# Sustainability as the Prerequisite for MSV

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.

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 expanding earnings (maximizing EPS) and raising market expectations (maximizing PER) for Nippon Paint Group.

Autonomous sustainability structure

Under the leadership of the Co-Presidents, five sustainability teams were established. Based on autonomous and decentralized management that emphasizes the autonomy of all partner companies, the five teams are conducting global activities primarily led by business leaders with considerable expertise involving the areas of responsibility of each team.
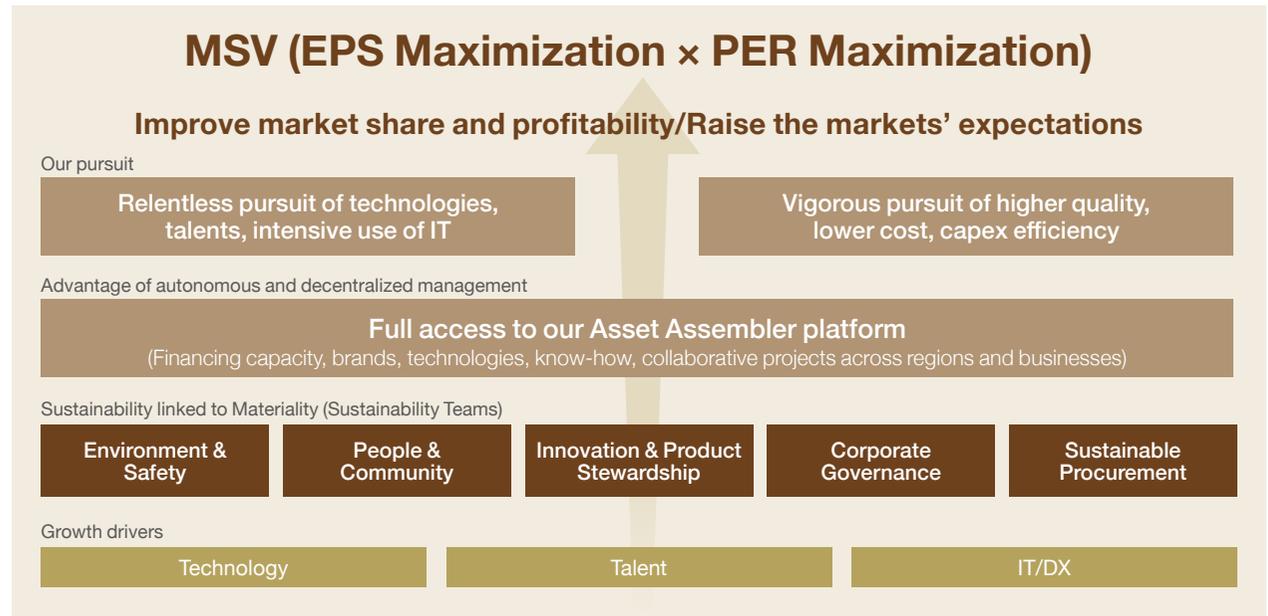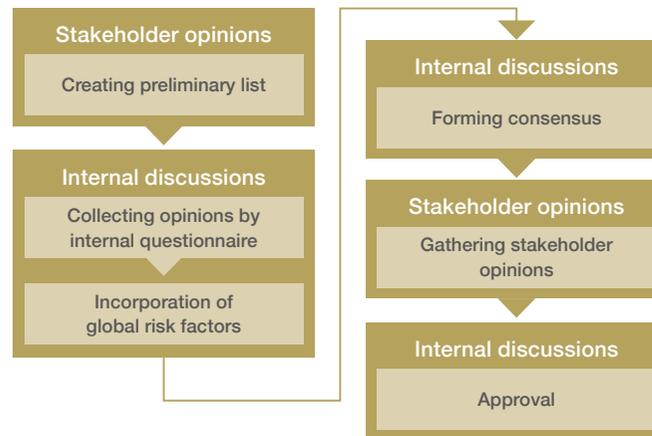
Basic Policy on Sustainability

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.
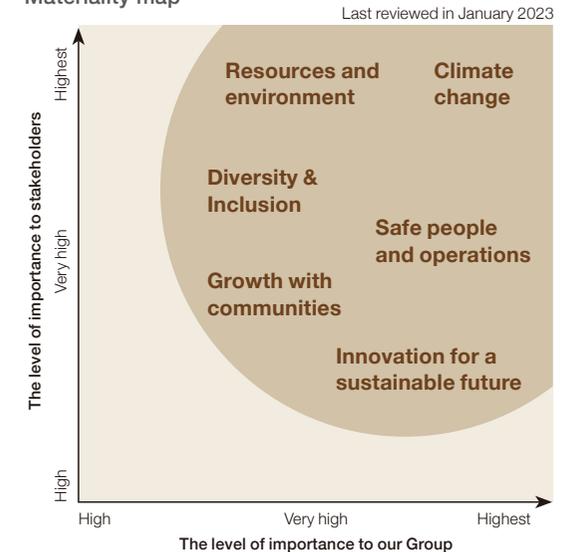
» For more information, please refer to the "Sustainability Management" section on our website.

MSV (EPS Maximization × PER Maximization)

Improve market share and profitability/Raise the markets' expectations

Our pursuit

Relentless pursuit of technologies, talents, intensive use of IT	Vigorous pursuit of higher quality, lower cost, capex efficiency

Advantage of autonomous and decentralized management

Full access to our Asset Assembler platform
(Financing capacity, brands, technologies, know-how, collaborative projects across regions and businesses)

Sustainability linked to Materiality (Sustainability Teams)

Environment & Safety	People & Community	Innovation & Product Stewardship	Corporate Governance	Sustainable Procurement

Growth drivers

Technology	Talent	IT/DX

Materiality identification process

Stakeholder opinions
Creating preliminary list

Internal discussions
Collecting opinions by internal questionnaire

Incorporation of global risk factors

Internal discussions
Forming consensus

Stakeholder opinions
Gathering stakeholder opinions

Internal discussions
Approval

» For more information, please refer to "Sustainability linked to materiality" under the "Materiality" section on our website.

Materiality map

Last reviewed in January 2023

- Resources and environment
- Climate change
- Diversity & Inclusion
- Safe people and operations
- Growth with communities
- Innovation for a sustainable future

The level of importance to stakeholders (Highest / Very high / High)
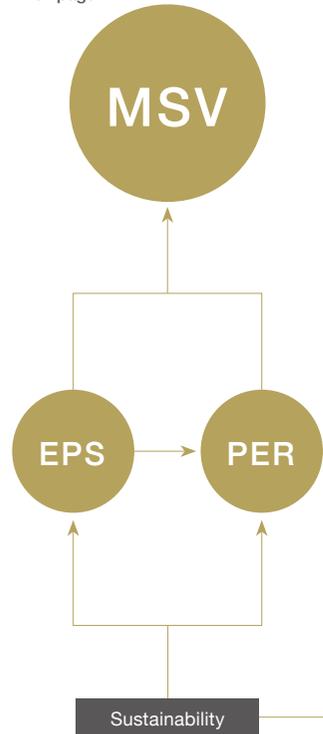
The level of importance to our Group (High / Very high / Highest)

Sustainability as the Prerequisite for MSV

MSV Logic Tree

>> For more information, please refer to "How Shareholder Value Is Maximized" on page 4.

MSV

EPS → PER

Sustainability

Team	Our pursuit	Materiality	Relevant SDGs
Environment & Safety	Develop low-carbon/ eco-friendly products + Ensure safe people and operations	**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.	7 AFFORDABLE AND CLEAN ENERGY, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 13 CLIMATE ACTION
		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.	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
		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.	3 GOOD HEALTH AND WELL-BEING, 4 QUALITY EDUCATION, 8 DECENT WORK AND ECONOMIC GROWTH
People & Community	Recruit/train diverse employees + Earn the trust of stakeholders	**Diversity & Inclusion** Respect for the people around us, respect for human rights and active acceptance of diverse values are important for our sustainable growth. We value diversity of ideas and thinking to foster innovation and growth.	4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES
		Growth with communities 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.	1 NO POVERTY, 4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Innovation & Product Stewardship	Develop sustainable products (NPSI ↗ /monitor LCA) + 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.	3 GOOD HEALTH AND WELL-BEING, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 17 PARTNERSHIPS FOR THE GOALS
Corporate Governance	Monitor management + Encourage risk-taking	All Materiality categories*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS, 17 PARTNERSHIPS FOR THE GOALS
Sustainable Procurement	Low-cost and sustainable procurement + Reduce environmental and human rights risks	All Materiality categories*	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION, 17 PARTNERSHIPS FOR THE GOALS

* Focused on activities not only tied to specific Materiality categories but also spanning all Materiality categories.

Sustainability as the Prerequisite for MSV

Risks	Opportunities	Main initiatives in 2023
• 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)	• Market growth for sustainable products (e.g., low-carbon, improved performance in temperature extremes) • Development of new products and services to capture climate-related business opportunities	• Reviewed PCGs' climate risks and opportunities against TCFD framework and identified common group improvement opportunities for 2024 focus • Continued peer benchmarking and implementation of common group metrics (GHG – scope 1, 2 & 3, energy, renewables)
• 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 future circular economy	• 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	• Continued peer benchmarking and implementation of common group metrics (waste, water, VOC)
• Major site incident (e.g., fire) causing asset damage, supply chain disruption, and significant harm to people and community • Loss of effective safety management from introduction of significant changes (e.g., new or modified plant/process)	• Minimizing risks through sharing and adoption of global best practice, particularly for high-consequence risks • Enhancing brand reputation, employee engagement, and attracting talent as a safe employer	• Reviewed global best practice for high-consequence safety risk management and identified common improvement opportunities for 2024 focus • Continued peer benchmarking and implementation of common group metrics (process safety events, high potential incidents)

• Failure to foster a diverse and inclusive work environment risks hindering our growth strategy.
• May face perception risk if diversity initiatives are not properly positioned.
	• 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
		• Launched D&I training in each PCG (PC Group by region/ business)
		  - NIPSEA Group: Started Women Mentorship Program
		  - Dunn-Edwards: Started DE&I curriculum
		• Launched and continued D&I working group at NIPSEA Group, DuluxGroup and Japan Group
		• DuluxGroup: Talent and Diversity Council meets quarterly to review progress of key diversity areas
		• Japan Group: Started to embed D&I into talent management activities

• Significant damage to the corporate brand if the company is not perceived as a good corporate citizen that is connected to and invests in local communities
• Damage to the public image of the paint industry caused by inadequate activities oriented toward the local community
	• 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
		• All groups to continue CSR initiatives across the 3 main global CSR pillars, Education, Empowerment and Engagement
		  - NIPSEA Group carried out 86 and DuluxGroup 150 community projects
		  - Japan Group: Advanced "HAPPY PAINT PROJECT" to strengthen Brand and Business
		  - Dunn-Edwards: Established the Dunn-Edwards Foundation

• Significant hindrance to future corporate earnings owing to inability to generate innovation due to slow response to new markets	• Expansion of market for products that contribute to controlling and adapting to climate change
	• Products and services that address social issues contribute significantly to society and help boost corporate earnings in the long term
		• Facilitated calculation of Life Cycle Assessment of selected products at each PCG
		• Japan Group and NIPSEA Group: Created Sustainable Projects Portfolio for long-term development
		• Continued to execute phase-out plan of Chemicals of Concern in each PCG
		• Product Stewardship
		  - NIPSEA Group: Commenced cooperation with upstream value chain partners to reduce GHG emissions
		  - DuluxGroup: Started to integrate sustainable packaging and product improvements into the new product development process

• If our autonomous and decentralized internal control system aligned with our Asset Assembler model does not work effectively, this will create a risk of damage to our Group.	• Social requirements regarding corporate governance are becoming increasingly demanding, which provides an opportunity for our Group to increase our significance of existence and strengthen competitiveness by addressing future issues and fulfilling social requirements ahead of time	• Governance of Board of Directors
		  - Further increased contributions by Independent Directors (Use of the Meeting of Independent Directors)
		  - Enhanced succession plan (Monitoring the status of measures to strengthen the Group's human capital)
		• Governance of Execution
		  - 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

• The risk of raw materials not meeting sustainable criteria now adds to the long list of possible disruptions to the raw material supply chain. We will continue to be vigilant and proactive to identify potential risk. • The failure to ensure responsible sourcing (e.g., conflict minerals and chemicals of concern) will affect company reputation and may lead to legal implications.	• Our sustainability survey of suppliers allows us the opportunity to identify potential risk in advance. We will work with suppliers who are aligned with our sustainable aspiration towards a more resilient supply chain and to develop sustainable products	• Continue to engage with suppliers for their ESG plans and sustainable products • Sustainable Procurement Actions: - Conducted supplier questionnaire