

# Nippon Paint

# Medium-Term Strategy Briefing

## -Our Roadmap as Asset Assembler-

April 4, 2024

# 4. Sustainability



**NIPPON PAINT HOLDINGS CO., LTD.**

# Sustainability Initiatives That Drive EPS and PER (1)

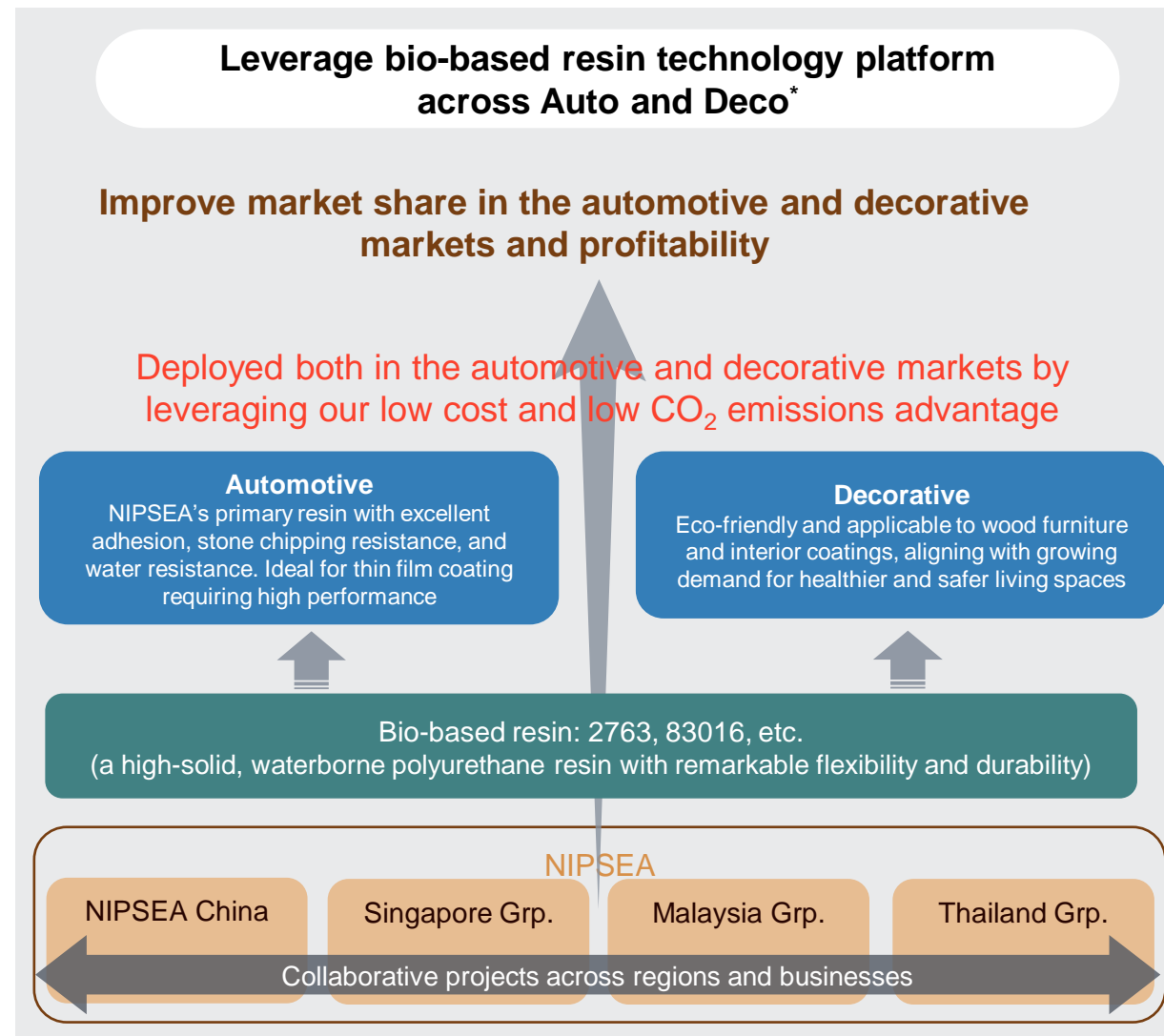
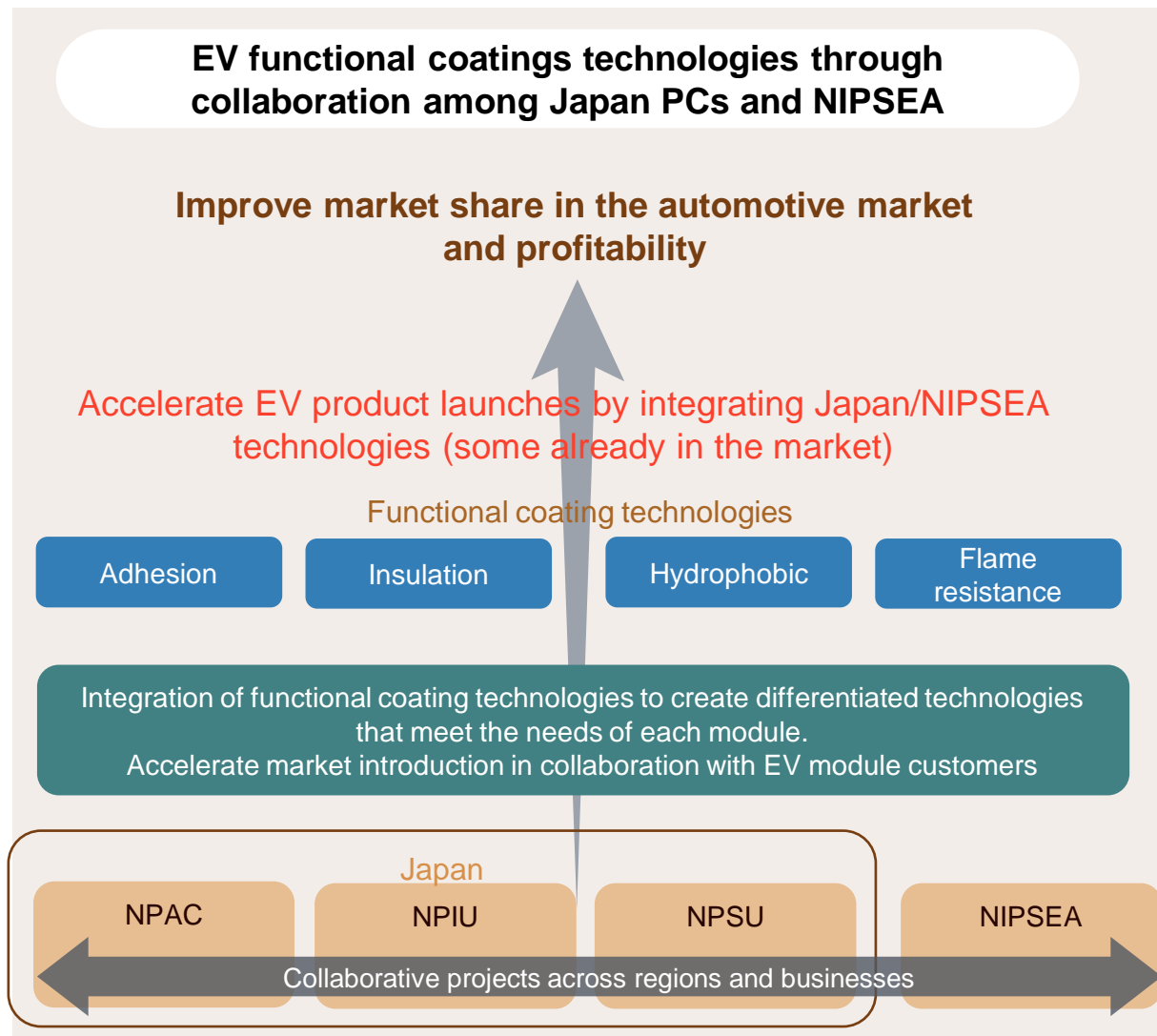
Aim to achieve MSV by increasing the earnings and markets' expectations through sustainability activities

## MSV (EPS Maximization × PER Maximization)



## Sustainability Initiatives That Drive EPS and PER (2)

### Examples of innovation strategies directly linked to EPS accretion



\* cf. [https://www.nipponpaint-holdings.com/en/sustainability/articles/initiative\\_20240223/](https://www.nipponpaint-holdings.com/en/sustainability/articles/initiative_20240223/)

## Sustainability Initiatives That Drive EPS and PER (3)

### Examples of human resource strategies directly linked to EPS accretion

#### Integrated activities across Japan Group

##### Improve market share and profitability

Senior management hold concurrent roles across Japan and global operations to enhance cooperation and synergy

Streamline operations by eliminating overlaps and filling gaps in each market  
Promote business in an integrated and centralized manner across the entire Group

Japan

NPAC

NPTU

NPIU

NPSU

NPMC

Integrated sales activities (overseen by NPIU President)

Integrated resin development activities (overseen by NPAC President)

Production integration  
(overseen by NPTU President)

#### NIPSEA/Japan technology team collaboration

##### Improve market share and profitability

Cultivate an adaptive organizational culture and foster collaboration with Japan Technology Team to overcome the “Not Invented Here Syndrome”

Technology shared service

ESG and open Innovation

Global R&D strategy

Japan

Technology Leadership Team

NIPSEA

Technology Leadership Council

Continue to drive “leveraging”, “sharing”, “integration”

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3. Sustainability Teams Approaches and Success Cases

	Approaches for boosting EPS	Actions and Examples Leading to higher EPS															
Environment & Safety	<ul style="list-style-type: none"><li>•Reduced carbon emissions and increased renewable energy consumption</li><li>•Reduced waste generation, increased resource recovery (reuse, recycling), and increased sustainable water consumption</li><li>•Management of high-consequence safety risks to protect people, assets, and supply</li></ul>	<ul style="list-style-type: none"><li>•Solar system installations in DGL Pacific &amp; Europe and in NIPSEA China</li><li>•Renewable power purchase in DGL Europe and in Nippon Japan</li><li>•Various recovery and reuse projects for waste and water across all PCGs</li><li>•Implementation of high potential safety incident reporting across all PCGs</li></ul>															
People & Community	<ul style="list-style-type: none"><li>•Dynamic and open corporate culture, as well as a pleasant and rewarding work environment that encourages every employee to take on challenges and fully showcase their unique qualities and abilities in generating new value and business</li></ul>	<ul style="list-style-type: none"><li>•Senior Management in Japan Group playing multiple roles and taking initiatives for enhancing Group synergies and expanding market share</li><li>•NIPSEA Technology Leadership Council and Japan Segment Technology Leadership Team sharing and integrating Expertise and R&amp;D Strategy for more sustainable business</li></ul>															
Innovation & Product Stewardship	<ul style="list-style-type: none"><li>•Drive Sales of Sustainable Products</li><li>•Improve Productivity by introducing innovative process</li></ul>	<ul style="list-style-type: none"><li>◆EV Coating</li><li>•Integrated NPSU/NPIU/NPAC/NIPSEA functional coating technologies for adhesion function, insulation, hydrophobic and flame resistance</li><li>•Launched products like insulating powder and surface coating for battery packaging</li><li>◆ELN (Electronic Lab Notebook)</li><li>•Experimental results collected for viscosity, anti-scratch etc. for ELN</li><li>•Plan to combine ELN system with AI to optimize and accelerate innovation</li></ul>															
Governance	<ul style="list-style-type: none"><li>•Board considers the discussion of the Group's growth strategy as a key issue and encourages timely and appropriate risk-taking by the management without slowing down the speed of decision making on management proposals</li><li>•Simple and efficient internal Control framework in the Asset Assembler Model (framework being enforced through Nippon Paint Group Global Code of Conduct, Basic Policies of Global Risk Management (GRM) and Global Basic Policies of Whistleblowing Hotline)</li></ul>	<ul style="list-style-type: none"><li>•Growth Strategy Discussions at Board Meetings :The growth strategy discussion for 2023 doubled from 2022</li></ul> <div><p>&lt;Percentage of time spent at BOD meetings by agenda item &gt;</p><table><tr><th>Year</th><th>Growth strategy</th><th>Executive report (including Financial result)</th><th>Committees report</th><th>Development of governance structure, others</th></tr><tr><td>2023</td><td>46%</td><td>37%</td><td>6%</td><td>11%</td></tr><tr><td>2022</td><td>23%</td><td>38%</td><td>10%</td><td>29%</td></tr></table></div> <ul style="list-style-type: none"><li>•Operation being sophisticated based on Control-Self-Assessment (CSA) in accordance with the GRM of each PCG</li></ul>	Year	Growth strategy	Executive report (including Financial result)	Committees report	Development of governance structure, others	2023	46%	37%	6%	11%	2022	23%	38%	10%	29%
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Sustainable Procurement	<ul style="list-style-type: none"><li>•Sustainable and optimized procurement cost to mitigate the risk of supply chain disruption</li><li>•It reduces the disruption and production cost, leading to stable MSV expectation</li></ul>	<ul style="list-style-type: none"><li>•Supplier Sustainability Survey conducted based on our Supplier Code of Conduct</li><li>•The questionnaire enable us to identify suppliers who have responded in agreement to our Supplier Code of Conduct and also indicated suppliers with weakness in certain areas</li><li>•To work with these suppliers to improve their level of sustainability to reduce the risk exposure to Nippon Paint Group</li></ul>															

\*PCG: Partner Company Group, referring to the group of companies by region and business

4. Roadmaps of Sustainability Teams

		Step1	Step2	Step3	Step4
Environment & Safety	Climate change	◆2023 •Reviewed PCGs' climate risks and opportunities against TCFD framework •Continued peer benchmarking and implementation of common group metrics (carbon – scope 1, 2 & 3, energy, renewables)	◆2024 •Establish carbon (scope 1, 2 & 3) collaboration group to share and align (as appropriate) on measurement, mitigation, and improvement initiatives •Continue to review and action carbon disclosures (TCFD, IFRS/CDSB) as appropriate.	◆-2030 •NIPSEA Group: 15% Scope 1 & 2 reduction 2025 (2021 baseline) •DuluxGroup (Pacific): 50% renewable electricity consumption and 50% Scope 1 & 2 reduction 2030 (2020 baseline) •DuluxGroup (Europe): Targets to be established 2024 •Japan Group: 37% Scope 1 & 2 reduction 2030 (2019 baseline)	◆2050-2060 •Net zero carbon (Scope 1 & 2)
	Resources & Environment	◆2023 •Continued peer benchmarking and implementation of common group metrics (waste, water, VOC)	◆2024 •Review circularity best practice (waste, water) and identify improvement opportunities •Review emerging nature-related disclosure standards (TNFD) and action as appropriate	◆-2060 •Significantly improve the circularity of our supply chains (e.g. renewable resources, waste, water)	
	Safe People & Operations	◆2023 •Reviewed global best practice for high-consequence safety risk management	◆2024 •Establish process safety risks collaboration group to develop common group standards •Support implementation of high potential incident reporting and improvement action across all PCGs	◆-2060 •Enable effective control of high-consequence safety risks to reduce high-potential incidents and prevent all disasters and fatalities	
People & Community	DE&I	◆2023 <u>Launched D&amp;I training in each PCG</u> •NIPSEA Group: Launched Women Mentorship Program •Dunn-Edwards: Launched DEI curriculum for all employees at all levels  <u>Launched D&amp;I working group in each PCG</u> •NIPSEA Group: Launched D&I across NIPSEA Group •DuluxGroup: Formed a working group for inclusive recruitment. Formed a partnership with a disability job platform for employment of people with disabilities		◆2024 •NIPSEA Group: Develop the 1st batch of mentees to become mentors in their respective NPX •DuluxGroup: Leader-led approach driving toward gender balance •Dunn-Edwards: Continue the women hiring and promotional practices •Japan Group: Plan to create a development program targeting 30 gen including certain number of female	◆2025 •NIPSEA Group: Implement and monitor progress of roadmap towards the goal of achieving 35% female representation in both management & emerging leader category •DuluxGroup: Continue to drive toward our ambition of gender balance across the group •Dunn-Edwards: Continue the women hiring and promotional practices •Japan Group: Increase the ratio of women in managerial positions to 10%
	Growth with community	◆2023 •NIPSEA Group: Develop Group CSR Website •Japan Group: Advanced “HAPPY PAINT PROJECT” strengthen our Brand and Business		◆-2025 •NIPSEA Group: Invest at least US\$5 million to support CSR initiatives each year •DuluxGroup: Increase the number of employee volunteer hours by at least 10%	



4. Roadmaps of Sustainability Teams

		Step1	Step2	Step3
Innovation & Product Stewardship	Sustainable Products	<p>◆2023</p> <ul style="list-style-type: none"><li>•Life Cycle Assessment (LCA) of selected products can be calculated at each PCG</li><li>•DuluxGroup: Developing Scope 3 reduction roadmap</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Develop methodologies &amp; modeling of LCA (PCF<sup>*1</sup>, software, database)</li><li>•IT Tool implementation for product sustainability scoring in system</li><li>•Sustainable products portfolio optimization</li></ul>	<p>◆-2030</p> <ul style="list-style-type: none"><li>•Manage the performance of Sustainability Scoreboard of each PCG every quarter</li><li>•Promote creation of more innovative sustainable products</li><li>•Implement sustainable products and Scope 3 roadmaps</li></ul>
	Chemicals of Concern	<p>◆2023</p> <ul style="list-style-type: none"><li>•The execution of the phase out plan of Chemicals of Concern in each PCG</li><li>•NIPSEA Group: Focus on 4 hazardous heavy metals<sup>*2</sup></li><li>•DuluxGroup: Completed position statements for 75% of CoC and develop a structured program of CoC in Europe</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Proceed the COC phasing out plan by regions and business units based on local status</li><li>•Continuously evaluate other CoC restriction requirements and implementing action plans</li></ul>	<p>◆-2030</p> <ul style="list-style-type: none"><li>•Create sustainable products based on phase out plan</li><li>•Phase-out 4 heavy metals before the end of 2030 globally</li></ul>
	R&D	<p>◆2023</p> <ul style="list-style-type: none"><li>•R&amp;D activities for sustainable products from PCG beyond Japan and NIPSEA, e.g. DuluxGroup, Dunn-Edwards, etc.</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Initiate and Drive Flagship Projects in Sustainability;</li><li>•Create sustainable project portfolio and drive sustainable business growth</li></ul>	<p>◆-2030</p> <ul style="list-style-type: none"><li>•Drive innovation towards UN SDGs and carbon neutrality</li></ul>
	Product Stewardship	<p>◆2023</p> <ul style="list-style-type: none"><li>•Identified inquiry items</li><li>•Stakeholder questionnaire</li><li>•NIPSEA Group: Reinforced PS&amp;RA<sup>*3</sup> team</li><li>•DuluxGroup: Implemented Product Vision to help with formulation management &amp; regulatory tracking</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Monitor, record and communicate the change of global regulations</li><li>•Assess raw materials introduction, register new substance and ensure SDS and GHS label generation, registration hazard chemical permits correctly and precisely</li><li>•Respond to customers requests, i.e., RoHS, IMDS etc.</li></ul>	<p>◆-2030</p> <ul style="list-style-type: none"><li>•Implement inquiry management database</li><li>Inquiry response training</li><li>•Training for customers and business partners</li><li>•DuluxGroup: Implement packaging roadmaps</li></ul>

\*1 Product Carbon Footprint  
\*2 Lead, Chromate (Cr6+), Cadmium, and Mercury  
\*3 Product Stewardship & Regulatory Affairs

4. Roadmaps of Sustainability Teams

		Step1	Step2	Step3
Governance	Board of Directors governance	<p>◆2023</p> <ul style="list-style-type: none"><li>•Further streamlined the Board of Directors operations (Careful selection of agenda items, thorough use of IT tools and others</li><li>•Further increased contributions by Independent Directors (Use of the Meeting of Independent Directors)</li><li>•Enhanced succession plan (Monitoring the status of measures to strengthen the Group's human capital)</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Enrichment of discussion on growth strategy</li><li>•Improvement of the operational efficiency of Board meetings</li><li>•Thorough engagement in succession planning</li><li>•Further fine tuning of the "Audit on Audit" framework</li></ul>	<p>◆-2026</p> <ul style="list-style-type: none"><li>•Further sophistication of growth strategy discussions</li><li>•Enhance and implement succession plans</li></ul>
	Execution governance	<p>◆2023</p> <ul style="list-style-type: none"><li>•Improved effectiveness of Risk Management through CSA List</li><li>•Firmly establishing and increasing the effectiveness of the whistleblowing hotline at each PCG</li><li>•Overviewed stakeholder needs and activities of the Sustainability Teams, proposed and established an Anti- Bribery and Corruption/Anti-Money Laundering Statement to the Board of Directors</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Proactive improvement tailored to the situation of each PCG through voluntary self-inspections by CSA List</li><li>•Operating and enhancing the effectiveness of internal reporting channels tailored to the situation of each PCG</li><li>•Strengthening collaboration within the Sustainability Team to respond to changes in social demands such as "human capital" and others</li></ul>	<p>◆-2026</p> <ul style="list-style-type: none"><li>•Verify effectiveness and refine<ul style="list-style-type: none"><li>-risk management system</li><li>-whistleblowing hotline</li></ul></li><li>•Upgrading the governance framework (Including compliance and risk management) to respond to changes in social demand</li></ul>
Sustainable Procurement	Strengthen Internal Mindset and Enhance Understanding of Sustainable Procurement	<p>◆2023</p> <ul style="list-style-type: none"><li>•Explored sustainable projects</li><li>•Established indicators</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Support Group EHS to compile Scope 3 for the NIPSEA group progressively</li><li>•Improve understanding of Scope 3/ESG among the group's procurement through training</li><li>•Develop supplier ESG audit program with NP China</li></ul>	<p>◆2025</p> <ul style="list-style-type: none"><li>•Conduct supplier ESG assessment</li><li>•Refine Scope 3 disclosure (raw materials related)</li></ul>
	Sustainable Procurement Actions with Suppliers	<p>◆2023</p> <ul style="list-style-type: none"><li>•Conducted supplier questionnaire (target top % by value 73%)</li></ul>	<p>◆2024</p> <ul style="list-style-type: none"><li>•Conduct supplier questionnaire for remaining suppliers</li><li>•Engage suppliers to provide primary data to improve Scope 3 data quality</li></ul>	<p>◆2025</p> <ul style="list-style-type: none"><li>•Conduct supplier questionnaire (target 90% by value)</li></ul>