Report 2021
Environment

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 of 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 of 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

In addition to the above, we are considering and implementing sales of products and setting research themes that contribute to mitigation of climate change.

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 its life cycle of products.

Reduction of waste, etc. and zero emissions

In Japan, our Group has adopted an integrated waste 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)¹

The amounts of waste, etc. generated and recycled by year²

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Waste point</th>
<th>Sludge</th>
<th>Waste plastic</th>
<th>Waste acids and oil</th>
<th>Waste metal</th>
<th>Incinerator ash, dust</th>
<th>Other (glass, paper, wood, general waste, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3,067.7</td>
<td>4,102.3</td>
<td>1,287.1</td>
<td>876,649</td>
<td>1,308.7</td>
<td>1,197.0</td>
<td>501.7</td>
<td>24.9</td>
</tr>
<tr>
<td>2017</td>
<td>3,897.9</td>
<td>4,641.3</td>
<td>1,412.3</td>
<td>1,153,856</td>
<td>1,320.7</td>
<td>1,375.0</td>
<td>576.7</td>
<td>27.1</td>
</tr>
<tr>
<td>2018</td>
<td>4,167.9</td>
<td>4,706.8</td>
<td>1,287.1</td>
<td>719,586</td>
<td>1,308.7</td>
<td>1,306.7</td>
<td>501.7</td>
<td>24.9</td>
</tr>
</tbody>
</table>

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 surfaced 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 IRC 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.

