

Materiality supporting Asset Assembler model

We will aim for MSV by using sustainability activities centered on initiatives on materiality that support Asset Assembler model.

Nippon Paint Holdings is pursuing MSV as its sole mission and believes, first and foremost, that the fulfillment of obligations to customers, suppliers, employees, society, and others is the major premise for accomplishing this goal. Initiatives for key sustainability issues (materiality), identified in 2020 from a global perspective, require the fulfillment of our obligations and a direct linkage to our businesses, such as identifying new business opportunities and tapping into new markets. Furthermore, these initiatives are also expected to prevent expenses from increasing and reduce business risks by complying with future laws and regulations while responding to supply chain issues ahead of competitors.

Nippon Paint Group continues to use initiatives that are directly linked with business activities and based on a thorough understanding of materiality-related risks and opportunities from a medium- to long-term perspective. In accordance with Asset



Assembler model, we are linking these initiatives to the creation of innovations that support the growth of existing businesses. We believe that these initiatives to achieve MSV will result in revenue growth and higher expectations for our value (maximization of EPS/PER).

The materiality identification process

We identified materiality by creating a list of material issues which society requires us to address. This process included international ESG guidelines such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) as well as items required by ESG research organizations. We then performed a quantitative evaluation of the issues and verified their significance from two perspectives: the level of importance to stakeholders and the level of importance to Nippon Paint Group's businesses. In addition, we used external experts to receive objective viewpoints and held discussions with our partner companies around the world to identify material issues associated with our business model and the business environment. These issues were then designated as our materiality.

For more information about our framework for sustainability initiatives and the identification of KPIs, see "Sustainability Strategy" on page 77.

Materiality map



Materiality identification process

Preliminary list

We created a long list of 75 items that is our obligation to address based on international ESG standards and guidelines for disclosure and reporting derived from 11 ESG rating agencies and organizations. We then consolidated the list down to a preliminary list of 32 items.

Internal questionnaire

The newly-established then ESG Committee met in April 2020 and deliberated on the materiality identification process. Also, we distributed a questionnaire to the 25 committee members and the staff of the then ESG Promotion Department for their input on the items in the preliminary list.

Incorporating global risks

To incorporate global risks, the discussions also included chemical sector risk scenarios based on information in the Vigeo Eiris Controversy Risk Assessment and other reports. Peer companies in the global chemical sector and forward-thinking Japanese companies were also referred to.

Internal discussion

Based on the weighting of importance for stakeholders and for Nippon Paint Group we identified six groups of items of materiality for business sustainability. During the process, we placed particular importance on discussion and agreement with overseas partner companies.

Stakeholder opinion

We interviewed various stakeholders and Independent Directors to gather their opinions on the potential items of materiality and created the final proposal through internal discussion.

Approval

We deliberated on the final proposal at the then ESG Committee meeting in July 2020 and obtained final approval at the Board of Directors meeting in August.

Materiality	Relevant SDGs	Explanation of materiality
Climate change	7 AFFORDABLE AND CLEAN ENERGY, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 13 CLIMATE ACTION	Climate change is beginning to have a serious impact on our lives every year. To mitigate the impact of climate change, we will work to reduce greenhouse gas (GHG) emissions and minimize business risks caused by climate change.
Resources and environment	3 GOOD HEALTH AND WELL-BEING, 6 CLEAN WATER AND SANITATION, 11 SUSTAINABLE CITIES AND COMMUNITIES, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 14 LIFE BELOW WATER	Effective use of resources such as water, energy, and raw materials, and prevention of environmental pollution are important matters for sustainable business. We will advance these efforts throughout life cycle of products.
Safe people and operations	3 GOOD HEALTH AND WELL-BEING, 4 QUALITY EDUCATION, 8 DECENT WORK AND ECONOMIC GROWTH	As a chemical manufacturer, we still believe that accidents and health damage caused by handling chemical substances are major risks. We will ensure the safety of employees and everyone involved in our business, and will educate and make investments to minimize risks.
Diversity & Inclusion	4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES	Respect for the people around us and active acceptance of diverse values are important for our sustainable growth. We place great importance on the diversity of employees and other people involved in the business and respect human rights.
Growth with communities	1 NO POVERTY, 4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	We will invest in communities through our value chain and to achieve sustainable business growth based on market growth, brand strengthening and good relationships with local communities.
Innovation for a sustainable future	3 GOOD HEALTH AND WELL-BEING, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 17 PARTNERSHIPS FOR THE GOALS	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.

Materiality	Relevant SDGs	Risks	Opportunities	ESG agenda	ESG action examples	Achievements in FY2021-2022
Climate change		<ul style="list-style-type: none"> Enforcement/change of policies and legal regulations such as introduction of a carbon tax Impact on production and shipment from extreme weather, such as typhoons and heavy rainfalls, that are becoming increasingly common in recent years Changes in customer behavior toward transition to a decarbonized society 	<ul style="list-style-type: none"> Expansion of the market for environmental products, such as products contributing to decarbonization Development of new businesses through research and development 	<ul style="list-style-type: none"> Reduction of greenhouse gas (GHG) emissions Identification of risks and opportunities 	<ul style="list-style-type: none"> CO₂ reduction (Scope 1&2) Calculation of Scope 3 emissions Disclosure based on TCFD Utilization of renewable energy 	<ul style="list-style-type: none"> Expressed support for the TCFD recommendations (final report) and took actions to enhance climate related measures and information disclosure Identified important climate related risks and opportunities in terms of Group strategy and estimated their financial impacts Group partner companies developed CO₂ emissions reduction targets to contribute to achieving the net zero targets set by the government of each country Calculated Scope 3 emissions in Australia, in addition to Japan, expanding the scope of Scope 3 emissions calculation globally Reduced GHG emissions by 8% and energy consumption by 14% globally (FY2021) <p>For more information, see "Environment & Safety" on page 79.</p>
Resources and environment	 	<ul style="list-style-type: none"> Impact on business activities from depletion of energy and water resources Tightening of regulations on wastes and increase of waste disposal cost Changes in customer needs related to raw materials 	<ul style="list-style-type: none"> Expansion of the market for environmental products Enhanced competitiveness by advancing recycling technologies, improving resource efficiency, and utilizing diverse raw materials 	<ul style="list-style-type: none"> Management of waste, water resource consumption, and environmental pollutants 	<ul style="list-style-type: none"> Establishment of global policy statements for waste materials and water Establishment of KPIs for each partner company based on the global policy 	<ul style="list-style-type: none"> Developed and disclosed a global policy for waste materials and resources, protection toward environmental pollution, and water Set the priority of initiatives related to waste materials and water and targets in priority areas in each country Continued activities for reduction and proper treatment, tighter management, and recycling of waste materials in each country Increased the recovered amount of waste materials by 4% and reduced the quantity of water intake by 4% globally (FY2021) <p>For more information, see "Environment & Safety" on page 79.</p>
Safe people and operations		<ul style="list-style-type: none"> Significant impact on operations if a major accident occurs at a production site Impact on safety assurance due to changes in manufacturing processes accompanying substantial increases in production 	<ul style="list-style-type: none"> Improving worksite safety and hygiene by sharing best practices and education plans from around the world Improving employee motivation and Company competitiveness for acquiring human resource talent 	<ul style="list-style-type: none"> Disaster (fire accident) prevention and process safety Fatality and injury prevention 	<ul style="list-style-type: none"> Establishment of a global policy statement for safety of our people and operations Establishment of KPIs for each partner company based on the global policy 	<ul style="list-style-type: none"> Developed and disclosed a global policy for safe people and operations Reinforced safety education and use of technology in each country Reviewed and strengthened the management of safety measures by sharing occupational accidents that occurred in each country Reduced accidents with lost time by 10% globally (FY2021) <p>For more information, see "Environment & Safety" on page 79.</p>
Diversity & Inclusion	 	<ul style="list-style-type: none"> Difficulty of securing human resources that satisfy diversity requirements with a decrease in the university graduated population Slowing of business activities that reflect diversity in customer needs 	<ul style="list-style-type: none"> Securing diverse and competent human resource talent as a global company Creating wealth for companies, workers, and local communities by creating diverse and inclusive organizations 	<ul style="list-style-type: none"> Increase the percentage of women in management posts Improvement of employee engagement 	<ul style="list-style-type: none"> Gender diversification for the Board of Directors and managers Visualization of human capital Implementation of human rights risk assessment 	<ul style="list-style-type: none"> Confirmed diversity of each country/region and visualized human capital Made investment in human capital for sustained growth in each country NIPSEA Group provides training programs at different job levels (387,243 hours in FY2021) Nippon Paint Holdings has two female Directors, one Executive Officer, and one Corporate Officer (as of June 30, 2022) <p>For more information, see "People & Community" on page 87.</p>
Growth with communities	 	<ul style="list-style-type: none"> Significant damage to the corporate brand if the company is not perceived as a corporate citizen by local communities Damage to the public image of the paint industry caused by inadequate activities oriented toward the local community 	<ul style="list-style-type: none"> Improving public awareness of the corporate brand through value chain investment in communities Promoting the sound growth of communities through social contribution activities to increase the positive public view of our Group 	<ul style="list-style-type: none"> Strategic implementation of social contribution activities 	<ul style="list-style-type: none"> Establishment of the NIPPON PAINT Group Global Outreach Program to enhance social contribution activities Establishment of 3E (Education/Empowerment /Engagement) action policy through business activities as a priority area 	<ul style="list-style-type: none"> Stepped up social contribution activities under the 3E action policy and gathered and disclosed the impact/effects of those activities globally Established a global conference on social contribution activities and strengthened information sharing and collaboration within the Group Invested a total of USD7.08 million in global activities in FY2021 (204 projects/benefited around 0.29 million people) <p>For more information, see "People & Community" on page 87.</p>
Innovation for a sustainable future	 	<ul style="list-style-type: none"> Significant hindering to future corporate earnings owing to inability to generate innovation due to slow response to new markets 	<ul style="list-style-type: none"> Expansion of market for products that contribute to controlling and adapting to climate change Products and services that address social issues that contribute significantly to society and help boost corporate earnings in the long term 	<ul style="list-style-type: none"> Promotion of cross-industrial collaboration Development of products that benefit society Stricter management of chemical substances 	<ul style="list-style-type: none"> Establishment of the definition of sustainable products and data collection Stricter management of chemical substances and development of alternative products for harmful substances Development of products that benefit society and are environmental friendly Promotion of open innovation 	<ul style="list-style-type: none"> Developed and launched anti-viral paint products across the Group Developed products that help reduce CO₂ emissions from customers Promoted the research and development on products for next-generation automobiles Promoted technology sharing and capability leveraging globally R&D expenses totaled 24.3 billion yen and filed 200 new patent applications (FY2021) <p>For more information, see "Innovation & Product Stewardship" on page 91.</p>