

Risk Management

Internal controls based on Asset Assembler Model

— Our philosophy regarding governance, risk management and compliance (GRC) —

How should Nippon Paint Group manage its business risk for achieving MSV? As an Asset Assembler based on mutual trust with all partner company groups (Nippon Paint Group companies grouped by region or business, “PCG”), Nippon Paint Group has a risk management system in place that has, as its core components, the internal control systems operated autonomously by every PCG.

Our Approach to achieving MSV

Autonomous and sustainable growth of every PCG is the key to achieving MSV.

The paint and adjacencies businesses of every PCG have strong regional characteristics, which make these businesses ideally suited for the autonomous management of business operations along with local production for local consumption. Every PCG has thorough understanding of the risk that exists in their local regions and markets.

Considering such business characteristics, NPHD gives each head of PCG the authority to conduct business operations while each head of PCG is responsible for the internal control system. Co-Presidents oversee the Group’s operations through evaluation and appointment/dismissal of the heads of PCGs through various reports from these executives.

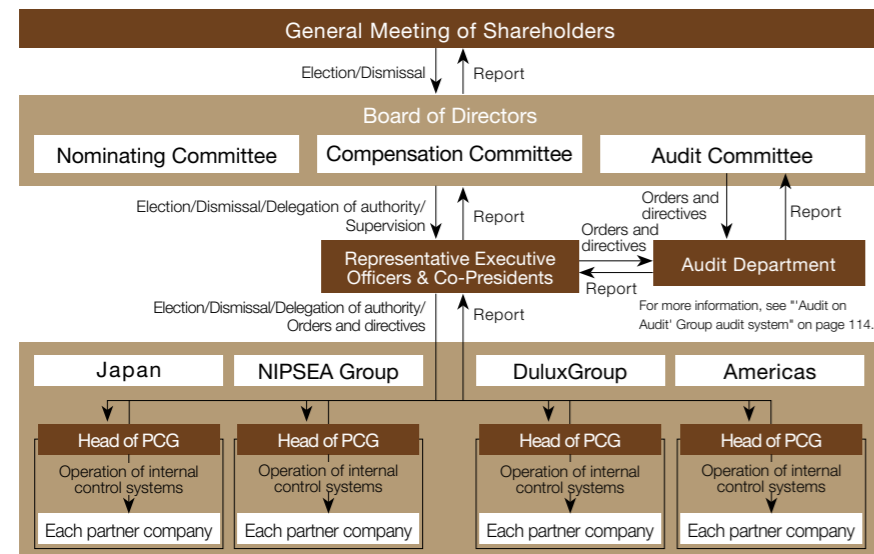
To strengthen risk management as an Asset Assembler, NPHD revised its Basic Policy on Internal Control System in January 2022. This policy sets forth

three core components for the governance executed by management led by Co-Presidents: Nippon Paint Group Global Code of Conduct, the Global Risk Management Basic Policy, and the Global Basic Policies of Whistleblowing Hotline. By following these policies, we perform effective monitoring and give necessary directives for governance, risk management, and compliance in the entire Group.

In addition to this autonomous and decentralized internal control system, there are five sustainability teams under the leadership of Co-Presidents. These teams focus on issues that affect all PCGs, such as climate change and other problems on a global scale as well as social issues that will require actions in the coming years. The teams, which operate on a global scale, are Environment & Safety, People & Community, Innovation & Product Stewardship, Governance, and Sustainable Procurement. Every team is led by a business leader with sufficient skills and experience for the issues the team covers. (▶ See “Sustainability as the Prerequisite for MSV” on page 41.)

About risk management conducted in each region in the Group’s internal control framework and global activities of the sustainability teams for future issues and the social demands, information is shared with each PCG under the direction of Co-Presidents as well as at the Group Audit Committee (GAC). Communications made possible by these frameworks are the foundation for the mutual trust that underpins Asset

Internal control system



Summary of the “Group management system” in the Basic Policy on Internal Control System

Oversight of PCGs
Prior approval rule for important matters and timely reporting system of incidents with material impacts
Election/Dismissal of the heads of PCGs
Evaluations and decisions that include financial and non-financial considerations such as responsibilities for internal controls
Direct participation of the Co-Presidents in main partner company meetings
Participation of Co-Presidents and other executive officers in important meetings of important partner companies
Group audits based on the “Audit on Audit” system
Oversight utilizing the close ties between the NPHD Audit Department and the internal audit unit of each PCG

The three key components of the Basic Policy on Internal Control System



Assembler model.

Sound risk management is the premise for the pursuit of MSV. NPHD will continue to closely monitor changes in society and the needs of stakeholders in order to reexamine and update the internal control system in an appropriate and timely manner.

*1 For more information, see the Internal Control part in Sustainability section on our website. <https://www.nipponpaint-holdings.com/en/sustainability/governance/internal/>
 *2 This meeting, attended by the head of internal audit unit of each PCG, is held twice every year by the NPHD Audit Committee and Audit Department

Risk management system

In line with the revised Basic Policy on Internal Control System, the Group started to apply Global Risk Management Basic Policy in January 2022.

The policy states that Co-Presidents have overall responsibility for risk

management in our Group.

The policy also defines the roles of each head of PCG as a frontline, autonomously running its risk management system in the business in which they operate.

Each head of PCG conducts the control self-assessments (CSA), consisting of self-inspections and self-assessments based on a risk-based approach. They are responsible for using CSA to identify risk factors requiring actions, create risk management plans, and make improvements.

Results of CSA are reported to Co-Presidents, who, based on this information, grasp risk factors at our Group in individual regions and businesses. Then Co-Presidents perform effective monitoring by attending important management meetings of the PCGs and other activities and give the

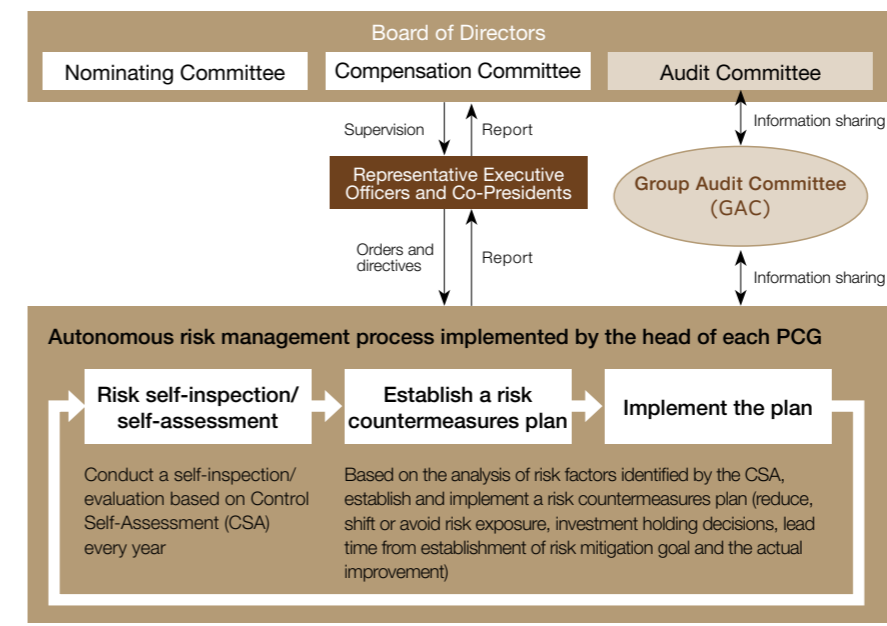
PCGs directions for responses against the identified risks.

Through these activities, if Co-Presidents identify risk factors that apply to our entire Group and require unified measures by all PCGs, Co-Presidents hold the Risk Management Committee to discuss and make decisions about countermeasures.

Co-Presidents report the results of this risk analysis to the Audit Committee and the Board of Directors. In addition, the results are discussed at the GAC, which brings together the heads of risk management and internal audit units of each PCG. These meetings function also as a forum for sharing information about best practices for countermeasures.

Separately from these activities, for certain events, a framework is in place for sharing information with Co-Presidents about certain events in a timely or prompt manner. One is for incidents with an impact beyond a pre-determined level. Another is for incidents or emergence of a risk that affect the whole Group, such as a disaster of some type, environmental pollution, product liability issue, quality problem, fraud or other event. This system enables Co-Presidents, when necessary, to give orders covering the entire group.

The group risk management process



Risk Management

Actions for high-sensitivity risk factors (high-risk items) at our Group

The Company compiles the results of the CSA performed by the heads of PCGs every year and identifies/analyzes risk factors designated as “high” for that year based on their considerations of the status in our Group, social environment and other factors. A summary of FY2022 risk is shown below. Each PCG is taking necessary actions as shown in the following table.

<ul style="list-style-type: none"> Although high-risk items are currently almost the same as in FY2021, the level of risk sensitivity has changed for individual items. Compared with FY2021, when there were imminent and significant risks involving the possible disruption of raw material procurements and other problems caused by the pandemic and political instability, sensitivity has increased in FY2022 concerning 	<p>Business Continuity Plan (BCP) for drastic increase in raw material costs in the medium to long term as well as supply chain risks in the logistics.</p> <ul style="list-style-type: none"> As M&A activity has enlarged our Group's portfolio, we have been seeing an increase in closer ties among the brands, technologies and know-how of group companies. As a result, a suitable framework is required with regard to risk concerning international taxation 	<p>that includes compliance with revisions of tax laws in countries worldwide, but ongoing collaborations and other measures involving the PCGs have reduced the sensitivity to this risk.</p>
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Risk heat map

High risk sensitivity items in FY2022	Change in risk sensitivity (vs FY2021)	Description of risk and major countermeasures
Risk related to human capital	Slightly higher	<p>Succession for management teams of the Group (Actions)</p> <ul style="list-style-type: none"> Planning and taking actions on succession plans based on the future business plans of individual PCGs Co-Presidents supervise succession plans for key management personnel of each PCG as an important management issue and Co-Presidents provide information about these plans to the Nominating Committee and Compensation Committee.
Risk related to business continuity plan	Slightly higher	<p>BCP concerning the drastic increase in raw materials costs worldwide, foreign exchange fluctuation, political instability, the pandemic, natural disasters, IT security, etc. (Actions)</p> <ul style="list-style-type: none"> Each PCG created and updated its BCP, conducted necessary drills and education programs for its employees to promptly respond to various risks such as natural disasters, changes in geopolitical situations, foreign exchange impact, IT security risk, etc.
Compliance Risk	Higher	<p>Risk factors such as information leakage and misconduct of employees, which are becoming more serious social issues (Actions)</p> <ul style="list-style-type: none"> We have established “Nippon Paint Group Global Code of Conduct” to set out standards/requirements of compliance/ethics rules and Sustainability that applies to global group companies. And as a part of risk management activities, all PCGs are using autonomous risk self-inspections, self-assessments and other activities for monitoring compliance with the Global Code of Conduct. Through the Whistleblowing Hotline of PCGs as well, reports have been made of compliance problems. PCGs that experienced such reporting are taking appropriate actions including employee training programs.
Supply chain risk	Significantly higher	<p>More efficient management of inventory and logistics, stricter credit management, etc. (Actions)</p> <ul style="list-style-type: none"> To reduce risk in product supply arising from the dramatic increase in raw material costs and the change in raw material supply chain, each PCG is swiftly and appropriately taking actions by changing its raw materials, its product mixes, raising product prices and increasing the efficiency of logistics. Converting risks to opportunities by taking actions in every process to avoid or mitigate the risks and by optimizing the supply chain.
Risk involved in international taxation	Significantly higher	<p>International taxation and other issues associated with closer ties among our Group's brands, technologies, etc. (Actions)</p> <ul style="list-style-type: none"> We have started to rebuild the framework for proper international transactions based on the tax rules and guidelines of individual countries.

Global Code of Conduct

In January 2022, the NPHD Group enacted Nippon Paint Group Global Code of Conduct to set out standards/requirements of compliance/ethics rules and Sustainability that apply to global group companies. The code has been refined*³ by each PCG for the purpose of applying these guidelines in a manner that matches the business climates of different regions. As a result, with the leadership of Co-Presidents, the code has been embraced by group companies in each country and region.

*3 DuluxGroup Code of Conduct
<https://www.duluxgroup.com.au/media/wfffcpd4/duluxgroup-code-of-conduct-2022.pdf>

Nippon Paint Group Global Code of Conduct

Global Code of Conduct ensure our people act according to our Purpose and our stakeholders understand how we operate.

DEALING WITH INTEGRITY	WORKING TOGETHER	RESPECTING ENVIRONMENT & COMMUNITIES
<p>We maintain our reputation by conducting our business in a fair and honest way.</p> <ul style="list-style-type: none"> We compete fairly We market responsibly We conduct business ethically We comply with laws, regulations and maintain accurate records We do not tolerate bribery or corruption We avoid conflict of interest and are responsible to act sensibly with gifts and entertainment We prohibit insider trading We do not compromise on quality or safety We protect our assets and confidential information We use technology and innovation to enhance and enrich 	<p>We care and work as a team to ensure the safety and well being of all our stakeholders.</p> <ul style="list-style-type: none"> We care about people We work as a team We embrace diversity We treat each other and our stakeholders fairly We provide a safe and healthy workplace free from harassment and discrimination We act in the best interest of the company We work collaboratively with our partner companies for the greater good We act in accordance with the Global Code of Conduct and protect those that speak up 	<p>We respect and enrich the environment & communities that we operate in.</p> <ul style="list-style-type: none"> We embrace social and environmental responsibility We respect human rights, including supporting all efforts to eliminate forced labour and child labour We strive to reduce the environmental impact of what we do We aim to leave a positive and sustainable footprint

Acting in accordance with Global Code of Conduct, Speaking Up when there is a suspected breach and protecting others who Speak Up is a responsibility for all who work with us. (To Speak Up*)

*Concrete focal point information/procedures for Speak up by employee is provided locally in a manner of no unfair treatment or fear of retaliation to those who make honest speak up.

Whistleblowing hotline

In association with the update of the Basic Policy on Internal Control System, Nippon Paint Group started using in January 2022 a Global Basic Policy of Whistleblowing Hotline.

In accordance with Nippon Paint Group Global Code of Conduct and this Policy, we require confidentiality and prohibit unfair treatment of whistleblowers. Each PCG has autonomously established a Whistleblowing Hotline based on this policy, made people aware of this system, and this system has properly been operated.

Based on this Policy, each head of PCG submits a Whistleblowing Hotline operations status report once every year to the NPHD internal controls and internal audit sections. The Audit Committee and Board of Directors also receive these reports.

In addition to these activities, Co-

Presidents, in a prompt or timely manner, receive information about whistleblowing reports concerning serious violations of laws and regulations, scandals, violations of laws and regulations by the management team of each PCG, other misconduct, or specific information about the possibility of this type of event. This reporting system enables Co-Presidents to quickly give orders for responding to these events as required.

During FY2022, internal investigations were made for 62 cases at group companies in response to whistleblowing reports. Depending on the nature of the report, the departments in charge at the PCG where the whistleblowing report was received, investigate, analyze and take necessary actions. These actions for preventing violation or other improper conduct include organizational measures, and employee training.

Whistleblowing reports received in FY2022	Number of reports
Working environment (industrial accidents, harassment, discrimination, etc.)	40
Loss of assets/Leakage of information (conflict of interest, embezzlement, illegal use of data, etc.)	8
Accounting fraud	2
Violations of laws and regulations (anti-trust law violations, insider trading, bribery, business laws violations, etc.)	7
Others	5
Total	62