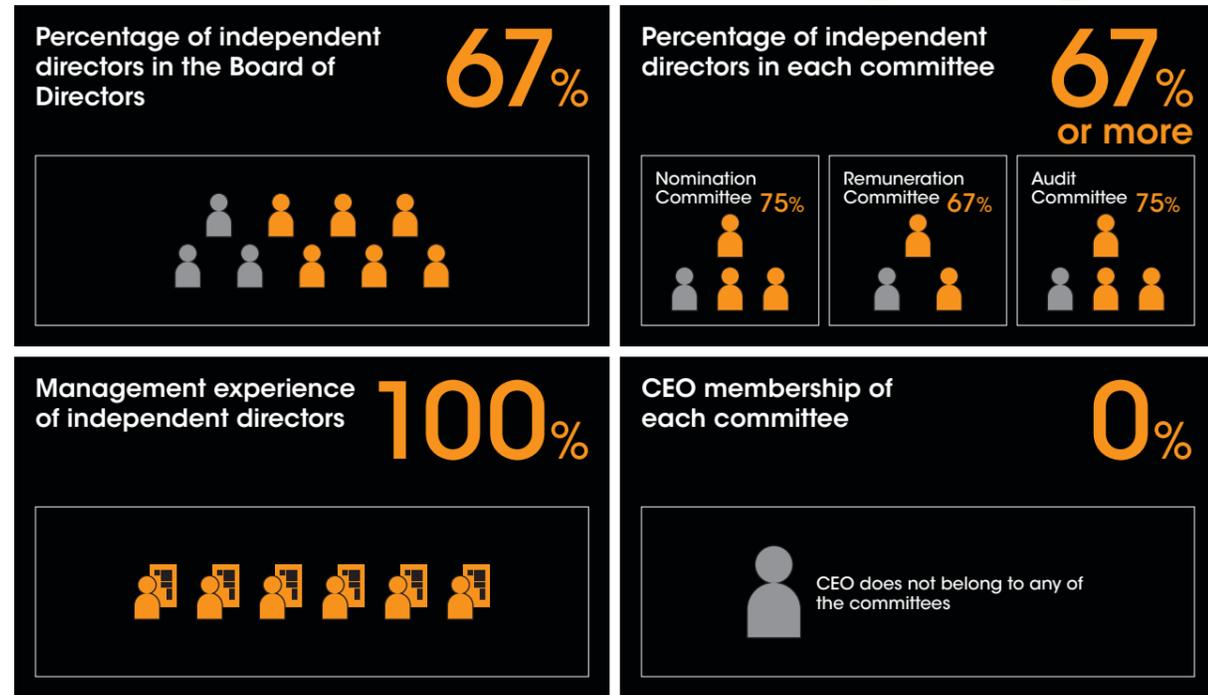


Governance

Corporate Governance Structure and Initiatives

Characteristics of the Company's governance

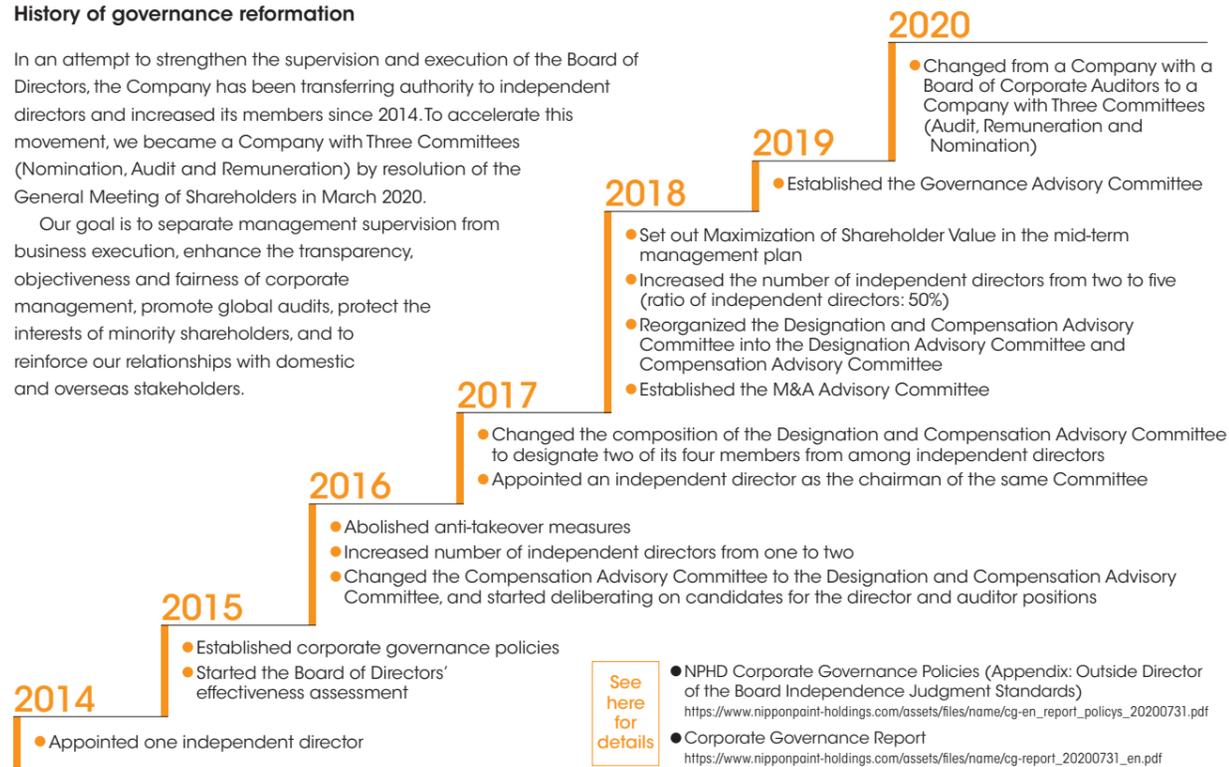
Outside directors Inside directors



History of governance reformation

In an attempt to strengthen the supervision and execution of the Board of Directors, the Company has been transferring authority to independent directors and increased its members since 2014. To accelerate this movement, we became a Company with Three Committees (Nomination, Audit and Remuneration) by resolution of the General Meeting of Shareholders in March 2020.

Our goal is to separate management supervision from business execution, enhance the transparency, objectiveness and fairness of corporate management, promote global audits, protect the interests of minority shareholders, and to reinforce our relationships with domestic and overseas stakeholders.



Governance system

Board of Directors

The Board of Directors shall recognize the fiduciary responsibilities from all stakeholders including shareholders and investors, and supervise the Group's overall management by taking responsibility for the Company's sustainable growth and maximization of mid-to-long-term shareholder value through the appropriate exercise of our authority. The Board of Directors shall be focused on discussing matters such as those that need to be resolved by the Board in accordance with the law and the Articles of Incorporation, matters that have been delegated to the Board by resolution of the General Meeting of Shareholders, as well as important matters about the Group's management. One of the nine directors of the Board concurrently serves as an executive officer. In order to reflect a more diverse perspective in our management, 6 members, or 2/3, of our total directors are independent directors, including female directors. In addition, we also strive to strengthen our audit system and protect the interests of minority shareholders. The term of office of our Directors of the Board is one year.

The Board of Directors has three statutory committees, Nomination, Audit and Remuneration, in which the majority of members are independent directors. Moreover, in order to ensure the effectiveness of each committee and the Board of Directors, the Company has established a secretarial office for each meeting body, with an appropriate budget and personnel.

Nomination Committee

To make decisions on the content of proposals on the appointment and dismissal of Directors of the Board to be submitted to the General Meeting of Shareholders, and to deliberate on the successor plan, as well as the appointment, dismissal, and successor plan for the president and representative executive officer. The committee is composed of four directors of which three are independent directors, and is chaired by an independent director.

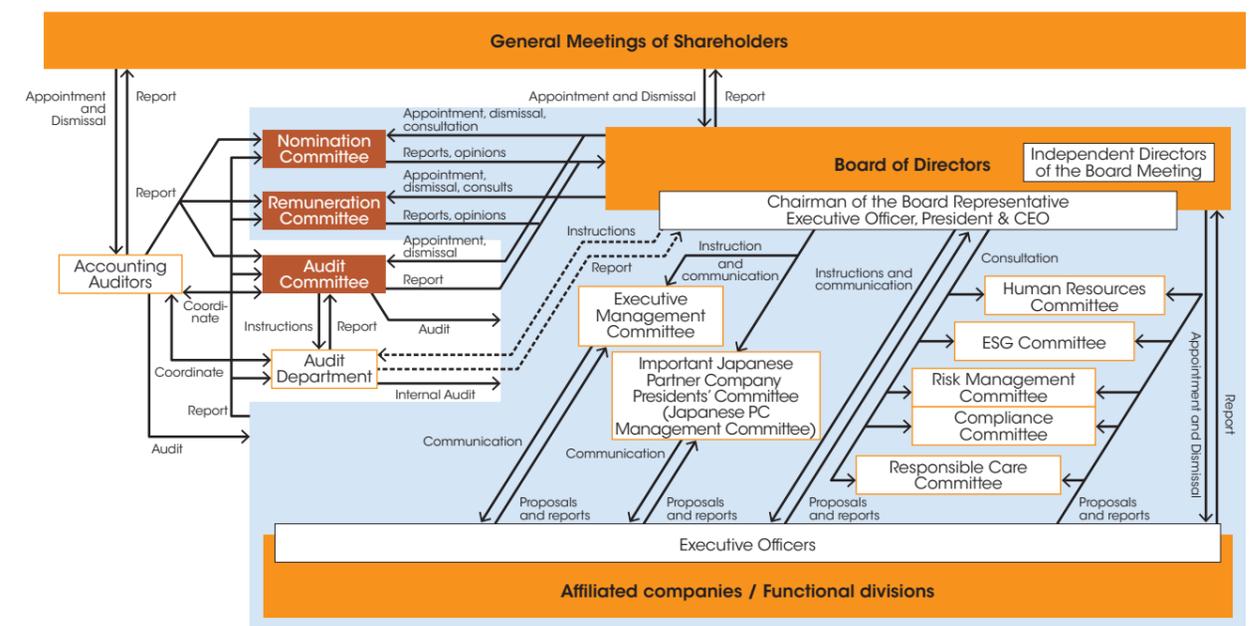
Remuneration Committee

To make decisions on the decision-making policy for the individual remuneration, etc., of executive officers and directors, and to make decisions on the content of remuneration, etc., for individuals. The committee is composed of three directors of which two are independent directors, and is chaired by an independent director.

Audit Committee

The auditing of the execution of duties of executive officers and directors, the creation of audit reports, and the making of decisions on the content of proposals relating to the appointment, dismissal, and non-re-appointment of the Accounting Auditor to be submitted to a General Meeting of Shareholders. The committee is composed of four directors of which three are independent directors, and is chaired by an independent director.

Corporate governance system



## Governance

### Appointment and dismissal of directors

Candidates for director positions are nominated by the Nomination Committee. Candidates must be able to display loyalty and exercise the due cares of a prudent manager, have the ability to contribute in maximizing mid-to-long-term shareholder value and promoting further growth of the Group. Candidates for independent directors must fulfill the "Outside Director of the Board Independence Judgment Standards" prescribed by the Company's Corporate Governance Policies and have abundant experience and deep insight in the fields of corporate management, accounting, legal affairs, etc. Candidates must also be able to monitor the duties executed by Executive Officers from an independent and objective perspective.

In contrast, the Nomination Committee may consider proposing the dismissal of a director to the General Meeting of Shareholders if there are objective and legitimate reasons to determine that such person does not meet the requirements of selection standards and is deemed untrustworthy of being entrusted duties as a director.

### Representative Executive Officer and Executive Officer successor plan

The Board of Directors, based on the deliberations and opinions of the Nomination Committee, shall establish a successor plan for the Representative Executive Officer and Executive Officers, and shall provide appropriate supervision based on the successor plan through, among others, the administration of an executive development program based on the selection system and the promotion to important executive positions such as the management at a group company. Regarding the appointment and dismissal of the Representative Executive Officer and the President, the Board of Directors, upon deliberation and based on the deliberations and reports of the Nomination Committee, and in accordance with the successor plan, shall appoint as the Representative Executive Officer and

President a person who has a wealth of experience and achievements in the field of corporate management, has demonstrated the high level of ability suitable for the position of Representative Executive Officer and President, and who is able to realize the management vision.

### Executive system

Executive Officers make decisions on the execution of business of the Company that they have been delegated by resolution of the Board of Directors, and execute such business. Executive Officers shall bear the obligation of loyalty and the obligation of care in regard to the execution of their duties, and contribute to the sustainable growth of the Group and the maximization of medium to long term shareholder value. Executive Officers shall report regularly, at least once every three months, to the Board of Directors on the status of the execution of duties and provide explanations on matters in accordance with the requests of the Board of Directors and committees. Executive Officers are also required to submit to the Board of Directors the information required in order for directors to fulfill their responsibilities, and in addition, to report the necessary proposals to the Board of Directors.

There are currently 13 Executive Officers in the Company, and their tenure as Executive Officer is one year, from January 1 to December 31.

### Voluntarily established meeting bodies

The Company has voluntarily established the following meeting bodies to promote management: Executive Management Committee, Important Japanese Partner Company Presidents' Committee (Japanese PC Management Committee), Human Resources Committee, ESG Committee, Risk Management Committee, Compliance Committee, and the Responsible Care Committee. Please refer to the following table for details.

#### Voluntarily established main meeting bodies

Name of meeting body	Role
<b>Executive Management Committee</b>	Deliberates general matters relating to the Group in response to consultations from the Representative Executive Officer and President.
<b>Important Japanese Partner Company Presidents' Committee (Japanese PC Management Committee)</b>	Deliberates matters relating to common projects, etc., at important group companies (Partner Companies) in Japan in response to consultations from the Representative Executive Officer and President.
<b>Human Resources Committee</b>	Deliberates matters relating to realizing the appropriate allocation of human resources in the Company and Partner Companies in Japan in response to consultations from the Representative Executive Officer and President.
<b>ESG Committee</b>	Deliberates matters for responding to issues that should be addressed for the sustainable growth of society in response to consultations from the Representative Executive Officer and President. The targets proposed by the Representative Executive Officer and President shall be set as company-wide targets upon their proposal to and approval by the Board of Directors.
<b>Risk Management Committee</b>	Deliberates matters relating to continuous review and improvement on the systems for the management of internal control and important risks concerning safety, environment, and quality, etc., of the Group in response to consultations from the Representative Executive Officer and President.
<b>Compliance Committee</b>	Deliberates matters relating to compliance of the Group in response to consultations from the Representative Executive Officer and President.
<b>Responsible Care Committee</b>	Deliberates matters relating to responsible care of the Group in response to consultations from the Representative Executive Officer and President.

## Analysis and assessment of effectiveness of Board of Directors

To assess the effectiveness of the Board of Directors, analysis and assessments are conducted each year based on the self-assessments of Directors of the Board and the Audit & Supervisory Board members; however, from the assessment for the period ended December 2019, we introduced a Director of the Board assessment composed of a questionnaire and individual interviews by Board Advisors Japan, Inc., a third-party organization. An overview of assessment results for the period ending December 2019 is as follows.

### Implementation guidelines for the Board of Directors' effectiveness assessment for FY2019

<b>Target</b>	All directors (eleven members) and auditors (five members) for FY2019.
<b>Procedure</b>	Questionnaire survey and Interviews of individual directors and auditors by third party organization, Board Advisors Japan, Inc.
<b>Questions</b>	1) Resolution status of the issues (matters) that were brought up in the previous Board of Directors' effectiveness assessment. 2) Issues the current Board of Directors, related advisory committees, etc. are facing with an eye to post-transition to a Company with Three Committees.
<b>Assessment process</b>	Step1: Distribute questionnaires to each director. Step2: Interview each director individually based on the questionnaire. Step3: Summarize and analyze the questionnaire and interview. Step4: Report the effectiveness assessment to the Board of Directors to be deliberated.

### Overview of assessment results of FY2019

During the period ended December 2019, and through the effective use of each advisory committee, the Board of Directors engaged in lively discussions on issues including the transition to a Company with Three Committees, the invitation of the current Chairman of the Board, Representative Director of the Board, President and CEO, the acquisition of overseas companies, as well as on internal control and corporate governance, and made decisions through various opinions and useful indications. In addition, detailed discussions were held on the maximization of shareholder value, which is the paramount mission of the Company, with such discussions being conducted in awareness of stakeholders, including through the raising of opinions on behalf of minority shareholders in relation to transactions with a conflict of interest and cross-shareholdings. The results were an assessment that the Board of Directors is currently improving greatly in effectiveness. Furthermore, it was confirmed that the strengths supporting the Company's Board of Directors in effectively filling its role are the consensus among Directors of the Board on maximization of shareholder value, inside directors with strong company spirit and leadership skills, and the high independence of independent directors.

### Issues for reinforcement of efforts over FY2020

- 1) Auditing of the successor plan and reinforcement of nomination and remuneration functions such as the establishment of a transparent, objective and competitive remuneration system.
- 2) Usage of feedback from investors.
- 3) Reinforcement of delegation of rights for establishment of a monitoring model.
- 4) Deepening of debate on and reinforcement of auditing of the medium-term business plan.
- 5) Expansion of debate on key proposals in the form of strategy and capital policy, etc.
- 6) Reinforcement of auditing functions.

From the above results, the Board of Directors of the Company will continue to work to increase its effectiveness in order to ensure sustained maximization of shareholder value.

## Governance

### Remuneration decision-making policy and the Remuneration Committee's activities

The Company established the Remuneration Advisory Committee as an advisory committee of the Board of Directors in FY2018. The Remuneration Advisory Committee is chaired by an independent director, and the majority of its committee members is composed of independent directors. In regard to remuneration in FY2019, this shall be deliberated in a fair and transparent manner, in accordance with the decision-making policies and standards for Director of the Board and Executive Officer remuneration, etc., by the relevant committees, in consideration of the social circumstances, comparisons with other companies, and market levels, etc., and shall be determined at the Board of Directors based on the opinion of the Remuneration Advisory Committee.

#### —Basic Policies for FY2019—

- Set remuneration at a level that can attract and retain competent managers using remuneration levels of comparable global paint competitors as the benchmark.
- Increase the ratio of performance-linked pay and share remuneration as an incentive to contribute to the maximization of shareholder value.

### Main activities of the Remuneration Advisory Committee in FY2019

- January 2019: Reported on the remuneration system and method for assessing performance (Remuneration Advisory Committee)
- January 2019: Decided on the remuneration system and method for assessing performance (Board of Directors)
- March 2019: Reported on the amount of performance-linked pay (Remuneration Advisory Committee)
- March 2019: Decided on the amount of performance-linked pay (Board of Directors)
- March 2019: Decided on the distribution of shares with restrictions on transfer (Board of Directors)

### Structure of directors' compensation

The compensation, etc., of the Directors of the Board of the Company (excluding Outside Directors of the Board) in FY2019 consisted of job based compensation, performance-linked compensation, and long-term incentive compensation.

<b>Job-based compensation</b>	Provided as a fixed salary that is specified for each position in the Company in accordance with the applicable roles and responsibilities.
<b>Performance-linked compensation</b>	Provided as a variable amount within the range of 0% and 170% of job-based compensation.
<b>Long-term incentive compensation</b>	Involves the provision of shares with restrictions on transfer in order to maximize shareholder value of the Company, and with the objective to further promote the sharing of value with shareholders.

An Outside Director of the Board, in addition to the job-based compensation, shall be granted shares with restrictions on transfer as long-term incentive compensation.

### Promoting global audits

In March 2020, the Company transitioned to a Company with Three Committees (Nomination, Audit and Remuneration) and established the Audit Committee. Headed by the Audit Committee Chair, an Audit Committee Meeting is held at least once a month. Audit Committee Members, in addition to attending important meeting bodies, are required to provide supervision by directly interviewing Executive Officers and subsidiaries, and to establish a Global Audit system by collaborating with the auditors and internal audit departments of international and domestic Group Companies.

The new Audit Department that was established in January 2020 functions as the enforcement team of the Audit Committee, and ensures the independence and adequacy of their supervision by setting a double report line to the Audit

Committee and the Representative Executive Officer President & CEO, and significantly reinforcing the system.

The Audit Committee and the Audit Department have adopted a global audit system that focuses on an "Audit on Audit" framework structure. Regarding international and domestic Group Companies with an internal audit function, the goal is to encompass and cover all risks by using the audit results of each company and through complementary on-site audit conducted by the Audit Department. On the other hand, for those Group Companies that do not have an adequate internal audit function, the Audit Department will conduct risk-based on-site audit on those companies, and provide assistance in establishing an internal audit function.

By establishing a risk-based audit system as a whole Group, we are working to build an audit system that will improve value.

### Policy on cross shareholdings

The Company holds shares of other listed companies as cross-shareholdings, limited to where it can be determined to be reasonable in consideration of, among other factors, its necessity for business activities (e.g., to maintain and strengthen relationships with business partners), the status of the issuer, and the return against the capital cost. The Company, based on this policy, makes a decision every year on the continued holding of all cross-shareholders at the Board of Directors' meeting, and disposes and reduces holdings of shares for which the rationality of their holding cannot be recognized.

### Number of issues and balance sheet amount for reasons other than pure investment purposes

	FY2019
<b>Number of issues</b>	32
Of which, 14 are issues of listed shares	
<b>Total amount reported on the balance sheet (million yen)</b>	24,621
Of which, ¥23,717 million is the total amount of listed shares	

### Asset owner of corporate pension fund

The Company, to promote the stable asset formation of members of the corporate pension and to secure the soundness of the financial condition of the Company, takes the following actions for the management and operation of the Nippon Paint Corporate Pension Fund.

- (1) The Company systematically secures human resources with the qualities required for the management and operation of the corporate pension from inside and outside the Group, and appoints them as one of the Nippon Paint Corporate Pension Fund representatives, Asset Management Committee members, and to the secretariat (hereinafter referred to as "Representative, Etc.").

- (2) The Company, through the Representative, Etc., appointed to the Nippon Paint Corporate Pension Fund, confirms the selection of an investment institution by the Fund, the monitoring of the activity status and investment results of the investment institution, and that the management of conflicts of interest that arise between the beneficiaries and the Company is performed appropriately and effectively, and voices an opinion where necessary.

### Dialogue with shareholders and investors

The Company, through the thorough performance of fair information disclosures (fair disclosures) and ongoing dialogues with domestic and overseas shareholders, shall construct a relationship of trust with shareholders, and in addition, shall contribute to the maximization of shareholder value through the reduction of information asymmetry and the suppressing of capital costs. For constructive dialogue with shareholders, the Company shall endeavor to ascertain the shareholder structure. In such dialogues, the Company will pay close attention to any possibility of a leakage of insider information.

The Company shall designate the Representative Executive Officer and President, Chief Financial Officer (CFO), General Manager of the Investor Relations Department, and the General Manager of the General Affairs Department as the contact points for dialogue with shareholders. The officer shall regularly provide feedback on the opinions of shareholders expressed in the course of the dialogue to the Board of Directors, and useful comments will be reflected in the management.

### Accomplishments gained through dialogues with shareholders and investors

- Q. Disclose the results of your Chinese operations that comprise about 40% of the Group's revenue.
- Q. Give us more opportunities to speak with management.
- Q. Stop verbal disclosure of information that is not documented.
- Q. Prepare more English documents.

- Through the disclosure of crucial figures such as those of our Chinese operations and due to the CFO's proactive efforts in having meetings, we were able to conduct a meeting that focused on strategies.
- The number of meetings with overseas investors increased as a result of releasing the same amount of English documents, almost simultaneously with their Japanese versions.
- Contributed to using time efficiently during the meeting by documenting all disclosed figures and refraining from verbal disclosure of information.

### Global audit system

