

Discussions by the Board of Directors

Advancing sustainability in harmony with Asset Assembler Model

Sustainability discussions are important for Nippon Paint Group to stay competitive for many years—Following the revision of the Basic Policy on Sustainability in March 2023, the Board of Directors had a fresh discussion on our Group’s approach to sustainability initiatives. This page features excerpts of the discussion.

Identifying issues involving target setting and other matters

◆ Comment from a Director

I would like to start a discussion about the pros and cons of having a shared vision and targets across the Group. How can we incorporate the consolidated perspective into our sustainability initiatives regarding climate change and other relevant themes?

◇ Comment from a Team Leader

A unique aspect of Nippon Paint Group is that each partner company operates its business in their respective market, which significantly differs in business structure and maturity. For instance, carbon emissions from energy sources and power generation vary across the regions in which each partner company operates. Energy sources pose challenges for climate change initiatives at each partner company. Therefore, it is very appropriate to tailor sustainability targets to the characteristics of each region and business.

We establish improvement targets for each area within every partner company. These targets are determined by considering the level and maturity of the markets in which our Partner Company Groups conduct their businesses. For instance, it is rational and reasonable to set different targets involving global warming gas emissions for partner companies in regions where renewable energy is readily available versus regions where widespread use of renewables are yet to come. Important factors that will affect target setting for partner companies are policy objectives in countries where they operate, whether they need to aim for net-zero emissions by 2050 or by 2060, and the possibility of policy changes in the future. It is also essential to consider the influence of customer behavior based on policy targets and any subsequent changes.

We assess the achievements and specific initiatives for target achievement at each partner company based on the significance of their businesses. It is essential that we disclose information that is of great interest to stakeholders, including customers and investors. Furthermore, we must prepare for the disclosure of information that may be subject to mandatory reporting on a consolidated basis.

◆ Comment from a Director

In our information disclosure strategy, a vital aspect involves understanding our direction and aligning it with the expectations of society and investors. Since NPHD aims to increase its assets, it is important to strike a balance between sustainability initiatives and our ambitions. When determining the necessary and the ideal form of information disclosure, we must take this balance into account.

We may need to disclose certain indicators requested by stakeholders. Therefore, it’s essential to stay vigilant and attentive to their requirements. This approach allows our company to cleverly respond to possible changes in circumstances.

◆ Comment from a Director

We must avoid rushing into decisions without proper planning. It is crucial to carefully assess the potential consequences of disclosure on a consolidated basis and setting targets from the top-down, as this could negatively impact our businesses. The headquarters shouldn’t impose various requirements from external sources on partner companies in a centralized manner. However, we must remain vigilant and take measures, such as closely monitoring the moves of global competitors.

Identifying issues involving procurement (1)

◆ Comment from a Director

Does our Group have a wide-ranging supplier base? For instance, are there any potential risks of our procurement being impeded by issues concerning child labor during raw material production or concerning conflict minerals?

◇ Comment from a Team Leader

Conflict minerals, such as mica, are the main concerns of our Group. Mica is normally used as a raw material for coatings for automobiles and motorcycles with bright, glittering colors. In order to replace this material with an alternative, we will need to work from the product development phase. So, we will have to work with the Innovation & Product Stewardship Team.

From the standpoint of developing alternative raw materials, we are experiencing a rise in customer inquiries about bio-based raw materials and receiving proposals from

suppliers. The trend stems from a growing emphasis on the product life cycle impact. I believe that fostering collaborations between the Procurement Team and the Innovation & Product Stewardship Team is of utmost importance.

I believe that the risk of child labor involvement among our Group’s suppliers is very low.

Identifying issues involving procurement (2)

◆ Comment from a Director

What measures are we implementing to mitigate risks related to cross-border procurement, including the utilization of alternative raw materials?

◇ Comment from a Team Leader

In the event of procurement challenges concerning raw materials, we normally investigate the availability of alternative materials through regular transactions. Accordingly, we regularly update the list of suppliers. During the pandemic, we reviewed the possibility of procuring raw materials from different regions, such as procuring raw materials that were previously obtained from China, from India, and other suitable regions.

Other discussion (selected partial excerpts)

- When engaging in diversity discussions, the primary emphasis in Japan is on gender balance. However, we need to select topics of discussion based on regional characteristics. In regions where diversity discussions involve broader themes, such as LGBTQ, we should embrace such subjects. In regions where cultural backgrounds necessitate a cautious approach, we should be mindful of our stance.
- Regarding the management of chemical substances, we are identifying products that contain chemicals of concern and initiating a phased approach to discontinue their use. It is important to have a prudent perspective when determining the timing and extent of abolishment, taking into account factors such as market demand and other relevant considerations.
- Our ongoing focus remains on addressing governance issues by reinforcing important commitments, including anti-bribery measures, and introducing a governance assessment indicator to assess governance.
- The Sustainability Teams are taking flexible actions that are aligned with our Asset Assembler model while also considering and respecting regional characteristics and business needs.
- The Board of Directors finds the promotion of sustainability by the five Sustainability Teams highly encouraging, as it serves as an effective means of enhancing communication among partner companies, employees, and investors.