

Nippon Paint Group Medium-Term Plan (FY2021-2023) Update Report

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3. Sustainability Strategy

3-1. Reinforcing Autonomous Sustainability Structure (1)

Established Basic Policy on Sustainability aimed to achieve MSV based on Asset Assembler model

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 of update

	ESG Statement	>	Basic Policy on Sustainability
Position of MSV	Stated that the delivery of sustainability improvement plans will lead to the creation of new business opportunities and MSV	>	Clearly state that MSV is the goal of our sustainability initiatives
Business model	Premised on Nippon Paint being a paint and coatings manufacturer. Mainly focused on actions to achieve sustainable development	>	Basic Policy on Sustainability based on Asset Assembler model
Procedures	Mainly discussed at the then ESG Committee meeting and reported to the Board meeting in August 2020	>	Discussed and resolved at the Board meeting in March 2023

3-1. Reinforcing Autonomous Sustainability Structure (2)

Evolved into a business-driven, autonomous sustainability structure with MSV as the goal

	ESG management system (~2021) Top-down approach		Sustainability structure (2022~) Bottom-up approach
Structure			
Supervision by the Board of Directors	ESG Committee reports to the Board of Directors		Team Leaders directly report to Co-Presidents, who then report progress and proposals to the Board of Directors whenever necessary
Strategy development~ Breakdown into actions	<ul style="list-style-type: none"> Strategy, policy, and action plans are developed by the ESG Committee The working team, which is directly below the ESG Committee, shares advanced case examples, establishes group-level targets, and develop measures in line with the situations in each region 		<ul style="list-style-type: none"> Autonomous sustainability structure with MSV as the goal Global Teams are formed based on three Materiality-based pillars*1 and two pillars*2 cutting through Materiality

3-2. Sustainability Strategy Updates

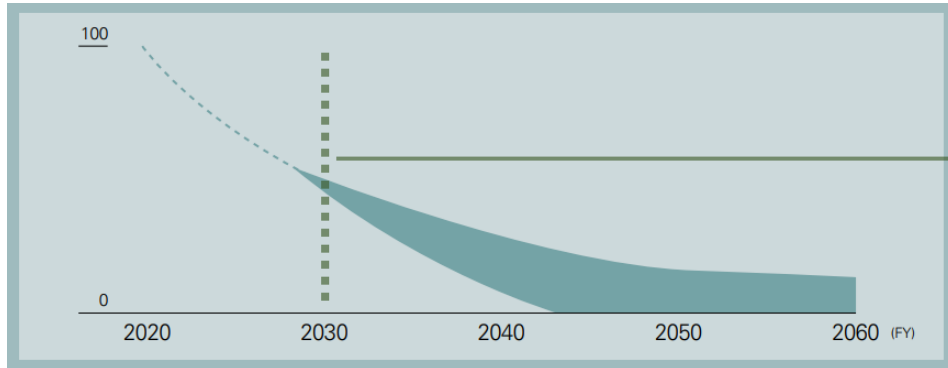
Share success cases of each partner company, identify priority issues and develop roadmaps for addressing identified issues

Team	Materiality	Main actions/achievements in FY2022	Targets/actions in FY2023 and onwards
Environment & Safety	<ul style="list-style-type: none"> ● Climate Change ● Resources and Environment ● Safe People and Operations 	<ul style="list-style-type: none"> ● Identify further improvement focus areas for <ul style="list-style-type: none"> • Climate change • Resource usage • Significant safety risk ● Agreed standardized metrics and implementation plan 	<ul style="list-style-type: none"> ● Implement and disclose: <ul style="list-style-type: none"> • Scope 3 • Water usage • High potential safety incidents ● TCFD risk and opportunity assessment and actions
People & Community	<ul style="list-style-type: none"> ● Diversity & Inclusion ● Growth with Communities 	<ul style="list-style-type: none"> ● Shared actions to increase the ratio of women in all employees ● Decide the group's target to celebrate the diversity ● Established a global CSR framework as a guiding structure for all partner companies 	<ul style="list-style-type: none"> ● Increase the ratio of women in managerial positions in accordance with targets in each region ● Develop a long-term community engagement strategy with our global framework and targets
Innovation & Product Stewardship	<ul style="list-style-type: none"> ● Innovation for a Sustainable Future 	<ul style="list-style-type: none"> ● Stated ESG innovation strategy and roadmap ● Redefined sustainable products* ● Developed Green Design Review ● Established packaging recycled content 	<ul style="list-style-type: none"> ● Use Sustainability Scoreboard in broader partner companies ● Identify and compile Chemicals of Concern and develop a phase out plan
Governance	All Materiality categories	<ul style="list-style-type: none"> ● Increase diversity in Board of Directors ● Enhance growth strategy discussions by Directors ● Established the Nippon Paint Group Global Code of Conduct ● Modified the Group Risk Management Basic Policy and established Global Basic Policy of Whistleblowing Hotline 	<ul style="list-style-type: none"> ● Enhance growth strategy discussions and implement succession plans ● Continuously improve group management effectiveness ● Establish Whistleblowing Hotline and verify its effectiveness ● Reform governance framework responding to changes in social demand (including in compliance and risk management)
Sustainable Procurement	All Materiality categories	<ul style="list-style-type: none"> ● Established global team ● Developed Supplier Code of Conduct and supplier questionnaire ● Organize regional teams ● Conducted trial supplier survey 	<ul style="list-style-type: none"> ● Conduct supplier survey ● Define supplier ESG assessment methodology ● Scope 3 disclosure (raw materials related)

3-3. Team 1 (Environment & Safety)

Identify and mitigate risks related to CO2 emissions, recognizing new business opportunities created from responding to climate change

Nippon Paint Group's CO2 emissions reduction target (Scope 1 and 2)^{*1 *2}



CO2 emission reduction target (Scope 1 and 2) ^{*1}	2020	2030 (estimate)	Expected expenses and investments required
NIPSEA	100	65	TBD
DuluxGroup	100	50	<A\$0.5m p.a. expense, investment manageable within normal minor capex expenditure levels
Dunn-Edwards	100	67	TBD
Japan Group	100	65	¥30 mm in expenses for renewable energy and certificate, etc. (in FY2023 only) ^{*3}
Total ^{*4}	100	63	-

Roadmap	2022	2023	~2030	2050~2060
NIPSEA		<ul style="list-style-type: none"> Measure Scope 3 	<ul style="list-style-type: none"> Aim to reduce emissions intensity (Scope 1 and 2) by 15%, with a yearly reduction target of 4% from 2021 levels 	<ul style="list-style-type: none"> Net zero carbon (Scope 1&2)
DuluxGroup	<ul style="list-style-type: none"> Commenced development and implementation of detailed action plans to achieve the 2030 targets 	<ul style="list-style-type: none"> Commence Cromology and JUB Scope 1&2 measurement and inclusion 	<ul style="list-style-type: none"> 50% renewable energy consumption 50% CO2 emissions reduction by 2030 from 2021 level 	
Dunn-Edwards	<ul style="list-style-type: none"> Started using renewable energy supplied in each state 		<ul style="list-style-type: none"> Measure Scope 3 in 2024 	
Japan Group	<ul style="list-style-type: none"> Around 7% renewable energy consumption 		<ul style="list-style-type: none"> 37% CO2 emissions reduction (Scope 1 and 2) from 2019 levels 	

3-3. Team 2 (People & Community)

Enhance human resources by embracing diversity brought by Asset Assembler model

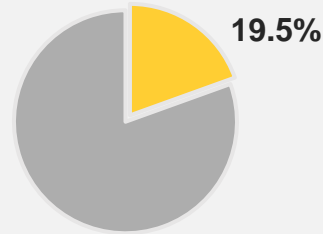
	NIPSEA	DuluxGroup	Dunn-Edwards	Japan Group
Ratio of female employees (2022)	25.0%	32.7%	30.0%	22.5%
Ratio of women in managerial positions (2022)	25.2%	31.5%	34.5%	5.4%
Employee satisfaction level (2022)	75%	80% (2021)	-	89% (2021)

Roadmap	2022	2023	~2025
NIPSEA	<ul style="list-style-type: none"> Kicked off D&I Week to raise employee awareness Implemented Global CSR Framework 	<ul style="list-style-type: none"> Launching D&I Policy Encourage countries to own the roadmap towards achieving 35% female representation in both management & emerging leader category Weave D&I into Employee Engagement campaigns 	<ul style="list-style-type: none"> Implementation of roadmap towards the goal of achieving 35% female representation in both management & emerging leader category Monitor progress towards the goal
DuluxGroup	<ul style="list-style-type: none"> Revised draft D&I framework and strategy, encompassing dimensions beyond gender (indigenous reconciliation; disability; cultural diversity) 	<ul style="list-style-type: none"> Promote our EVP to all employees, but particularly to women in SC and Sales Quarterly reporting to the CEO on SBU diversity statistics against ambition Reviewing our attraction strategies and recruitment processes for accessibility by people with a disability 	<ul style="list-style-type: none"> Meaningful actions to sustain and increase our percentage of women in managerial positions to 35% Meaningful internal programs to foster inclusion
Dunn-Edwards	<ul style="list-style-type: none"> Launched DEI Training 	<ul style="list-style-type: none"> Launched phase 2 of DEI curriculum for all employees Share DEI curriculum with NPHD People and Community DEI Committee DEI committee building company-wide interactive activity for April's celebration of diversity, highlighting the diversity that exists within Dunn-Edwards 	<ul style="list-style-type: none"> Continuously review and adapt company policies to ensure that all charter objectives are met
Japan Group	<ul style="list-style-type: none"> Kicked off D&I Committee 	<ul style="list-style-type: none"> Developed action plans towards 2025 Act on Promotion of Women's Participation & Career Advancement in the Workplace 	<ul style="list-style-type: none"> Increase the ratio of women in managerial positions to 10%

3-3. Team 3 (Innovation & Product Stewardship)

Create new markets by rolling out sustainable products with low carbon emissions and reduced chemical substances

2022 New Product Sales Index (NPSI)
of Japan Group and NIPSEA



Group-level R&D framework (2022)






Engineers	3,895 persons
R&D expenditures	28.1 bn yen
No. of new patents registered	158 cases

Roadmap	2022	2023	~2027
Sustainable Products	<ul style="list-style-type: none"> NIPSEA: Redefined sustainable products NIPSEA, Japan Group: Developed Sustainability Scoreboard DuluxGroup: Established sustainable products targets and developed roadmaps for ANZ^{*1} businesses 	<ul style="list-style-type: none"> Life Cycle Assessment (LCA) of selected products can be calculated at each Partner Company DuluxGroup: Develop Scope 3 reduction roadmap 	<ul style="list-style-type: none"> Manage the performance of Sustainability Scoreboard of each partner company every quarter Promote creation of more innovative sustainable products DuluxGroup: Implement sustainable products and Scope 3 roadmaps
Chemicals of Concern	<ul style="list-style-type: none"> Each Partner Company responded to US Environmental Protection Agency (EPA) and REACH DuluxGroup developed position statements for 50% of high concern CoC Dunn-Edwards: Incoming Chemical Management / Selection per Chemicals of Concern 	<ul style="list-style-type: none"> Consider the phase out plan of Chemicals of Concern in each partner company NIPSEA: Focus on 4 hazardous heavy metals^{*2} DuluxGroup: Complete position statements for 75% of CoC and develop a structured program of CoC in Europe 	<ul style="list-style-type: none"> Create sustainable products based on phase out plan
R&D	<ul style="list-style-type: none"> Developed Green Design Review 	<ul style="list-style-type: none"> R&D activities for sustainable products from Partner Companies beyond Japan and NIPSEA, e.g. DuluxGroup, Dunn-Edwards, etc. 	<ul style="list-style-type: none"> Drive innovation towards UN SDGs and carbon neutrality
Product Stewardship	<ul style="list-style-type: none"> DuluxGroup established packaging recycled content targets and developed roadmaps for ANZ businesses 	<ul style="list-style-type: none"> Identify inquiry items Stakeholder questionnaire NIPSEA: Reinforce PS&RA^{*3} team DuluxGroup: Implement Product Vision to help with formulation management & regulatory tracking 	<ul style="list-style-type: none"> Implement inquiry management database Inquiry response training Training for customers and business partners DuluxGroup: Implement packaging roadmaps

3-3. Team 4 (Governance)

Reinforced global risk management system underlying our Asset Assembler model

Risk heatmap

High risk items identified in FY2022	Change from FY2021	Risk details
Human resources	 Slightly higher	Leadership succession planning
Business Continuity Plan (BCP) responses	 Slightly higher	Global raw material inflation, FX and BCP responses incl. pandemic, natural disaster and IT security
Compliance	 Higher	Social risks including information leakage and employee misconduct
Supply chain	 Much higher	Inventory, logistics, and credit management
International taxation, etc.	 Much lower	International taxation due to greater Group-wide collaboration in brands and technology

Identify high-risk items and monitor changes

- Compile results of risk self-assessment*1 and identify high risk items
- Assigned a score to risk sensitivity of related items and ranked them in the order of degree of change from FY2021

Overview of high-risk matters

- No major change from FY2021 in high-risk item list
- However, there were signs of change in the following
 - ✓Risk sensitivity regarding international taxation decreased
 - ✓Risk sensitivity in both BCP and supply chain increased

Roadmap	2022	2023	~2026
Board of Directors governance	<ul style="list-style-type: none"> • Increased diversity in Board of Directors • Enhanced growth strategy discussions • Streamlined the Board of Directors' operations • Increased contribution by Independent Directors • Strengthened the Board of Directors secretariat functions 	<ul style="list-style-type: none"> • Further streamline the Board of Directors operations • Further increase contributions by Independent Directors • Enhance succession plans 	<ul style="list-style-type: none"> • Further sophistication of growth strategy discussions by Directors • Enhance and implement succession plans
Execution governance	<ul style="list-style-type: none"> • Established the Group Global Code of Conduct • Modified Global Risk Management Basic Policy and established Global Basic Policy of Whistleblowing Hotline 	<ul style="list-style-type: none"> • Increase effectiveness of risk management through risk self-assessment based on Global Risk Management Basic Policy • Establish and increase efficiency of whistleblowing system at each Partner Company Group 	<ul style="list-style-type: none"> • Verify effectiveness and refine <ul style="list-style-type: none"> -risk management system through risk self assessment -whistleblowing hotline • Reform governance framework*2 to respond to changes in social demand

3-3. Team 5 (Sustainable Procurement)

Create new opportunities by building closer communication and stronger trust with suppliers







Key items of the Supplier Code of Conduct

Compliance	Environment	Social	Governance
Legal Compliance	Minimize impact	Freedom of association	Anti-corruption
Subcontractor compliance	Waste management	Child labor	Gifts and entertainment
Environment, health and safety compliance		Forced labor	Conflict of interest
		Discrimination	Confidentiality
		Working conditions	Record keeping
		Conflict minerals	Fair competition
		Product safety and compliance	International trade
		Safety training	

Roadmap	2022	2023	~2025
Team activities	<ul style="list-style-type: none"> Launched the global team Organize regional teams 	<ul style="list-style-type: none"> Conduct supplier survey Define supplier ESG assessment methodology Define Scope 3 disclosure (raw materials related) 	<ul style="list-style-type: none"> Conduct supplier survey Conduct supplier ESG assessment Refine Scope 3 disclosure (raw materials related)
Evaluations/ questionnaires, etc.	<ul style="list-style-type: none"> Developed Supplier Code of Conduct Developed supplier questionnaire 	<ul style="list-style-type: none"> Conduct supplier questionnaire (target 40% by value) 	<ul style="list-style-type: none"> Conduct supplier questionnaire (target 90% by value)

3-4. Sustainability Strategy Updates: ESG Index/Rating Evaluations

Due to our progress in our sustainability initiatives and disclosure enhancement, we have been included in ESG indexes adopted by GPIF and showed improvement in ESG rating scores

ESG index		~2019	2020	2021	2022
	S&P/JPX Carbon Efficient Index	Sep. 2018~			
	MSCI Japan Stock Index (WIN)	June~			
	MSCI Japan ESG Select Leaders Index				June~
	FTSE Blossom Japan Index				June~
	FTSE Blossom Japan Sector Relative Index				March~
ESG rating		2019	2020	2021	2022
	Climate Change	D	C	B	B
	Water Security	D	B-	A-	A-
MSCI	ESG Rating	BBB	A	A	A
FTSE	ESG Score	2.1	2.3	2.5	3.5



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