

# 4

Chapter

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## Independent Directors Discussion about Corporate Governance

### Hisashi Hara

Independent Director  
Nominating Committee Chairperson

#### PROFILE

Hisashi Hara was elected Independent Director of NPHD in March 2018, serving as the Chairman of the Nominating Advisory Committee from the same month and as the Chairperson of the Nominating Committee from March 2020. He has played an important role providing an independent perspective in the selection of the succeeding president and the nomination of candidates for Directors of the Board. He has more than 40 years of experience as lawyer, working on numerous cross-border M&A deals and various corporate legal affairs.



### Masayoshi Nakamura

Lead Independent Director  
Board Chair

#### PROFILE

Masayoshi Nakamura was elected Independent Director of NPHD in March 2018, serving as the Nominating Advisory Committee member and the Compensation Advisory Committee member and as the Lead Independent Director from March 2020. He has served as the Board Chair since April 2021, playing an important role in activating discussions in the Board of Directors meetings such as putting together the opinions of the Independent Directors and sharing them with the management team. He has more than 30 years of experience as a specialized professional in M&A advisory services and financing from the capital market, which he gained at Morgan Stanley and other leading US investment banks.

## We held repeated discussions on the ideal leadership of the Nippon Paint Group and proposed a new management structure that will contribute to Maximization of Shareholder Value (MSV).

We introduced a Co-President structure following the change of President. This new management structure has been attracting a great deal of attention from shareholders, investors, and stakeholders in Japan and overseas. On this page, Independent Directors Masayoshi Nakamura (Board Chair) and Hisashi Hara (Nominating Committee Chairperson) talk about the background and objectives of the Co-President structure.

### What roles did the Board of Directors play in the transition to the new management structure?

**Nakamura** • NPHD's Board of Directors made a big decision on April 28, 2021 to shift to a new management structure following the change of President. After the General Meeting of Shareholders held on March 26, we heard an intention of Mr. Masaaki Tanaka to resign and accordingly, we have had very intensive discussions to establish a new management structure within a very short period of around one month.

The resignation of Mr. Tanaka as Chairman of the Board, Representative Executive Officer, President & CEO became a major turning point because it meant a change of the head of both the business execution and supervisory functions of our Group. The establishment of a new management structure was our most important strategic decision.

At this turning point, we decided to adopt a management structure with Mr. Yuichiro Wakatsuki and Mr. Wee Siew Kim jointly providing lead management and Mr. Goh Hup Jin,

who has many years of experience in the paint industry, providing support to them.

Nominating Committee Chairperson Mr. Hara and I discuss the role that the Board of Directors played in the decision to adopt the Co-President structure with Mr. Wakatsuki and Mr. Wee. We also discuss the background to decision by the Nominating Committee along with various matters that we have considered since adopting the new structure.

### Reasons for adopting the Co-President structure

#### Deciding on the ideal leadership structure for the Group

**Nakamura** • Why was the Co-President structure with Mr. Wakatsuki and Mr. Wee adopted? How was the decision made that this unconventional structure was appropriate for the Group?

**Hara** • The ideal management structure and leadership for our Group mission of Maximization of Shareholder Value

(MSV) is always a topic at meeting of the Board of Directors and committees. So, although we had one month to put those discussion to practical application, we actually had already engaged in much serious consideration before deciding to adopt the Co-President structure. I believe this structure is the manifestation of the ideal leadership for our Group that we have been discussing in the Nominating and Compensation Advisory Committee and later at the Nominating Committee during basically all three years since we joined NPHD as Independent Directors in 2018. **Nakamura** • That's absolutely right. The ideal leadership for our Group was a theme that we had been constantly examining and laying the groundwork for. Let's start by looking back on the points of our discussions and the background for this decision.

### The points in selecting candidates for next-generation leaders

**Hara** • In March 2019, we invited Mr. Tanaka from outside to serve as Chairman of the Board. His nomination was the result of examinations that included interviews with both external candidates and internal personnel with the idea that we would be further expanding our operations globally, including acquiring 100% ownership of the Asian JVs and the Indonesia business. Considering the contribution to MSV Mr. Tanaka's experience in the financial industry and his international perspective as a top executive would provide, we appointed him as Chairman of the Board and President & CEO in January 2020. We also reinforced the Group's governance structure, which included adopting a Company with a Nominating Committee, etc. structure.

Under this executive structure headed by Mr. Tanaka, in January 2021 we succeeded in acquiring 100% ownership

of the Asian JVs, and in March 2021 formulated the Purpose to show our shared Identity and the New Medium-Term Plan to FY2023. These measures are the result of Mr. Tanaka's excellent leadership and will certainly contribute to the achievement of MSV.

At the same time, the Nominating Committee felt that preparing successors for a generational turnover was an urgent issue, particularly in the rapidly changing business environment of the COVID-19 pandemic. The committee considered selecting the top management for the next generation of growth to be essential to continue evolving into a global corporation through organic growth and M&A.

Mr. Tanaka also recognized the cultivation of his successors as a priority issue, and he worked with us to look for candidates both inside and outside the company. As part of our selection of candidates for next-generation leaders, we invited Mr. Wakatsuki from outside in November 2019 and elected him as Senior Managing Corporate Officer and CFO in January 2020. From within the Group, we appointed Mr. Wee, who was the CEO of the NIPSEA Group, to the position of Deputy President and Executive Corporate Officer to assist Mr. Tanaka.

**Nakamura** • Against this backdrop, the Nominating Committee and the Board of Directors repeatedly discussed the vision of achieving MSV after the change of president and where to look for candidates for next-generation leaders to realize the vision. We would like to delve into our approach to evaluating and selecting candidates to lead the Company.

**Hara** • We believe that us and all of our Directors should share their insights for the evaluations of potential candidates by carefully deliberating their comprehensive capabilities as a potential top executive through discussions with the candidates.



## Independent Directors Discussion about Corporate Governance

The starting point is carefully monitoring and determining how candidates for the Group's leadership are tackling the ever-changing environment surrounding our businesses. Our approach is more than simply mechanically and sequentially selecting candidates from a pipeline who have more check marks in the skills requirement list.

The Nominating Committee, and the Directors of the Board have therefore diligently maintained close and direct communications with the top management in global key positions (GKP) in each operating region and in our partner company businesses around the world.

**Nakamura** • We work to maintain close communication with GKPs through the Nominating Committee, the Compensation Committee, the Audit Committee, and the Independent Directors of the Board Meetings. The GKPs provided highly valuable input during the numerous discussions by the Board of Directors in creating the Purpose and the New Medium-Term Plan in FY2020.

The discussions about the Purpose actually reconfirmed to us that the Group is a truly global organization. We operate in 30 countries and regions and comprise human resources of over 34,000 people with diverse cultural backgrounds and values. When discussing the New Medium-Term Plan, we talked directly with each GKP about their goals and management issues, which gave us a good understanding about how they are interrelated in promoting their businesses. I think those meetings were also extremely important from the perspective of evaluating the GKPs.

### Shift to the Co-President structure

**Nakamura** • While we were preparing the selections for next-generation leaders, we heard Mr. Tanaka's intention to resign, and we were pressed to make a quick decision. Again, we would like to discuss the reasons why the decision that the Co-President structure with Mr. Wakatsuki and Mr. Wee was the most appropriate.

**Hara** • On a very basic level, earnings per share (EPS) times the price-to-earnings ratio (PER) is an important indicator for shareholder value. Therefore, achieving MSV means

maximizing EPS and PER. From that perspective, the appropriate candidate to lead the next generation would be an individual with the ability to maximize EPS and PER. But, we also understood that one person would not be suitable to maximize both, and that the ideal answer was to have two people, one to focus on EPS and another focusing on PER.

Our deep discussions about the Purpose and the New Medium-Term Plan that Mr. Nakamura mentioned earlier, the discussions with the GKPs, and consideration of the interrelation among GKPs and the synergies among businesses led us to decide that the Co-President structure would be the best structure, and that Mr. Wakatsuki and Mr. Wee were the most suited candidates for the present and future of our Group.

**Nakamura** • We invited Mr. Wakatsuki from outside the company in 2019. Immediately following his nomination as CFO, he proved his suitability as a next-generation leader by strengthening engagement with the capital market, efficiently procuring long-term funds for acquisitions, and successfully leading the acquisition of 100% ownership of the Asian JVs in a manner that was highly regarded by the capital markets. Mr. Wee has been the CEO of the NIPSEA Group since 2009, where he led its growth into a core Group business that now accounts for 50% of revenue and 70% of operating profit\*. Following the acquisition of DuluxGroup in 2019, he further demonstrated significant leadership in creating synergies within the Nippon Paint Group and between DuluxGroup and NIPSEA. I am certain that Mr. Wakatsuki and Mr. Wee have the experience and achievements that will be essential to lead the Group's next generation growth.

It's understandable that the Co-President structure would raise concerns about possibly slowing decision-making due to the split leadership and complications in the chain of command. Nevertheless, I believe that the organic combination of their management skills will ultimately overcome any downside by the benefits it provides to MSV.

As part of the Directors of the Board's governance, we believe receiving and deliberating reports on individual proposals is insufficient to accurately understand and evaluate the performance of the top management of NPHD and GKPs. The Independent Directors of the Board Meetings aim to build deep relationships with top management and GKPs not only by discussing themes concerning the objectives of each committee but also by encouraging an open exchange of opinions. I believe this type of communication will become even more important in the future.

**Hara** • I agree. I believe the relationships we created with Mr. Wakatsuki and Mr. Wee enabled us to openly chat anytime even outside meeting and gave us a good understanding of the achievements and personalities. Those relationships are behind the confidence we had in nominating them to oversee our business execution and supervisory functions.

**Nakamura** • Thank you. I think we were able to look back

on the background of the adoption of the Co-President structure with Mr. Wakatsuki and Mr. Wee.

In introducing the structure with Mr. Wee and Mr. Wakatsuki taking responsibility for execution decisions, what was behind the process of nominating Mr. Goh supporting them?

**Hara** • Before introducing the new structure, the Nominating Committee talked with Mr. Wakatsuki, Mr. Wee, and Mr. Goh about the future management execution of our Group. All three shared the view that they would pursue management that values practical benefits. They wanted to increase management transparency, foster trust among the managers, eliminate formalities, and expedite decision-making and execution to improve business performance.

I believe that the pursuit of management that values practical benefits rather than formalities is closely related to the question we are constantly asking ourselves: What truly contributes to MSV?

Under the Co-President structure, Mr. Goh's 40 years of experience in our Group and his broad and long-term vision under which we achieved significant sustainable growth will provide enormous support for the business execution by the Co-Presidents, which the Independent Directors including us cannot provide. His support will certainly contribute to MSV.

**Nakamura** • I completely agree. We also take it very seriously that Mr. Goh is the Representative of the Wuthelam Group, the major shareholder of NPHD. In appointing Mr. Goh as Chairman, the Board of Directors has a significant responsibility to establish a governance structure that respects the common interests of the Company and its shareholders and protects the interests of minority shareholders.

**Hara** • That is the reason that the Board of Directors amended the Board of Directors Rules to appoint Mr. Nakamura, who is the Lead Independent Director as the Board Chair in place of Chairman Goh, who is the Representative of the Wuthelam Group, the major shareholder of NPHD.

The Corporate Governance Code states that a company that has a major shareholder listed on a prime market is required to ensure that the majority of the members of the Board are Independent Directors. NPHD already has the Board of Directors, in which Independent Directors are the majority of its members. We also thought that we needed to establish this as our own rule for governance.

The Corporate Governance Code also recommends that an Independent Special Committee be established for important transactions that may cause conflicts of interest between major shareholders and minority shareholders. We have written rules concerning deliberations and examinations on such transactions in our disclosed Corporate Governance Policies and our Board of Directors Rules. We comply with these rules and regulations in our operations.



In addition to these governance mechanisms, each of us as Directors of the Board feel great responsibility to contribute to practical discussions and to improve the effectiveness of the Board of Directors.

### Efforts to improve the effectiveness of the Board of Directors

**Nakamura** • With the establishment of the new management structure, I believe that our responsibilities as Directors of the Board has become even more important for our Group to move forward to further drive MSV. I also feel that the current governance structure, under which Board Chair does not concurrently serve as the top executive, is truly suitable for NPHD, which is looking to a shift to the "monitoring" board as a Company with Nominating Committee, etc. structure. At the same time, the current structure has some issues.

A monitoring system that truly contributes to MSV will require an accurate grasp on the status of our Company through close communication with the management team, including GKPs as well as the Co-Presidents. I also believe that it is my duty as a Director to lead serious discussions among the Directors that put our reputations on the line. I am preparing myself for this huge responsibility.

**Hara** • The commitment of all the Directors of the Board should be to sincerely face these issues and work to resolve them. The Nominating Committee must further improve the composition of the Board of Directors, including increasing its diversity, in order to continuously fulfill our responsibilities as Directors of the Board.

**Nakamura** • Thank you for this in-depth look back on how the new management structure was decided on. I think this discussion reaffirmed our common objective to achieve MSV and driving the Group's future growth. I fully agree with your view that our next task after establishing the new management structure is to further improve the effectiveness of the Board of Directors. We will work together to improve our corporate governance structure to pursue MSV.

\* Calculated by adding the FY2020 results of the NIPSEA business and the Belek Boya



Discussions by the Board of Directors

“Acquisition of 100% ownership of the Asian JVs, Indonesia business”

Decided by resolution of the Board of Directors based on repeated discussions to ensure the protection of minority shareholder interests

NPHD’s Board of Directors is focused on improving the transparency, objectivity, and fairness of management through lively exchanges of opinions and discussions, mainly by the independent directors who comprise the majority of the Board. The acquisition of 100% ownership of the Asian JVs was decided based on repeated discussions held by the Board of Directors to ensure the protection of the interests of minority shareholders. These pages present the outcomes of the discussions held by the Board and the opinions of each Director.

Increasing net profit by more than 60% and EPS by more than 10%

NPHD has evolved its partnership with the Wuthelam Group through joint ventures for nearly 60 years. With our acquisition of a 100% stake in Asian JVs following their consolidation in FY2014, we can bring our partnership with the Wuthelam Group to full maturity, allowing us to further accelerate growth of our Group by building a management base that unites the two companies in both name and reality.

According to a simulation based on certain assumptions, this acquisition will increase profit attributable to owners of the parent by around 60% and EPS by more than 10%, making it sufficiently attractive from the perspective of protecting the interests of minority shareholders as well.

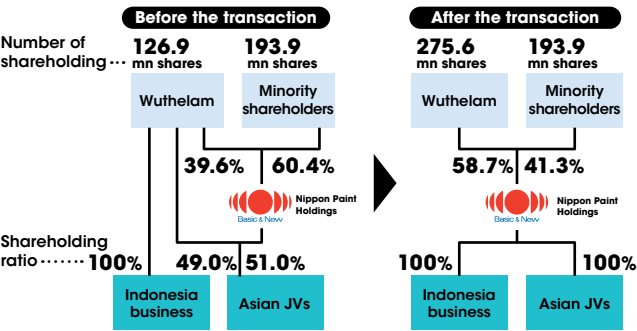
In addition, increasing capital through a third-party allotment has allowed us to strengthen the financial base to accelerate M&A activities in the future, as well as improve our credit rating. For these reasons, this acquisition has contributed to the Maximization of Shareholder Value (MSV).

Simplifying our ownership structure to one that is beneficial to all shareholders

Prior to this transaction, the Wuthelam Group held 39.6% of NPHD’s shares, a 49% stake in the Asian JVs, and a 100% stake in the Indonesia business. This ownership structure has been criticized as complex, with outflows of profits from the Asian JVs that are the engine of the Group’s growth, and a possibility of conflicts of interest in terms of governance. Accordingly, we held discussions and negotiations premised on protecting the interests of minority shareholders. For example, we have (1) shifted to a Company with a Three Committees Structure; (2) changed the composition of the Board of Directors to one where six out of the nine directors are independent directors; and (3) established the Special Committee, consisting of independent directors who are well versed in M&A, which has held eight Special Committee meetings and seven Board of Directors meetings.

After the implementation of this transaction, the

The transaction simplified the ownership structure and aligned the interests of the major shareholder and minority shareholders



\* The denominator used for the calculation of the shareholding ratio is the number of outstanding shares (excl. treasury stock) as of June 30, 2020

Wuthelam Group owns 58.7% of NPHD shares and NPHD holds a 100% stake in the Asian JVs and the Indonesia business, making the ownership structure simpler and easier to understand.

As a result, the interests of both major and minority shareholders are perfectly aligned, and our Group’s MSV is now a shared objective for both the Wuthelam Group and our minority shareholders.

For our minority shareholders, while the ratio of voting rights per share decreased, earnings per share (EPS) increased, which is an important point of the transaction.

Increase in the Wuthelam Group’s shareholding is a result of our financing

After this transaction, the Wuthelam Group became a shareholder, with 58.7% shares of NPHD. The purpose of this transaction was not for the Wuthelam Group to acquire NPHD or make it a controlling subsidiary, nor did we receive a takeover bid (TOB) for our shares from the Wuthelam Group. The increase in the Wuthelam Group’s shareholding in NPHD is merely the result of our negotiations to obtain financing from the Wuthelam Group to achieve further growth.



Sample comments from the Directors of the Board on the acquisition of 100% ownership of the Asian JVs

Significance of the transaction, the financing method, and major shareholder risks

We believe that the benefits to our minority shareholders also include the ability to fully capture Asian businesses with high growth potential and the ability to better incorporate a culture of ambitious new challenges into our Group’s businesses in Japan. One important issue is to sort out the complicated capital relationship. What would change if a shareholder with a 39% stake in NPHD became a shareholder with more than 50%? MSV remains our Group’s paramount mission, and we believe that this can be fully explained by pursuing a higher quality of business and service with this major shareholder and the current management team. In addition, assuming the future growth of our Group mainly through M&A, there would be various methods such as leveraging borrowings and share exchanges. If so, it would be disadvantageous to choose a scheme that would complicate the capital structure.

The financing method in this transaction should be examined adequately. Financing the entire acquisition price using borrowings could lead to a loss of equity capital, and funds could be raised by issuing shares through public offering. However, new share issuance may entail some problems such as the issue price being offered at a discounted price and the number of shares issued not being able to be fixed. This is a matter of choice between the risk of incurring such problems and the risk of having a shareholder with a majority shareholding. From the perspective of growing EPS, the latter option is considered to have a smaller risk.

Regarding the absence of a 58.7% retention clause, we believe that the risk of further increase in the Wuthelam Group’s stake is not that significant in terms of liquidity and the maintenance of market listing. On the other hand, given that capital can be increased in the future through M&As that are expected to improve EPS, I believe the absence of this clause has some advantages in terms of selection of a superior financing method and the potential reduction in the Wuthelam Group’s stake.

Minority shareholder interests

After this transaction, the Wuthelam Group will become the major shareholder. However, since they are not an operating company but an asset management company, their interests

are aligned with those of the minority shareholders in that the Nippon Paint Group’s growth is important for the asset management of the Wuthelam Group, and this structure will not allow the Wuthelam Group to make decisions that conflict with the interests of minority shareholders.

What is important is the relationship of trust between the major shareholder and the management team. This will lead to the MSV that both sides aim for, and that is why we will be able to explain it to shareholders including potential shareholders and the capital market. It is important for the Nippon Paint Group’s growth as One Team, instead of causing confrontation, and the basis of that growth is not the ownership ratio but the mutual trust between the major shareholder and the management team. We believe that the system represented by the upcoming new management structure will also be acceptable to minority shareholders.

Governance

The Special Committee is composed of three independent directors who are well versed in M&A, and resolutions by the Board of Directors will require the Committee’s recommendation. We believe that the Special Committee functioned as a framework for making objective and independent judgments without the influence of the Wuthelam Group.

It is generally not a good thing when a listed company concludes a special contract with some of its shareholders that includes involving the exercise of voting rights. Therefore, we do not need to insist on continuing the strategic alliance contract concluded in 2014. Because we will need to build a relationship of trust with the Wuthelam Group through closer communication than ever before, we must promote management and business execution that constantly keeps achieving MSV in mind.

Resolution as Directors of the Board









Companies keep changing. If the management team has a view that is not aligned with the shareholders, as the major shareholder, the Wuthelam Group should replace the management team. The purpose of this transaction is not to protect the management team, but for the Nippon Paint Group to move on to a new phase. It is normal in capitalism for shareholders to have an appropriate authority. And it is more important to take a step forward to future development than to impose any kinds of restrictions to preserve the present form.



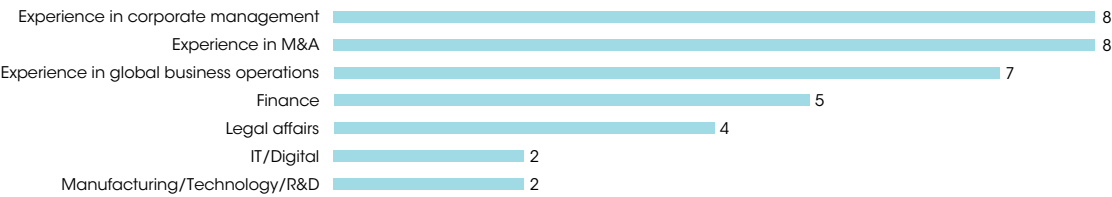


Directors and Executive Officers

(as of June 30, 2021)

Directors									
	Goh Hup Jin	Manabu Minami	Hisashi Hara		Takashi Tsutsui	Toshio Morohoshi	Masayoshi Nakamura	Masataka Mitsuhashi	Miharu Koezuka
									
Title	Chairman	Director of the Board	Independent Director of the Board		Independent Director of the Board	Independent Director of the Board	Lead Independent Director of the Board	Independent Director of the Board	Independent Director of the Board
Profile	● Managing Director, WUTHELAM HOLDINGS LTD. (current)	● Former Senior Executive Officer (in charge of financial strategy)	● Attorney of Law ● Former Chairman of Nagashima Ohno & Tsunematsu		● Former Senior Executive Officer of Nomura Securities Co., Ltd. ● Former President and Representative Director, Jasdqa Securities Exchange, Inc. (currently Japan Exchange Group, Inc.) ● Former Director and Vice President Executive Officer, Chief External Relations Officer, LIXIL Group Corporation ● Director, Rozetta Corp. (current)	● Former Managing Executive Officer, Fujitsu Limited ● Former President & CEO, EMC Japan K.K. ● Former President & CEO, NCR Japan, Ltd. ● Former President & CEO, Yaskawa Information Systems Corporation (currently YE DIGITAL Corporation) ● Outside Director, T-GAIA Corp. (current)	● Former Managing Director, Morgan Stanley ● Former Director and Senior Executive Officer, Mitsubishi UFJ Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)	● Certified Public Accountant ● Former Representative Director, ChuoAoyama PwC Transaction Services Corporation (currently PwC Advisory LLC) ● Former Representative Director and President, PricewaterhouseCoopers Arata Sustainability Certification Co., Ltd. (currently PricewaterhouseCoopers Sustainability LLC) ● Audit & Supervisory Board Member (Outside), FUJIFILM Holdings Corporation (current) ● External Director, Skymark Airlines Inc. (current)	● Former Representative Senior Managing Director, Takashimaya Company, Limited ● Former President (Representative Director), Okayama Takashimaya Co., Ltd. ● Outside Director, Japan Post Holdings Co., Ltd. (current) ● Outside Director, Nankai Electric Railway Co., Ltd. (current) ● Advisor, Takashimaya Company, Limited (current)
Date of appointment as director	December 2014	June 2013	March 2018		March 2018	March 2018	March 2018	March 2020	March 2020
Number of shares held	None	117,704	52,926		46,399	42,889	55,566	22,389	22,389
Attendance at the Board of Directors meetings	During the term of office in FY2020*1	17/17	17/17		17/17	17/17	17/17	16/17	17/17
	During the term of office in FY2021*2	6/6	6/6		6/6	6/6	6/6	6/6	6/6
*1 From late March 2020 to early March 2021    *2 From late March 2021 to end of June 2021									
Committee membership									
Nominating Committee	○		○ (Chairperson)			○	○		
Compensation Committee	○				○ (Chairperson)		○		
Audit Committee		○				○		○ (Chairperson)	○
Experience/Expertise									
Experience in corporate management	◎	◎	○		◎	◎	○	○	◎
Experience in M&A	○	○	◎		◎	○	◎	◎	◎
Experience in global business operations	◎		◎		◎	◎	◎	◎	◎
Finance	○	◎			○		◎	◎	
Legal affairs	○	◎	◎						○
IT/Digital	○					◎			
Manufacturing/Technology/R&D	◎					○			

Experience/Expertise



Executive Officers (as of August 1, 2021)

Yuichiro Wakatsuki Representative Executive Officer & Co-President	Masuo Kida Managing Executive Officer	Kohei Tsushima Managing Executive Officer
Wee Siew Kim Representative Executive Officer & Co-President	Takeshi Shiotani Managing Executive Officer	Satoshi Nishimura Executive Officer
Yoshiaki Kuroda Managing Executive Officer and CAO	Seiichiro Shirahata Managing Executive Officer	Yuri Inoue Executive Officer and General Counsel

Corporate Governance Structure and Initiatives

Features of our corporate governance structure that underpins the achievement of Maximization of Shareholder Value (MSV)

1	Ensure the protection of the interests of minority shareholders while sharing MSV as the common objective with the major shareholder	→ page 94	4	Remuneration design that truly contributes to achieving MSV	→ pages 99-100
2	Improved effectiveness of the Board of Directors under the leadership of Independent Directors	→ pages 95-96	5	Governance and audit structures that respond to increasing globalization of operations	→ pages 101-102
3	Succession planning with a focus on substance rather than formalism	→ pages 97-98			

Basic approach to governance

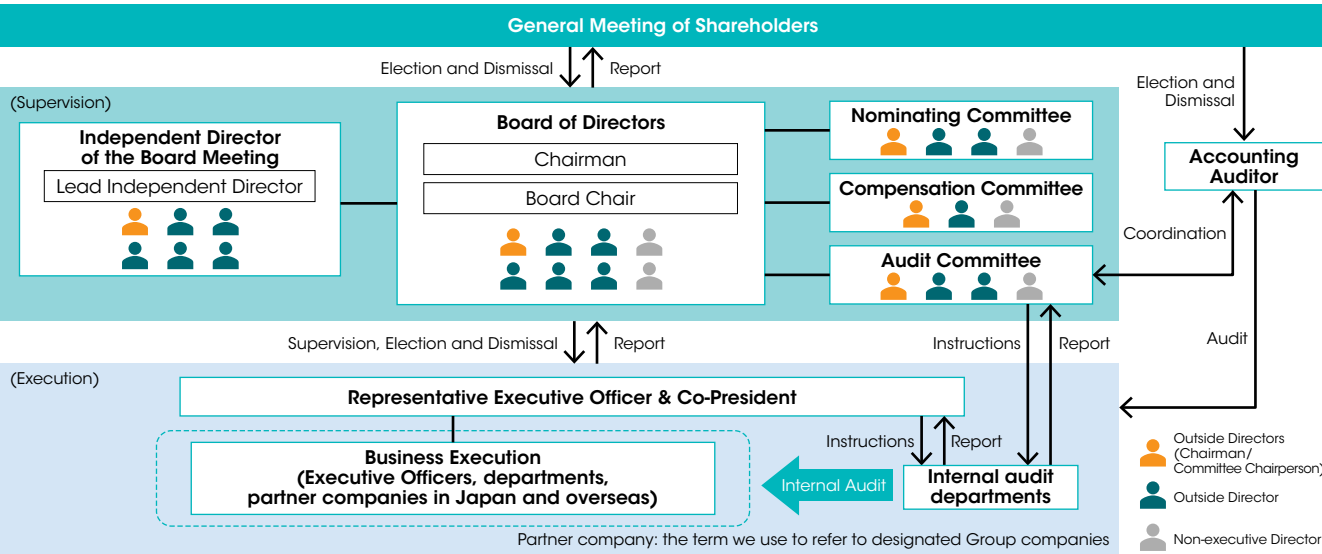
We have shifted to a Company with Nominating Committee, etc. with the aim of enhancing transparency, objectivity and fairness of management as well as separating and strengthening supervision of management and business execution. We, based on the Purpose as the significance of existence common to the Group and the Business Philosophy, which is its policy, promote its business and engage in ongoing efforts to enhance and strengthen its corporate

governance, and thereby, will achieve "Maximization of Shareholder Value," as its ultimate objective.

\* For details, please refer to "Nippon Paint Holdings Corporate Governance Policy" (Attachment: "Outside Directors of the Board Independence Judgment Standards") and "Corporate Governance Report" available in the Sustainability page of our website. <https://www.nipponpaint-holdings.com/en/sustainability/governance/cg/>



Corporate governance structure chart



History of governance reforms

Since 2014, we have taken actions to separate and strengthen the supervision of management and business execution including the increase in the number of Independent Directors and delegation of authority from the Board of Directors to business execution. To further accelerate this process, we shifted to a Company with a Nominating Committee, etc. structure in March 2020.

At present, the majority of the Board of Directors of NPHD is composed of Independent Directors. Following the change of the management structure in April 2021, the Lead Independent Director has been serving as the Board Chair.

Relationship with the major shareholder and protection of the interests of minority shareholders

We share a philosophy of MSV with the Wuthelam Group, which has a history of cultivating business partnerships with the Company for over 60 years, and properly protect the interests of the minority shareholders. The acquisitions of 100% ownership of the Asian JVs and the Indonesia business in January 2021 simplified our ownership structure, causing the interests of the major shareholder and minority shareholders to be perfectly aligned. This created a management structure to pursue MSV while ensuring the protection of the interests of minority shareholders. In the meantime, the acquisitions have made the Wuthelam Group our major shareholder. From the viewpoint of protecting the interests of minority shareholders, when conducting transactions with the Wuthelam Group, we ensure appropriate involvement and supervision by the Independent Outside Directors, such as obtaining approval at the Board of Directors with the majority of the Independent Directors, appointing an Independent Director to serve as Board Chair, etc.

Additionally, we report significant related party transactions exceeding a certain monetary threshold,

(such as transactions between the Company and a major shareholder, competing transactions between the Company and Directors or the Executive Officers, transactions for itself, and conflict of interest transactions, etc.) to the Board of Directors and disclose them in "Notice of Annual General Meeting of Shareholders" and "Securities Report."

Furthermore, when conducting related party transactions, we will make a comprehensive judgment regarding the reasonableness of the transaction taking into consideration its terms and conditions, profit and cost levels, etc., to ensure that the transaction will not harm the interests of the Company or the interests of its minority shareholders and obtain the approval of the appropriate decision-maker.

History of governance reform

- 2014 • Elected one Independent Director
- 2015 • Established corporate governance policy
  - Started "Evaluation of the effectiveness of the Board"
- 2016 • Abolished anti-takeover measures
  - Increased the number of Independent Directors from one to two
  - Renamed the Compensation Advisory Committee to the Designation and Compensation Advisory Committee, and started deliberations on the nomination of candidates for the Directors and the Auditors
- 2017 • Changed the composition of the Designation and Compensation Advisory Committee to designate two of the four members from among Independent Directors
  - Appointed an Independent Director as the chairman of the Committee
- 2018 • Increased the number of Independent Directors from two to five (the ratio of Independent Directors: 50%)
  - Reorganized the Designation and Compensation Advisory Committee into the Designation Advisory Committee and Compensation Advisory Committee
  - Established the M&A Advisory Committee
- 2019 • Established the Governance Advisory Committee
- 2020 • Shifted from a Company with Board of Auditors to a Company with Nominating Committee, etc.
  - Six out of nine members of the Board of Directors are Independent Directors (the ratio of Independent Directors: 67%).
- 2021 • Six out of eight members of the Board of Directors are Independent Directors (the ratio of Independent Directors: 75%).
  - Appointed the lead Independent Director as the Board Chair

Accelerating growth towards our ultimate objective of Maximization of Shareholder Value (MSV)

The completion of its acquisitions of 100% ownership of the Asian JVs and the Indonesia Business in January 2021 allowed Nippon Paint Group to fully integrate the operations in Asia in name and substance. Besides strengthening the Group's management foundation for accelerating growth, the transaction also boosted net profit and EPS. With Nippon Paint Group's capital ownership structure thus simplified, a complete alignment of interests between Wuthelam Group and minority shareholders is now achieved.

Following the transaction Wuthelam Group's shareholding in Nippon Paint Group has increased to 58.7%, but our stance as a shareholder remains unchanged. We continue to expect Nippon Paint Group to work towards MSV, an objective aligned with that of minority shareholders.

This implies that, even in the event Nippon Paint Group chooses to carry out equity offerings to finance M&As or large scale investments in the future, Wuthelam will not take issue with the dilution as long as MSV is achieved. In other words, Wuthelam's primary objective is not to hold majority voting rights but to achieve MSV which is the only basis for our judgement. With this premise, I, as Chairman and Board Member will, to the best of my ability, work towards the Group's achievement of MSV.



**Goh Hup Jin**  
Wuthelam Holdings  
Managing Director  
Nippon Paint Holdings Co., Ltd.  
Chairman

Roles of the Independent Directors of the Board Meeting

We hold a monthly Independent Directors Meeting, which is chaired by the Lead Independent Director and comprised solely of Independent Directors. The monthly Independent Directors Meeting holds discussions that lead to resolutions at Board of Directors meetings and Committee meetings, such as agenda of the meetings of the Board of Directors and the Nominating, Compensation, and Audit Committees, as well as sharing the comprehensive background of matters of concern of the business execution and promoting communication by inviting the top management of Nippon Paint Group companies (GKP: Global Key Position) in Japan and overseas. The lead Independent Director puts together opinions expressed in the Independent Directors Meeting as necessary and shares and discusses them with the Chairman, Representative Executive Officers & Co-Presidents, and Executive Officers.

The number of the Independent Directors of the Board Meeting held  
FY2020: 20  
FY2021: 7 (As of June 30)

Functions to support the Independent Directors

The Independent Directors regularly receive information from departments such as Finance and Accounting, Corporate Planning, and Investor Relations to quickly and accurately grasp the status of business execution in the Company. In

addition, the Representative Executive Officers & Co-Presidents directly share comments from the capital markets and a variety of information on business execution with the Independent Directors in an effort to support them to further deepen their understanding of our Group’s businesses. Meanwhile, it is useful for the business execution to receive questions, opinions and suggestions directly from the Independent Directors, who have a wealth of experience and knowledge. These sharing of information and opinions have led to lively discussions.

Furthermore, the Board of Directors Office serves as the secretariat for the Independent Directors Meeting in addition to the Board of Directors meetings, and supports the Independent Directors by offering prior explanation on the background of agenda at the Board of Directors meetings, coordinating schedule for attending meetings held by the business execution, sharing information, arranging plant and site visits and holding meetings to exchange opinions with the business execution. By establishing such forums for direct communication with the business execution, we have in place a system that enables the Independent Directors to work more effectively. The Board of Directors Office is also tasked with supporting the Nominating, Compensation and Audit Committees, which makes it possible to provide thoroughly organized information and make adjustments at the request of the Independent Directors, taking into consideration language and time differences in response to the global expansion of our Group’s operations. In this way, the Board of Directors Office is endeavoring to enhance the effectiveness of the Board of Directors.

Stimulating Board of Directors discussions

The Board of Directors of Nippon Paint Holdings are “always on,” even outside the meeting hours. The Independent Directors communicate and share the latest information with Co-President Wakatsuki and Co-President Wee, who head the business execution, and the Global Key Position management teams of our Group companies whenever necessary. We use this information as the basis for decision-making at meetings of the Board of Directors and the committees. The open and frank sharing of information and discussion at meetings of the Independent Directors of the Board that unfold without any agenda and minutes are a great help to each Independent Director in making more accurate judgments. The Board of Directors generally meets twice a month and the committees meet once a month. I believe the timely sharing of information and opinions gives us agility and flexibility for our decision making.

For all of the information we communicate between us, we ask “Does it contribute to MSV?” I believe that continuing to ask this question for every decision we make will further refine and evolve our ultimate objective of MSV. One of the most important roles of the Board of Directors is to evaluate the abilities of individuals who execute our business operations and appoint the right person for the right job. During the Co-President selection process in April 2021, the constant communication between the Directors allowed quick consensus within a very limited time frame of about one month without relying on a typical succession planning process.

I believe that our “always-on” Board of Directors will minimize the gap in information between the execution and supervision, while promoting the separation of the two. The Independent Directors will continue working to deepen communications and fulfill our responsibility to protect the interests of minority shareholders as we seek to achieve MSV.

Masayoshi Nakamura  
Lead Independent Director  
Board Chair



Analysis and evaluation of the effectiveness of the Board of Directors

Issues for FY2019 and initiatives for FY2020

Issues which require stronger initiatives in FY2020

- (i) Strengthen functions of nomination and remuneration including supervision of succession planning and establishment of a transparent, objective and competitive remuneration structure
- (ii) Leverage investor feedback
- (iii) Strengthen delegation of authority to establish a monitoring model
- (iv) Reinforce supervision and deepen discussion on the Medium-Term Plan
- (v) Broaden and deepen discussions on important agendas such as strategy and capital policy
- (vi) Enhance the audit function

Main initiatives in FY2020

- (i) Formulate Remuneration Philosophy and strengthen the monitoring of the Representative Executive Officer and communication with the business execution
- (ii) Deepen discussions including those from the perspective of investors, based on information obtained from the business execution
- (iii) Delegate a substantial authority to the business execution
- (iv) Expand and enhance supervision and discussion on the progress in the formulation of the Medium-Term Plan
- (v) Broaden and deepen strategic discussions and achieve the acquisition of 100% ownership of the Asian JVs
- (vi) Strengthen the Audit on Audit system based on the characteristics of our operating regions

Evaluation for FY2020 and issues for FY2021

Guidelines for making evaluation

Subjects

All Directors in FY2020  
(Nine persons)

Method

Used Board Advisors Japan, Inc. and conducted questionnaire and individual interviews

Questions

- (i) Status of progress in resolving issues pointed out in the previous evaluation of the effectiveness of the Board of Directors
- (ii) Issues for the Board of Directors and the Nominating, Compensation, Audit Committees after the Company has shifted to a Company with a Nominating Committee, etc. structure

Evaluation process

- Step 1: Distribute questionnaires to Directors
- Step 2: Conduct separate interviews with each Director based on the results of questionnaire
- Step 3: Summarize and analyze the results of questionnaire and individual interviews
- Step 4: Report and deliberate on the evaluation of the Board of Directors at a Board of Directors meeting

Overview of evaluation outcome

It was evaluated that the effectiveness of the Board of Directors is mostly secured as a whole.

- Since NPHD shifted to a Company with a Nominating Committee, etc. structure, separation of execution and supervision advanced.
- NPHD has considerably strengthened the supervisory function through actions, such as making the two-thirds of members of the Board of Directors Independent Directors to ensure the independence of the three statutory committees.
- In acquiring 100% acquisition of the Asian JVs and making the accompanying revision of the capital policy, the Company set up a “Special Committee” comprised of three Independent Directors and held a total of 15 meetings including the Board of Directors meetings, thereby ensuring the protection of the interests of minority shareholders.

Issues requiring stronger initiatives in FY2021

Directors pointed out the following matters as issues to be addressed, and we have established them as Issues requiring stronger initiatives in FY2021.

- (i) Sophistication of the monitoring model
- (ii) Enhancement of discussion on important agenda
- (iii) Further reinforcement of audit functions
- (iv) Reinforcement of nominating functions



Our attitude to the composition and skills of the Board of Directors (Nomination, qualification criteria, diversity, etc.)

We believe that the Board of Directors and each Committee need to be comprised of Directors with a suitable background with the aim to establish the Board of Directors that is capable of performing the supervisory function in a sustainable manner in an ever-changing business environment. We have designated the three categories of "Experience in corporate management," "Experience in global business operations" and "Experience in M&A" as required experience and the four categories of "Finance," "Legal affairs," "IT/Digital" and "Manufacturing/Technology/R&D" as required skills. We nominate Director candidates to form the Board of Directors comprised of members well balanced in terms of the above seven categories, and also appoint suitable Directors for each Committee that requires a higher degree of specialization. Experience in ESG-driven management, which has attracted attention in recent years, is included in "Experience in corporate management" as being able to supervise and make advise concerning a broad range of matters on overall management. Skills in GRC (Governance, Risk management and Compliance) are included in "Legal affairs."

On the other hand, to ensure diverse opinions and supervisory functions at the Board of Directors, we endeavor to secure, expand and reinforce diversity based on a skill matrix without too much regard to particular attributes, such as age, nationality and gender.

➡For the skill matrix of Directors, See "Directors and Executive Officers" on page 91.

Required experience/skills

1	Experience in corporate management	The ability to supervise and make advise concerning a broad range of matters on overall management from formulation of business strategy to its implementation
2	Experience in global business operations	The ability to supervise and make advice on the businesses of the Company, which operates globally, taking into consideration diverse business environments, economic conditions and cultures around the world
3	Experience in M&A	The ability to supervise and make advice on the validity of M&A that the Company is pursuing and the process of PMI
4	Finance	The ability to supervise and make advice on capital allocation and other financial activities of the Company
5	Legal affairs	The ability to supervise and make advice on regulations concerning operations, GRC (Governance, risk management and compliance) and internal controls
6	IT/Digital	The ability to supervise and make advice on improvement of operations and creation of new business models through IT and Digital Transformation
7	Manufacturing/Technology/R&D	The ability to supervise and make advice on creation of new technology through R&D by making use of his or her knowledge of technology related to manufacturing operations and the businesses of the Company

Election and dismissal of directors

We, in order to secure the effectiveness of the Board of Directors, have adopted the policy of nominating candidate Directors of the Board with diverse experience, achievements, high levels of insight, and high levels of expertise, etc., regardless of nationality, gender, whether from Japan or overseas, or from within or outside the Group, etc., in the Nominating Committee, whose majority members are Independent Directors.

In order to supervise conflicts of interest between the Company and the Directors, Executive Officers, major shareholder and other parties, and to appropriately reflect the opinions of minority shareholders and other stakeholders on the Board of Directors, the majority of the Board of Directors is composed of Independent Directors in principle. Furthermore, an Independent Director serves as the Board Chair. Independent Directors are elected based on the "Independence Criteria for Outside Director of the Board" established by the Board of Directors of the Company.

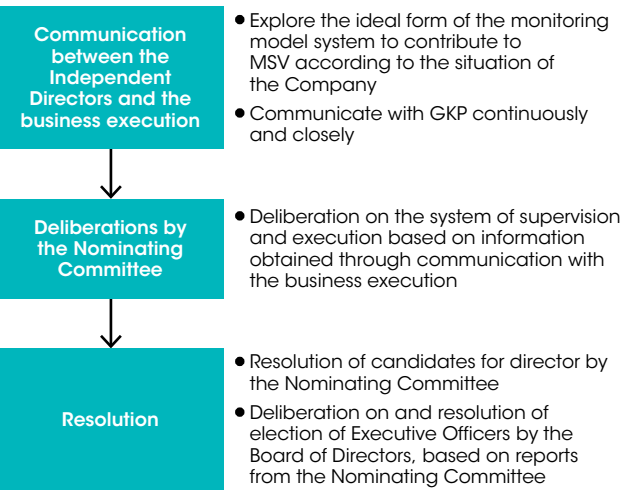
\* For the Independence Criteria for Outside Director of the Board, see the Attachment "Nippon Paint Holdings Corporate Governance Policies" which is available in the Sustainability page of our website. <https://www.nipponpaint-holdings.com/en/sustainability/governance/cg/>

Succession planning

In order to ensure the function of a monitoring model to continue working effectively, we believe that it is important for Independent Directors to proactively and autonomously consider the composition of the Board of Directors and appoint candidates for Director to realize the composition as well as examine candidates for the Representative Executive Officer and other Executive Officers.

The Nominating Committee works closely with other Committees and the Independent Directors of the Board meeting, keeps continuous and close communication with GKP, and considers respective candidates necessary for execution and supervision based on information obtained.

Nominating process



Nominating Committee

Status of succession planning

I was appointed as a Director of Nippon Paint Holdings in 2018 and have served as the chairperson of the Nomination Advisory Committee and subsequently as the chairperson of the Nominating Committee since 2020. I have been involved in the Nominating Committee's ongoing discussions about the ideal image for the leader of our Group.

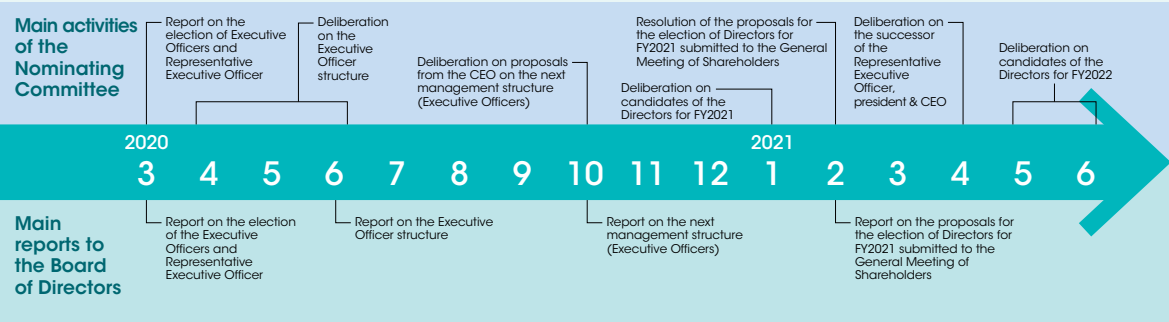
We do not have concrete requirements in the succession plan for the Representative Executive Officer. The reason is that, given the Group's ever-changing social and business environment, we do not think it is practical to automatically select a "superman" candidate just because they have more of the conventional skills needed to be a Representative Executive Officer. The important point is to appoint a person who can be trusted with the management of our Group. Our aim is to appoint a person who has human skills and passion, without being excessively focused on specific management skills. The same applies to the appointment of the Directors of the Board who supervise business execution. There is more to succession planning for the positions responsible for business execution and supervision than creating a mechanism for succession. Moreover, strictly following the mechanism is no guarantee that the right successor will be appointed.

We are constantly seeking to define the leadership characteristics needed to guide the Group to achieve MSV. Through close and continuous communication, the Directors of the Board consider the personalities and qualities of management team members so we are all on the same page about the characteristics needed of future Group leaders and who we consider to be good candidates. We believe the experience and good judgment of the Directors of the Board can identify individuals with the qualities to successfully and flexibly lead the Group through the ever-changing business environment. These preparations ensure that we are always in a position to make an appropriate and deeply considered decision for the future of the Group.

Hisashi Hara  
Independent Director  
Nominating Committee  
Chairperson



Chairperson	Hisashi Hara (Independent Director)
Composition of the Committee	<div><div><div>3</div><div>Inside Director</div></div><div><div>1</div><div>Outside Director</div></div></div> <div>* An Independent Director serves as the Committee Chairperson.</div>
Role of the Committee	Decide on the content of proposals regarding the election and dismissal of Directors to be submitted to the General Meeting of Shareholders, and deliberate on succession plans for Directors, the appointment and removal of the Representative Executive Officer and president and other Executive Officers, and their succession plans.
Number of meetings held	FY2020 (From late March 2020 to Early March 2021) 17 FY2021 (From late March 2021 to End of June 2021) 6
Main Activities	The Nominating Committee resolved the proposals for the election and dismissal of Directors for FY2021 submitted to the General Meeting of Shareholders and deliberated and reported on the Executive Officer structure for FY2021.





Remuneration decision-making policy  
for Officers

At our Company the Compensation Committee, which is chaired by an Independent Director, determines the remuneration structure and annual base remuneration for the Directors and Executive Officers. In addition, the Compensation Committee supervises the status of determination of the amounts and content of remuneration for Corporate Officers. The Compensation Committee deliberates on and determines the remuneration structure and its levels in fair and transparent manners based on the "Remuneration Philosophy" and the "Design Policies for the Remuneration of the Representative Executive Officer and President" set forth by the Compensation Committee, taking into consideration social situations, comparison of remuneration with that of other companies, market remuneration levels and other factors.

—Remuneration Philosophy—

Overarching Principle

- In order to implement "Maximization of Shareholder Value" (MSV), to build a remuneration system that is transparent and satisfactory and to continue to provide appropriate motivation, incentives, etc., to key executives by implementing individual treatment based on the system.

Guiding Principles

- To be able to attract and keep management talent that excels at practicing MSV.
- To be able to continuously provide motivation so that maximum potential can be encouraged even under changing environment.
- To function effectively and in harmony with the current state of business development, level of maturity of organizational systems, organizational values, and the community.

—Design Policies for the Remuneration of  
the Representative Executive Officer and President—

- A total amount of remuneration that is commensurate with the performance of the Representative Executive Officer and President
- A remuneration structure that promotes appropriate and decisive risk taking
- Strengthening of share remuneration that contributes to MSV

Composition of Officer remuneration as  
fixed cash compensation

Remuneration Structure for Directors

The Company has established Job-based compensation and allowance for committee member and other roles as fixed cash compensation, as well as Long-term Incentives. The remuneration structure reflects the idea that remuneration should take into account the roles and risks related not only to supervision of management but also to important decision-making including corporate acquisitions assumed by Directors and incentives for the Directors to drive MSV.

Remuneration Structure for Representative  
Executive Officer & Co-President

We introduced the Co-President structure in April 2021. Following this change of management structure, the Compensation Committee deliberated and determined the remuneration level and structure for the Representative Executive Officers & Co-Presidents for FY2021 that can keep the motivation of the Co-Presidents, who have different nationalities, to contribute to the achievement of MSV and provide adequate incentives.

Specifically, the Compensation Committee comprehensively assesses matters, such as the scope of the responsibilities and performance of each Co-President, consistency with the existing remuneration systems and incentives, benchmarking against the markets and other companies, the level and remuneration structure of the country where the Co-Presidents are from, then sets the total amount and the remuneration structure for each Co-President, taking into account the Remuneration Philosophy and Design Policies for the Remuneration of the Representative Executive Officer and President.

Additionally, to maintain appropriate motivation and incentives, effective FY2022, the Compensation Committee will determine the total amount of remuneration for the following fiscal year based on a comprehensive evaluation of matters of the preceding year including our Group's earnings results, the performance of the Representative Executive Officer and President and the results of benchmarking against other companies. The Compensation Committee also reviews the remuneration structure from scratch each fiscal year.

Remuneration Structure for Executive Officers

Remuneration for the Executive Officers, excluding the Representative Executive Officer & Co-Presidents, is comprised of "Job-based compensation," "Long-term Incentives" and "Performance-linked Incentives."

Because the scope of responsibilities of each Executive Officer varies, "Performance-Linked Incentives" is designed to help contribute to MSV and provide incentives to the Executive Officers by appropriately reflecting the degree of fulfillment of each Officer's responsibilities based on the evaluation not only on our Group's earnings but also on its long-term and non-financial performance including sustainability initiatives.

FY2021 Officers remuneration image

Fixed compensation	Job-based compensation	The amount of payment is determined for each position according to the roles and responsibilities.
Variable compensation	Performance-linked Incentives	The amount of payment is determined by taking comprehensively into consideration the evaluation on the financial results of the Group and segments and on non-financial performance based on individual Officers' responsibilities.
	Long-term Incentives	Restricted Stock is granted for the purpose of giving incentives to contribute to MSV and further sharing values with shareholders. The Malus and Clawback clauses are in place also from the perspective of MSV.

Compensation committee

Discussion on executive compensation

MSV is always at the center of discussions in the Compensation Committee. With MSV as our mission, we have formulated the Compensation Philosophy and the Policy for Structuring the Compensation of the Representative Executive Officer & President.

Discussions about compensation structure continually seek to find the best compensation scheme to create motivation for MSV. We believe that motivation is not as simple as providing an incentive with higher pay.

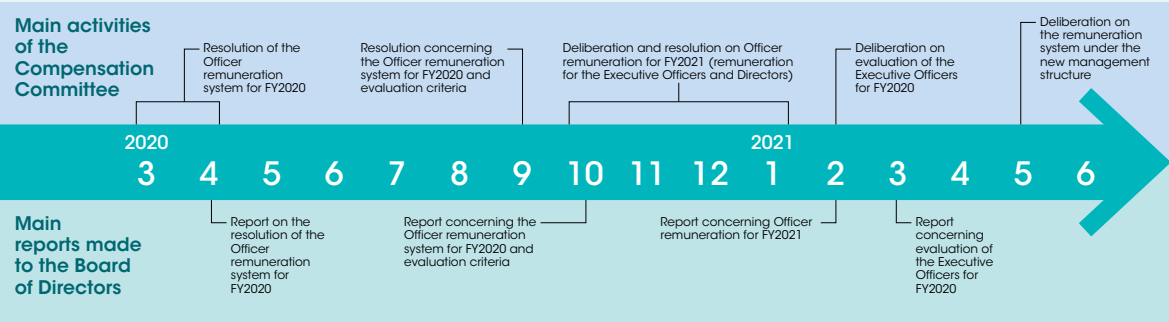
I believe the key to establishing a workable compensation structure and that contributes to MSV is to have a deep understanding of MSV, open communication with the management team to deepen that understanding, and a compensation structure and evaluation system that supports the management team to take appropriate risks. We must properly communicate our recognition of each executive's achievements and our understanding of their future vision to them.

The process of creating a compensation structure takes into consideration various elements, including performance benchmarks and other markers to ensure competitive compensation levels as well as consistency with previous internal executive compensations and employee salaries. I hope this careful process will further drive growth of our Group toward achieving MSV.

Takashi Tsutsui  
Independent Director  
Compensation Committee  
Chairperson



Chairperson	Takaishi Tsutsui (Independent Director)
Composition of the Committee	<div><div><div>● Inside Director</div><div>● Outside Director</div></div><div><div>1</div><div>2</div></div><div>* An Independent Director serves as the Committee Chairperson.</div></div>
Role of the Committee	Determine the policies for determining individual remuneration for the Executive Officers and Directors, as well as the details of remuneration for each Executive Officer and Director.
Number of meetings held	FY2020 (From late March 2020 to early March 2021) 19 FY2021 (From late March 2021 to end of June 2021) 6
Main Activities	The Compensation Committee resolved the policy for determining remuneration for each Director and Executive Officer (Remuneration Philosophy) and the contents of remuneration for each based on the policy.





Global governance

Our Group has developed into a global company that operates in 30 countries and regions with about 34,000 employees. We have endeavored to strengthen its global governance through a series of actions, such as shifting to a Company with a Nominating Committee, etc. structure in March 2020, separating execution from supervision, and simplification of the ownership structure due to the acquisition of 100% ownership of the Asian JVs. Consequently, decision-making on the business execution has been further expedited, and the Board of Directors has become able to supervise the business execution with higher independence and objectivity.

In March 2021, our Group established the Purpose to play an important role as we develop as a global paint company based on Powerful Partnerships. Our Group

respects the management autonomy of its partner companies, and has positioned the Purpose as the shared identity of our Group, while respecting the management philosophies and visions set forth by each partner company. Under the leadership of Representative Executive Officers & Co-Presidents Wakatsuki and Wee, which started in April 2021, we will step up collaborations among our Group businesses worldwide that are expanding through M&A and other strategic initiatives. The Board of Directors, which supervises such initiatives, has reinforced a global audit system centered on the Audit Committee, and has been discussing the revision of the Corporate Governance Policies and appropriate forms of global risk management and internal whistle-blowing system. The Board of Directors will continue improving the global governance of the Group.

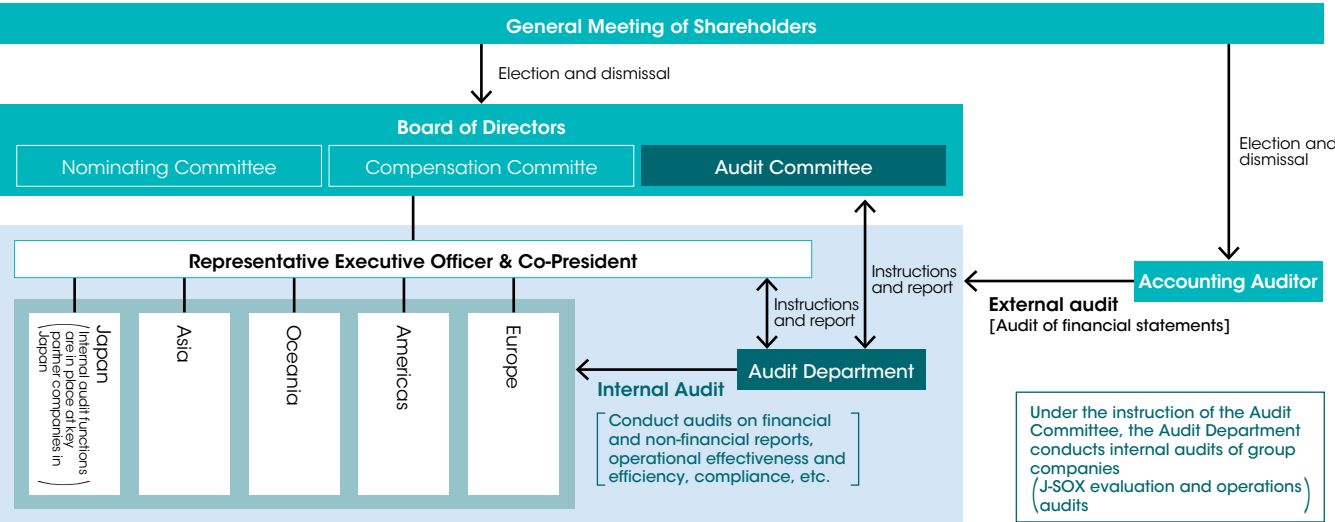
Promotion of global audits

The Audit Department ensures the independence and appropriateness of audits by establishing double reporting lines to the Audit Committee and Representative Executive Officer & Co-President. Based on an internal audit plan, approved by both, the Audit Department evaluates the effectiveness of the internal control systems including governance, processes, and risk management from the perspective of risks.

The activities of the Audit Department in FY2021 include support to some partner companies in Japan and overseas

to improve their maturity level through audits. Additionally, the Audit Department will accelerate a variety of efforts to enhance auditing skills and quality by applying advanced auditing know-how of overseas partner companies to domestic audits. Through these efforts, the Audit Department will improve and reinforce the group-wide internal audit system, thereby aiming at establishing the framework of "Audit on Audit" system based on the results of internal audits conducted by each site.

Global audit structure chart



Audit Committee

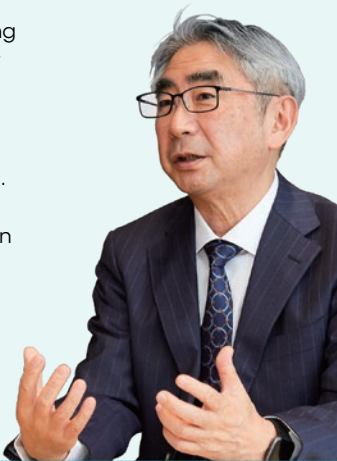
Establishing a robust Group audit system

The Audit Committee, for the sake of MSV, is formulating a global "Audit on Audit" system that factors in the individuality of each partner company. The Group's globalization took a large step forward at the end of January 2021 with the acquisitions of 100% ownership of the Asian JVs and the Indonesia business. In addition, with the launch of the co-president structure in April, all partner companies are working to build more autonomous structures to promote their business growth. It is becoming increasingly important to institute the "Audit on Audit" system by enhancing audit capability of each partner company.

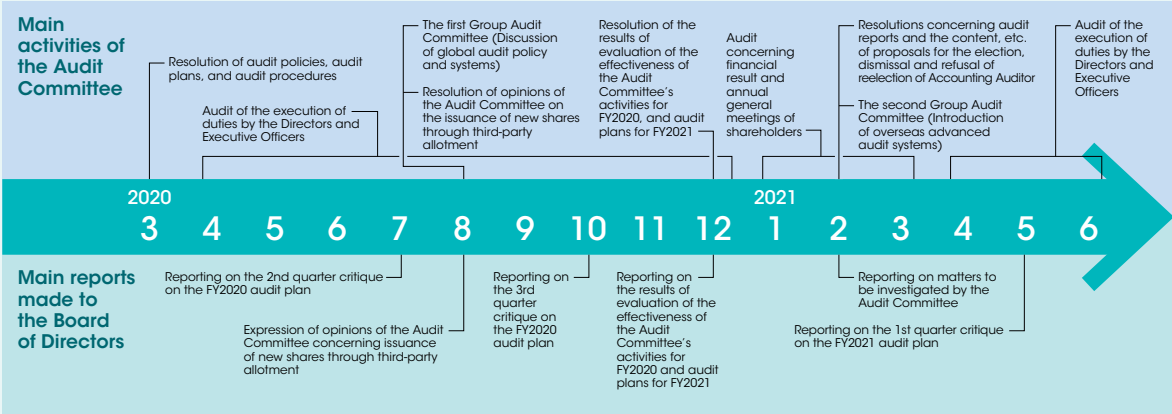
As concrete steps to establish the system, the partner companies share their best practices for internal audit based on governance, risk management, and compliance at the Group Audit Committee meeting, which is held twice a year. Rather than Nippon Paint Holdings making instructions unilaterally, the meeting provides an opportunity for discussion and learning so the partner companies can improve their capability and conduct effective internal audits while taking into consideration their regional and business characteristics.

Audit Department and the Audit Committee of Nippon Paint Holdings jointly and thoroughly conduct internal audits of critical risk areas for the entire Group. The timely and appropriate audits include remote online interviews and data analytic audits utilizing ICT.

Masataka Mitsuhashi  
Independent Director  
Audit Committee Chairperson



Chairperson	Masataka Mitsuhashi (Independent Director)
Composition of the Committee	<div><div><div></div><div>1</div></div><div><div></div><div>3</div></div></div> <div>● Inside Director ● Outside Director</div> <div>* An Independent Director serves as the Committee Chairperson.</div>
Roles of the Committee	Conduct audits on the execution of duties by Executive Officers and Directors, prepare audit reports, and determine the content of proposals regarding the election, dismissal and refusal of reelection of Accounting Auditor to be submitted to the General Meeting of Shareholders.
Number of meetings held	FY2020 (From late March 2020 to early March 2021) 18 FY2021 (From late March 2021 to end of June 2021) 5
Main Activities	The Audit Committee prepares audit reports, based on the results of audits on the status of execution of duties by the Executive Officers and Directors, and resolves the content of proposals regarding the election, dismissal and refusal of reelection of Accounting Auditor, to be submitted to the General Meeting of Shareholders.





Policy on cross-shareholdings

We make a decision every year on the continued holding of cross-shareholders at the Board of Directors based on the policy described below and dispose or reduce holdings of shares for which the rationality of their holding can't be recognized.

—Our Policy on Cross-Shareholding—

We hold shares of other listed companies as Cross-Shareholdings, limited to where it can be determined to be reasonable in consideration of, among others, the necessity of it for business activities (e.g., to maintain and strengthen the relationship with the business partner), the status of the issuer, and the return on the capital cost.

In addition, based on the policy of the above and internal standards, we exercise voting rights upon making comprehensive judgment, from the perspectives of maximization of corporate value in the medium to long term of the other company to the Cross-Shareholding, the effect on the Group, etc.

Number of shares held for purposes other than pure investment and the amount posted on the balance sheet

	FY2020
Number of stock issues	24
Of which, the number of listed issues	6
Total amount posted in the balance sheet (million yen)	23,644
Of which, the total amount of listed stocks (million yen)	22,704

As asset owner of corporate pension fund

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

- (1) We systematically secure human resources with the qualities required for management and operation of the corporate pension from inside and outside the Group and assign them to the Nippon Paint Corporate Pension Fund representative, asset management committee member, and secretary (hereinafter referred to as "Representative, etc.").
- (2) We, through the Representative, etc., confirm the selection of an investment institution by the fund, the monitoring of the activity status and investment results of the investment institution, and that management of conflicts of interest that arise between the beneficiaries and the Company is performed appropriately and effectively, and voices an opinion where necessary.

Shareholder and investor engagement

NPHD pursues MSV by building relationships of trust with shareholders through thorough and fair disclosure of information to shareholders in Japan and overseas and by reducing information asymmetry and holding down capital costs. NPHD also strives to understand the structure of its shareholders in order to engage in constructive dialogue with them, and pays close attention to the prevention of leaks of insider information when engaging in dialogue.

We have appointed the Representative Executive Officer & Co-President and general managers of the Investor Relations Department and General Affairs Department as the dialogue contacts with shareholders. Also, we provide opportunities for engagement with Independent Directors. We give the Board of Directors feedback of opinions and suggestions obtained from dialogues with shareholders as appropriate and reflect them on corporate management. Opinions from the Directors including Independent Directors are also utilized in dialogues with shareholders.

In FY2020, the Company strengthened communication with investors and held IR interviews with 346 companies (an increase of 23.1% from the previous year) to promote the understanding of the paint market and the Company's strategies. As an IR event, the Company held the "Briefing for Institutional Investors" in February, in which the management team explained the growth potential of the paint market, our strengths and future direction, etc. In August, the Company held an investor presentation meeting on the acquisition of 100% ownership of the Asian JVs, which was our long-term priority, and explained the strategic significance, benefits, and financial impact. In addition, we are promoting proactive disclosure of information through measures including expanding and reinforcing the Integrated Report and IR website.

Number of IR meetings held

	FY2019	FY2020
Meeting with domestic investors	140 companies	136 companies
Meeting with overseas investors	141 companies	210 companies
Of which, meetings with ESG investors (in Japan and overseas)	3 companies	9 companies
Total	281 companies	346 companies

IR events held

	FY2019	FY2020
Teleconference on financial results	4 times	4 times
Briefing for institutional investors	0 time	1 time
Briefing on M&A	2 times	1 time
Briefing for individual investors	3 times	1 time
Total	9 times	7 times

Outcomes of shareholder and investor engagement

Feedback from shareholders and investors

Regarding operations

- ① When will NPHD carry out the acquisition of 100% ownership of the Asian JVs? The transaction will have a significant impact on your valuation, so I hope that it will be achieved at an early date.
- ② We would like to have an interview with the local management about the Chinese market and businesses.
- ③ The operating profit in the Japan segment includes headquarters expenses, which makes it difficult to grasp the profitability only of the Japan segment. Please disclose the breakdown of the operating profit in the Japan segment.
- ④ Please disclose your investment policies and financial disciplines for your M&A strategy.
- ⑤ We would like you to disclose long-term financial targets as well in the Medium-Term Plan.

Regarding ESG

- ⑥ We expect NPHD to properly respond to MSCI and other ESG ratings because many investors place emphasis on these ratings.
- ⑦ We are concerned about your governance structure. Please explain the actual situation and effectiveness of your corporate governance in details.

Regarding major shareholder (the Wuthelam Group)

- ⑧ Please communicate periodically the ideas and thoughts of the Wuthelam Group as the major shareholder.

Concrete measures taken based on shareholder and investor engagement

Regarding operations

- ① Under the new management structure launched in FY2020, we reinforced our corporate governance structure to ensure the protection of the interests of minority shareholders, and enhanced smooth communication with the Wuthelam Group, resulting in quick agreement on the acquisition of 100% ownership of the Asian JVs (August 2020).
- ② We were unable to hold investor briefing due to COVID-19. However, we provided explanations on market analyses and business strategies given by the local management in China and other regions in the Integrated Report (September 2020).
- ③ We excluded the headquarters expenses from the operating profit in the Japan segment and presented as adjustments in order to clearly show the performance in the Japan segment. We disclosed the adjustment figures for the past year (on a quarterly basis) (May 2021).
- ④ We disclosed basic M&A policies including target areas, our advantages, and financial disciplines, although it is difficult to disclose details of M&A strategies considering the possible impact on target companies and competitors. We also disclosed the track record of acquisition of small-scale companies to show progress in the M&A strategy (March 2021).
- ⑤ In the New Medium-Term Plan (FY2021-2023), we set and disclosed financial targets that exceeded those of overseas competitors as a long-term goal, in addition to the medium-term targets for the existing businesses excluding M&A (March 2021).

Regarding ESG

- ⑥ In FY2020, we established the "ESG Promotion Department" and the "ESG Committee," grasped and analyzed the external evaluation to collect information and responded to questions. As a result, our MSCI rating was upgraded from "BBB" to "A" (April 2020).
- ⑦ We shifted to a Company with a Three Committees structure and raised the ratio of Outside Directors to 67% (at that time) in order to protect the interests of minority shareholders (March 2020). In addition, the Company expanded and reinforced the governance disclosure and information disclosure by taking steps including disclosing "Discussions by the Board of Directors" in the Integrated Report (September 2020).

Regarding major shareholder (the Wuthelam Group)

- ⑧ We provided the history of partnership with the Wuthelam Group that started in 1962 and the profile of the representative of the group in the Integrated Report in order to facilitate the understanding of our relationship with the Wuthelam Group and its corporate profile (September 2020). Additionally, we explained the background to and some details on the agreement with the Wuthelam Group on the acquisition of 100% ownership of the Asian JVs at the investor presentation in August 2020, and provided the message from the representative of the Wuthelam Group in the Integrated Report (September 2020).  
➡ See "Partnership with the Wuthelam Group, Our Major Shareholder" on page 29.



Climate Change

Climate change is beginning to have a serious impact on our lives every year. To mitigate the impact of climate change, the Nippon Paint Group will work to reduce greenhouse gas (GHG) emissions and minimize business risks caused by climate change.

Report based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations

In September 2021, our Group expressed its support for the TCFD recommendations (final report). For Maximization of Shareholder Value (MSV), we are working to enhance climate change-related measures and information disclosure.

Governance

The Board of Directors supervises climate-related issues by themselves, formulates the Group’s strategies, policies, and action plans for ESG initiatives at the executive level including climate-related issues, and holds the ESG Committee to evaluate and promote their progress, chaired by the Representative Executive Officer & Co-President.

The Representative Executive Officer & Co-President reports the progress of ESG initiatives, including activities on climate-related issues, to the Board of Directors at least four times a year. As an example of climate-related decision-making, in July 2020, the ESG Committee identified six materialities and decided to set climate change as a top priority within the materialities.

Strategies

We have identified climate-related risks and opportunities that are critical to the strategies of our Group, and are working to assess their financial impact. In light of the increasing interest in climate change countermeasures in recent years, there are concerns that the global warming tax will be raised, resulting in increase in operating energy costs and additional costs related to capital investment and technology development for decarbonization.

In addition, in the event of increase in the severity and frequency of floods and other events caused by extreme weather, there is a risk of sales decline due to the damage on our plants resulting in the suspension of production.

Global warming, on the other hand, is of interest to the entire society, including our Group’s major customers. While global warming entails physical and regulatory risks, it can be linked to business opportunities to expand our business by strategically addressing it. Specifically, such opportunities include expanding sales of products that improve ship fuel efficiency, help reduce CO<sub>2</sub> emissions at automobile manufacturing plants, and mitigate the rise of road surface temperature.

Risk management

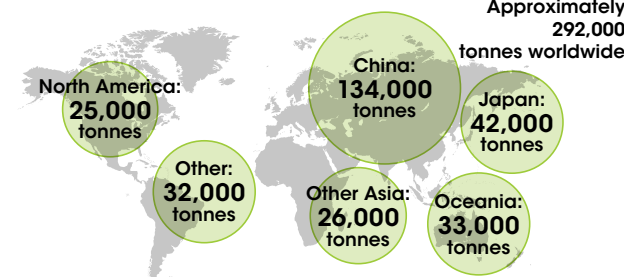
The ESG Committee, commissioned by the Board of Directors, formulates our Group’s strategies, policies, and action plans for ESG and sustainability initiatives, including climate change issues, and evaluates and promotes their implementation. For the identification of risks, the ESG Committee and its subordinate organization, the Global Working Team1, determine the importance of risks based on evidence, scope, and business opportunities and time frame, with the criteria of factors directly related to our operations (the amount of raw materials used, energy, water and CO<sub>2</sub> in the manufacturing processes) and external factors (users’ needs for usage and needs for product features).

Once identified and assessed, risks and opportunities and their action plans are proposed to the ESG Committee. The Committee discusses and decides relevant company-wide targets and action plans, and submits them to the Board of Directors. Our Group’s partner companies formulate business plans in line with the company-wide targets and action plans above.

Metrics and targets

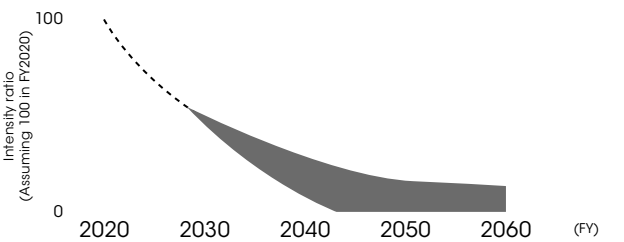
We will accelerate responses to climate change by conducting activities to reduce CO<sub>2</sub> emissions based on the net zero targets and the carbon neutral policy of the

Nippon Paint Group’s estimated annual CO<sub>2</sub> emissions (Scope 1 and 2) (FY2020)<sup>\*1</sup>



<sup>\*1</sup> The data does not include Nipsea Indonesia.

Nippon Paint Group’s CO<sub>2</sub> emissions reduction target (Scope 1 and 2)



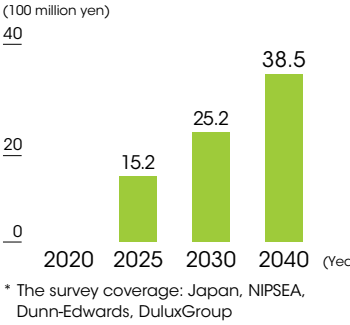
government of each country and contributing to net zero in our operating regions around the world. As concrete measures, we will focus on reducing emissions per unit in emerging countries, where markets are expanding, by introducing renewable energy and replacing equipment with

energy-saving and electrified models. We will also consider renewable energy introduction targets (power generation targets). We currently calculate Scope 3 emissions from our operations in Japan and have taken steps to calculate them from our operations around the world.

Estimated financial impact of carbon tax

Our Group consumes a large amount of energy, especially in the manufacturing processes, such as cooling water required in the process of dispersing and stabilizing pigments and other raw materials. We have identified the carbon tax as the greatest risk that could directly affect our operations, and anticipate cost increase due to the rise of the carbon tax prices. Therefore, we have started considering the sourcing of renewable energy as a workaround. The carbon tax has already been introduced in some countries, and it is expected that the tax rates will be gradually raised to achieve the net zero targets of each country. According to the International Energy Agency (IEA), there is a report that carbon prices in developed countries will increase to 100 USD/tCO<sub>2</sub> in 2030 if a shift to decarbonization proceeds worldwide. IEA also estimates that if CO<sub>2</sub> emissions in 2030 remain unchanged from the 2020 levels, the impact would be around 2.5 billion yen. There are concerns that carbon prices will have an even greater impact on operating costs, given the potential increase in emissions associated with future business expansion of our Group.

Potential impact of carbon taxes



Framework comparison between “TCFD” and “Our responses to CDP Climate Change 2021 Questionnaire”<sup>\*2</sup>

	Governance	Strategies	Risk management	Metrics and targets
	Disclose the organization’s governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities the organization’s businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosure item	a) Describe the board’s oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization’s processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
	C1.1b	C2.1a, C2.2a, C2.3, C2.3a, C2.4, C2.4a	C2.1, C2.2, C2.2a	C4.2
	b) Describe management’s role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	b) Describe the organization’s processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	C1.2, C1.2a	C2.3a, C2.4a, C3.1, C3.3, C3.4	C2.1, C2.2	C6.1, C6.3, C6.5
		c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
		C3.2	C2.1, C2.2	C4.1, C4.1b, C4.2

<sup>\*2</sup> Items covered in the CDP’s questionnaire that correspond to the recommended disclosure items in the TCFD recommendations are highlighted in gray color.





## Prevention of global warming

Our Group is committed to the prevention of global warming in Japan mainly through efforts to reduce energy use.

In FY2020, both energy use and CO<sub>2</sub> emissions (Scope 1 and 2) decreased from the previous fiscal year due to production adjustment and telecommuting in response to COVID-19 while per unit emissions increased. Emissions increased in FY2017 and FY2019, mainly due to the expansion of the scope of data collection.

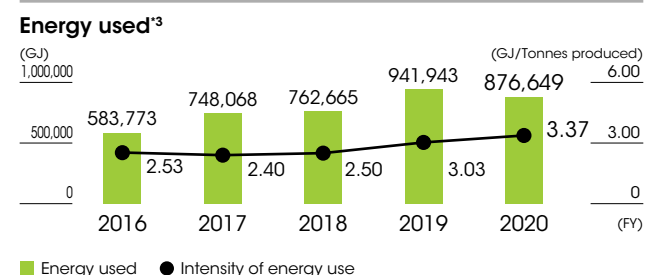
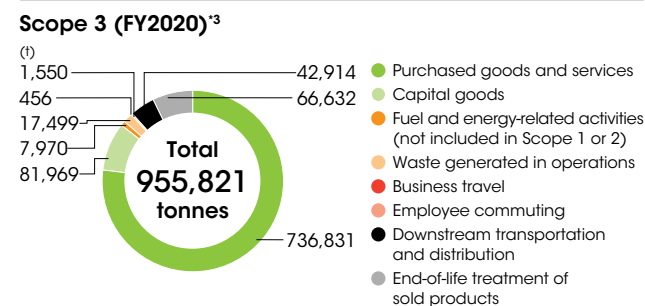
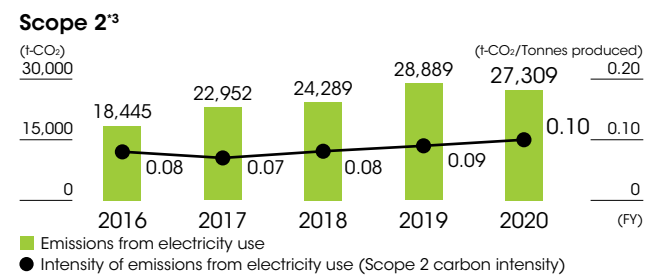
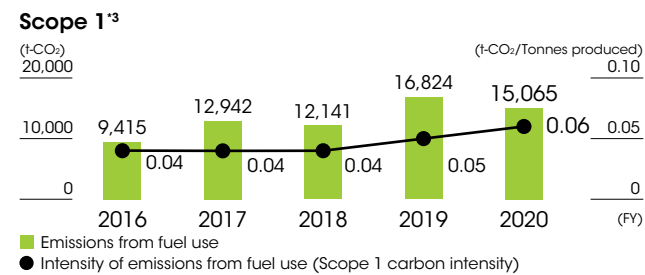
### Efforts for net zero emissions

The following are examples of our Group's initiatives to achieve net zero CO<sub>2</sub> emissions.

- Replacement of air conditioning equipment and compressors with the latest energy-saving models
- Improvement of efficiency by reviewing operation methods of freezing/refrigeration units
- Adoption of LED lighting in offices and plants
- Energy conservation at manufacturing plants (improvement of paint dispersion processes, turning off unused lighting and manufacturing equipment, etc.)
- Energy conservation in offices (strict control of AC thermostat settings, turning off unused office equipment)

We will continue to consider measures such as replacement of production facilities to improve manufacturing and production efficiency. Specifically, we will consider and implement the following measures.

- Sourcing of renewable energy
- Adoption of energy-saving equipment at existing facilities
- Investment in renewable energy generation
- Estimating the financial impact of carbon pricing such as the carbon tax
- Decarbonization of new plants and the Head Office buildings
- Adoption of EVs and fuel cell vehicles (FCV)
- In addition to the above, we are considering and implementing sales of products and setting research themes that contribute to mitigation of climate change



<sup>\*3</sup> Coverage of data collection:  
FY2016 to FY2018: Nippon Paint Automotive Coatings (NPAC), Nippon Paint Industrial Coatings (NPIU), Nippon Paint (NPTU), Nippon Paint Surf Chemicals (NPSU), Nippon Paint Marine Coatings (NPMC) (April-December for FY2016)  
FY2019 to FY2020: NPAC, NPIU, NPTU, NPSU, NPMC, AS Paint (ASP), AS Resin (ASR), and Nippon Paint Anti-Corrosive Coatings (NAC)



## Resources and Environment

Effective use of resources such as water, energy, and raw materials, and prevention of environmental pollution are important matters for sustainable business.

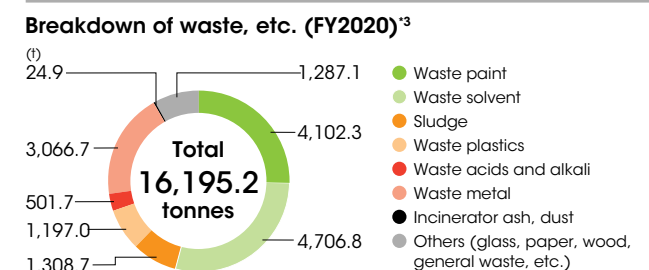
The Nippon Paint Group will advance these efforts throughout life cycle of products.



### Reduction of waste, etc. and zero emissions

In Japan, our Group has adopted an integrated waste material management system that is compatible with the electronic manifest system. We make Group-wide efforts to reduce waste such as management of waste generation and proper disposal and effective use of waste generated.

Waste increased in FY2017 and FY2019, mainly due to the expansion of the scope of data collection. In FY2020, we failed to achieve 100% recycling due to the release of asbestos-containing waste from construction work at some sites and the release of bricks from the demolition of buildings. We will work to enhance waste management in order to reduce waste generation and achieve a recycling rate of 100%.



### Total cost of environmental fines and other penalties

In FY2020, the Nippon Paint Group was not subjected to any fines or other forms of punishment due to violations of environmental laws or regulations.

### Comprehensive management of chemical substances

#### Initiatives in FY2020

Paints contain various chemical substances originating from their raw materials and some of them can be harmful

to the human body or the environment. We provide safety information on all products for countries that have adopted the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) by using SDS (safety data sheet) and labels in accordance with GHS classification. For the management of these chemical substances, the Group Product Safety Committee, which is set up under the Responsible Care Committee, holds discussions with Group companies and prepares management standards to standardize the handling of chemical substances and prevent incorrect operation. We properly responded to domestic and international laws and regulations in FY2020, including the submission of notifications in accordance with the revised Cabinet Order for the Designation of Poisonous and Deleterious Substances.

### Measures to prevent the leakage and drainage of hazardous materials

We have implemented measures to prevent leaks and spills of hazardous materials and obtained materials for leakage treatment and also provide training dedicated to the prevention of the leakage and drainage of hazardous materials in an emergency drill organized in each area every year. For example, we assume a case where products have leaked on the road after an accident with a truck transporting them on a surface road and provide training for notifying related parties of the accident, preventing expansion of the leakage and recovering the products in order to develop the ability to respond quickly to emergency situations.

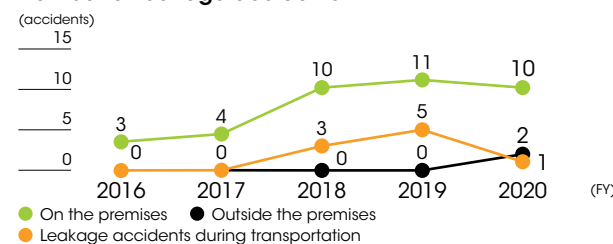
In FY2020, while the number of leakage accidents during transportation decreased, there were two accidents of leakage to the outside of the premises. The amount of leakage was very small in both cases, and prompt treatment prevented impacts on water and soil. However, we consider that the prevention and mitigation of leakage accidents is one of key issues to address, therefore we are enhancing measures such as adding items regarding transportation to the RC target guidelines.

### Management of polychlorinated biphenyl (PCB) waste

PCB waste which is highly hazardous with impacts on human health and the environment, is being strictly controlled at storage facilities in accordance with the Waste Management and Public Cleansing Act and the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes and disposed of by the disposal deadline.



### Number of leakage accidents<sup>13</sup>



### Air and water pollution prevention

The Group complies with all laws and regulations pertaining to air pollution and water contamination through setting of voluntary reference values and periodic pollution load measurements in Japan.

In FY2020, the amount of water used and wastewater discharge decreased from the previous year due to production adjustment and reduction in the attendance rate through remote working in response to COVID-19. There was no significant change in the pollution loads of air and water. Since FY2017, the amount of water used, wastewater discharge, and air and water pollution loads have increased, mainly due to the expansion of the scope of data collection.

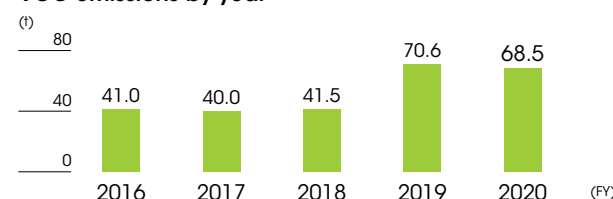
We will continue our efforts to prevent air and water pollution through improvements to the efficiency of cleaning processes at production sites, and recycling the solutions and water used for these processes.

### Water management risks

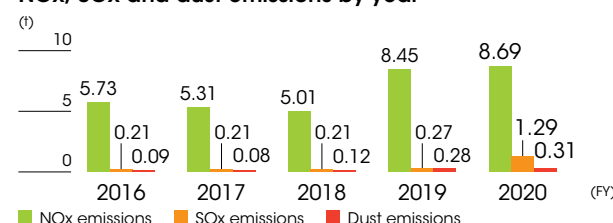
The water resources affects not only the water used in the production process but also the procurement of raw materials. Droughts, floods, and water quality deterioration might also affect our production activities.

We are working to develop business plans in line with group-wide targets and action plans, including formulating water management policies on a global basis and identifying risks by using AQUEDUCT provided by the World Resources Institute (WRI).

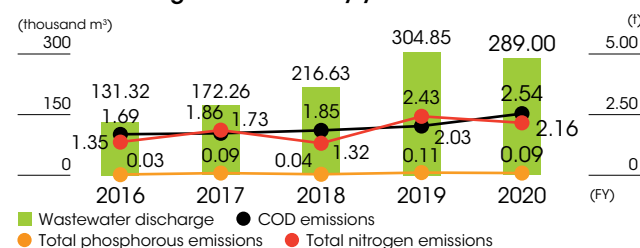
### VOC emissions by year<sup>3</sup>



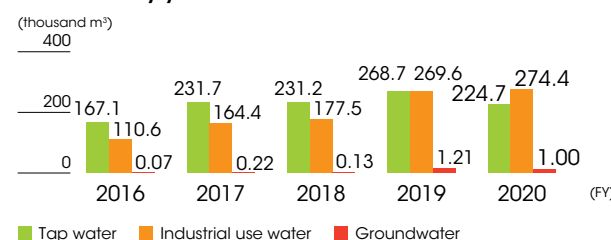
### NOx, SOx and dust emissions by year<sup>3</sup>



### Wastewater discharge and COD, total phosphorous, and total nitrogen emissions by year<sup>3</sup>



### Water use by year<sup>3</sup>



### Supply chain management

#### Group Procurement Policy

In accordance with the management philosophy of the Nippon Paint Holdings Group, Procurement Department complies with and promotes the following policy in its procurement activities with the suppliers, which are our precious partners:

- Legal compliance and respect for human rights:**  
The Nippon Paint Holdings Group will conduct procurement in compliance with laws and international rules, with respect for human rights, and without any abuse of human rights including discrimination or unfair labor practice.
- Fair transaction:**  
The Nippon Paint Holdings Group will conduct fair and equitable procurement based on free competition and make efforts to eliminate personal interests from the selection of suppliers.
- Selection of suppliers:**  
The Nippon Paint Holdings Group will select suppliers in a rational manner based on management policies, ESG activities, promotion of environmental conservation and resource protection, continuous commitment to the control of safety and health risks, etc., in addition to quality, price competitiveness, stable supply, technical capabilities.
- Establishment of a trust relationship with suppliers:**  
The Nippon Paint Holdings Group will place emphasis on dialogues with suppliers, work to establish a trust relationship, and promote sustainable procurement together. We will also promote the reduction of risks in procurement activities in cooperation with suppliers.

### Approach to procurement of raw materials

Our Group's businesses depend on a steady and reliable supply of raw materials, equipment, supplies, information services and various other products and services. Maintaining healthy cooperative relationship with suppliers is therefore essential to our sustainable growth. Our Group has established and disclosed the procurement policy that is aligned with our basic approach to business transactions. We also have programs for everyone at our Group, as well as at our suppliers, to make sure that they understand and follow this

approach and policy.

To ensure that procurement activities are performed responsibly, we established procurement guidelines based on a policy that further clarifies the definition of the items that must be observed by suppliers and members of our Group. The procurement activities of our Group also place priority on quality, cost and delivery (QCD) as well as issues involving the environment, society and governance (ESG). Our goal is to further emphasize the sustainability of our supply chains.

### Responsible procurement of raw materials

We have examined and updated the safety data sheets and product specifications in compliance with new and revised laws and regulations for the chemicals contained in all raw materials used to manufacture our products.

We utilize this information to provide customers with the information they require to use our products in compliance with regulations inside and outside Japan. Our Group also participates in the initiative of Japan Chemical Industry Association to promote the development of a mechanism to share relevant information on risk assessment of chemical substances in the supply chain, and supplies information at the request of customers.

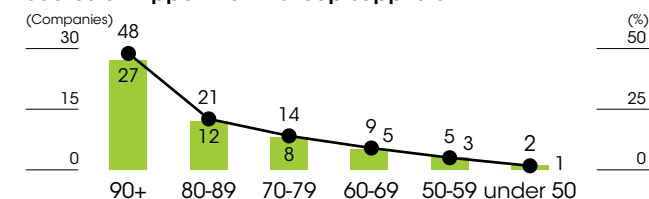
### Product stewardship

Improving the impact of products on sustainability throughout their life cycles is an important issue. In particular, it is extremely important to manage risks associated with hazardous chemical substances used in products from the phases of raw material adoption and design. To manage these risks, our Group has established rules for prohibition and restriction of use in accordance with the local legal systems for risk mitigation. They include "Green 20" in Japan, "Chemicals of concern" in Australia, and "Negative substance list" in China.

### CSR procurement survey

The survey was sent to the primary suppliers of the Nippon Paint Group which accounted for 90% of all purchases in 2020 in the amount of purchase. The graph below shows the results of a self-analysis survey that was prepared by the Global Compact Network Japan (GCNJ). We held discussions with suppliers that scored below 70 points and asked them to make improvements.

### Scores of Nippon Paint Group suppliers



### Conflict minerals survey

We used a Conflict Minerals Report Template to examine the samples of raw materials which we use that contain tin, tantalum, tungsten, gold or cobalt. The information obtained from these examinations was used to respond to requests from customers concerning conflict mineral surveys.

### Business continuity planning

We are taking various measures in order to reduce the risk of supply disruption of a particular material, such as purchasing raw materials from at least two suppliers. Significant risk factors are monitored by using a simultaneous inquiry system, which was used eleven times in FY2020 to examine the impact of COVID-19, typhoons and earthquakes, and other events.

### Basic policy for responsible care

#### Basic Policy for Responsible Care

Based on the principle of actively contributing to Responsible Care activities including environmental beautification and preservation through the creation of colors and landscape and the protection of materials and resources in the business activities, the Nippon Paint Holdings Group is committed to the activities through the coordination of all organizations in the Group, including all employees, with awareness of the respective missions and responsibilities, aiming to contribute to the establishment of relationships based on mutual trust with the global community, local communities, and customers. To this end, all of our business activities are required to follow the rules below:

- We will endeavor to preserve the global environment and protect the ecosystem while striving to conserve energy and other resources in the course of all business activities.
- We will promote the development of products with less environmental impact and technologies that help the products reduce such impact and will consider the impact of our products on the environment, safety, and health at all stages of their lifecycle from development to disposal.
- We will work to reduce the environmental impact of our operations and ensure security and disaster prevention while striving to ensure the health and safety of local residents and employees.

### Organizational structure

In consideration of the fact that the understanding and management of the environmental impact and safety of chemical substances is an important duty for paint manufacturers, we have re-established a management system to expand the scope to include occupational health & safety and chemical & product safety in addition to the environment, and have conducted Responsible Care (RC) activities since FY2010. We will encourage employees to act in a self-reliant and autonomous manner through the activities oriented to their primary duties for the efficient operation of the system while also continuously improving the system through the PDCA cycle.

### Environment and work safety management

Nippon Paint Group received ISO 14001 multi-certification for seven operating companies in Japan and all (100%) of their subsidiaries (in total 63.) In addition, we provide active support to our Group partner companies overseas for their health and safety activities and take actions to deepen communications for sorting out problems. In Asia, we provide support to enable our partner companies to establish improvement activities. In other regions, we conduct activities and provide support for corrective actions on an as-needed basis.



Diversity & Inclusion



Respect for the people around us and active acceptance of diverse values are important for our sustainable growth.  
The Nippon Paint Group places great importance on the diversity of employees and other people involved in the business and respects human rights.

Promotion of diversity

Our Group is committed to fully leveraging the capabilities and potential of women as an important element in promoting diversity, and is promoting activities unique to our partner companies around the world.

In Japan, for example, we have been sending female employees selected through internal entry system to external training programs for cross-industrial exchanges since FY2016. We are working to develop executives by fostering a leadership through collaboration with members in other industries, and by encouraging autonomous career development by providing opportunities to meet a variety of role models. We are also actively promoting the appointment of management and executive personnel with high expertise from outside the company. In FY2020, one female Director of the Board, one Executive Officer & General Counsel, and two female Corporate Officers were appointed to Nippon Paint Holdings.

In addition, we have established flexible working systems, such as working from home (WFH), hourly paid leave, and shorter working hours, tailored to employees' life events including childcare and nursing care for creating a more comfortable workplace environment. Messages from leadership and explanatory meetings are provided to encourage employees to take advantage of these systems. In FY2020, 86.7% of women and 15.8% of men took childcare leave, with the average number of days taken for childcare leave as 301 for women and 44 for men (among employees of Nippon Paint Holdings).

Overseas, the NIPSEA Group is continuously working in Asian countries to improve gender representation in its management team and the Board of Directors. In the past five years, DuluxGroup has doubled the number of women in the senior leadership team of all business divisions implementing programs for increasing the ratio of women in each position level, focusing on improving the gender balance in particular among senior managers. Dunn-Edwards is improving gender representation in its management team and the Board of Directors, and is working on increasing diversity in race.

Percentage of women (global)		
	Employees	Management post
① NIPSEA	25.6%	29.3%
② Dunn-Edwards	25.9%	28.6%
③ DuluxGroup	36.1%	28.4%
:		
Global total	24.0%	23.8%

Number of employees

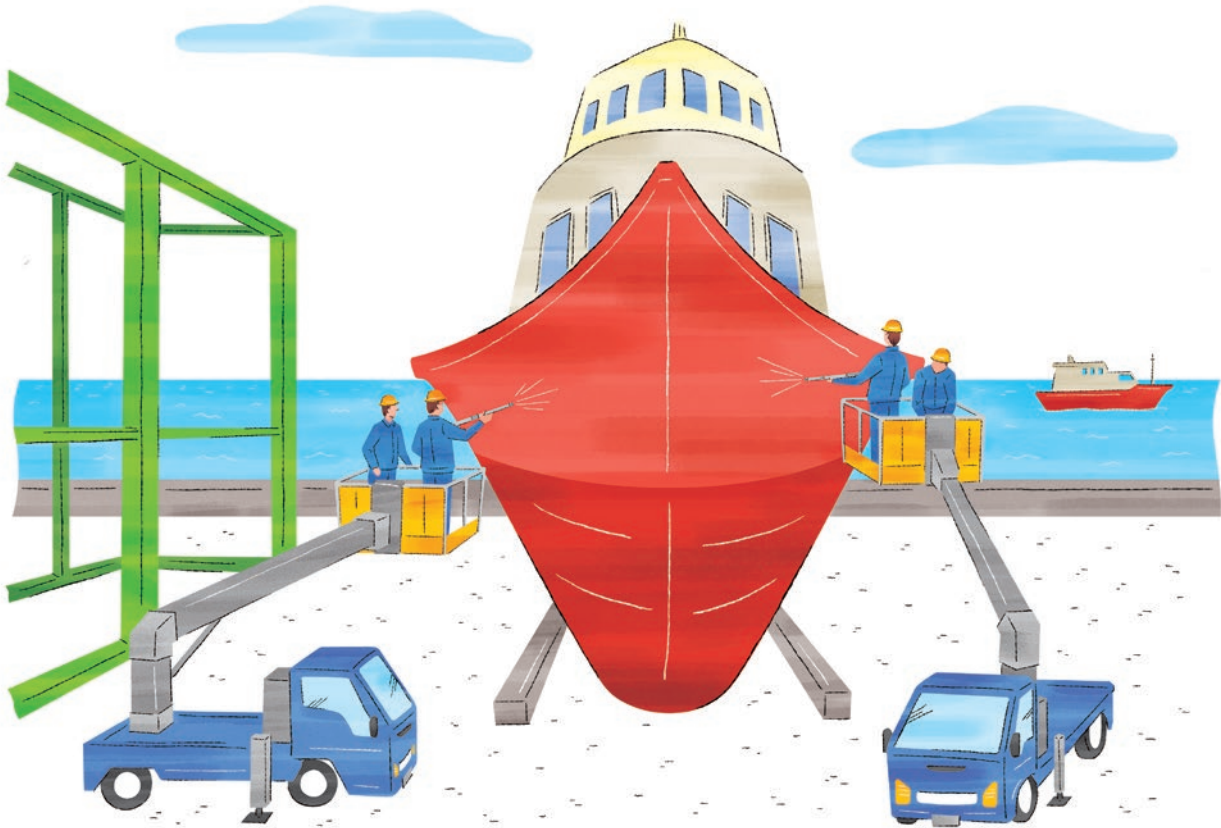
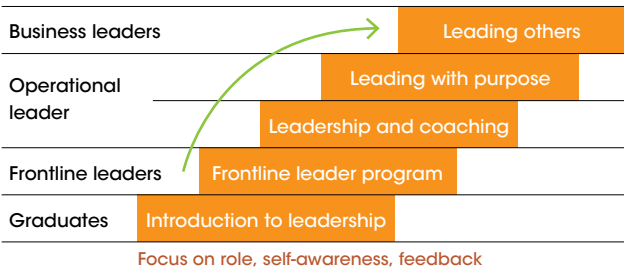
	2018	2019	2020
Non-consolidated	210	243	342
(average number of temporary employees not included in the above figures)	25	30	45
Japan	3,223	3,373	3,510
Asia	14,287	14,303	15,354
Americas	2,492	2,640	2,581
Oceania	—	3,735	3,826
Other	400	1,919	2,047
Consolidated total	20,402	25,970	27,318

Human resource development for sustainable growth

The most important management resource that supports our Group's sustainable growth is human resources with unlimited potential. For the development of employees, we are expanding educational programs for various types of employees on a global basis every year.

For example, DuluxGroup is aiming to develop world class leaders by providing a comprehensive suite of transition-based leadership programs to support its people to progress in their careers, from first time leaders through to senior leaders. DuluxGroup also empowers its employees to be the catalyst of their own learning through its professional skills curriculum. They have an ever expanding range of topic areas from Strategic and Business Acumen; Management and Marketing Skills; Developing yourself and your career; Health and Wellbeing; IT skills to Knowing our Business for our employees to access, as they recognize we are all lifelong learners.

Leadership programs for all job levels (DuluxGroup)



NIPSEA Group adopts a Group-level learning framework that necessitates the holistic development of its employees with the relevant skills and competencies required at different job levels. They provide an array of training and educational programs in different functional areas, ranging from technical to leadership upskilling. Training programs are tailored at the country level depending on the findings of a yearly training needs analysis. In FY2020, they administered a total of 341,448 training hours for their employees.

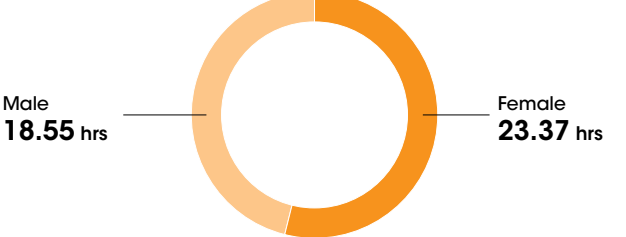
Average training hours per year, per employee category (NIPSEA)

Management	24.05 hrs
Executives & Supervisors	30.78 hrs
Rank & File	15.50 hrs

Employee training hours in FY2020



Average training hours per year, per gender category



In Japan, with the aim of developing autonomous human resources who can flexibly respond to changes in the global social situation and business environment and continuously contribute to business performance, we provide daily education through business operations and off-the-job education and training, as well as focus on developing management personnel who can exercise leadership and their successors.

For the development of human resources who can succeed on a global level, we have overseas language study programs (English and Chinese), MBA programs, and the doctorate study program. We plan to further increase the pace of activities that nurture global leaders while reinforcing the development of core skills required by global business people.

We are also providing position-based training (education for prospective employees, onboarding training for new employees, follow-up training, fourth-year training, eighth-year training, etc.) for all employees according to their respective roles. In FY2021, we launched business college programs to provide onboarding education for mid-career hires and enhance business literacy of management-level employees.

In FY2021, we also introduced the carrier drive program as part of our efforts to create an autonomous career development environment in which employees can work autonomously and independently on their own career development.



## Improvement of employee engagement

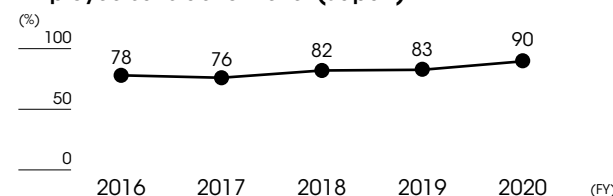
The Nippon Paint Group believes that each and every employee performing his or her duties comfortably and with a sense of satisfaction is the driving force for continuous creation of new value and for increasing corporate competitiveness. Accordingly, we are working to improve employee engagement.

In Japan, we implemented thorough infection control measures to ensure safety and health of employees amid the COVID-19 pandemic, including the establishment of infection prevention guidelines, distribution of masks to employees, provision of disinfectant solutions, active use of work-from-home, and PCR testing of employees who requested the test.

In addition, we renewed the existing role grade system and introduced a job grade system (job-based personnel system) for management-level employees who play a central role in business promotion with the aim of improving employee motivation. We clarified the expected roles and performance requirements for each job, and started compensation benchmarking based on objective indicators.

Furthermore, in order to improve employee engagement and correct problematic issues, we have set up a whistleblowing system "NPHD Group Hotline" for a wide variety of matters ranging from violations of laws and regulations to infringement of human rights such as discrimination. In FY2020, we became a registered operator of the whistleblowing compliance management system certification regime (registration of self-declaration of conformity) under the jurisdiction of the Consumer Affairs Agency. In FY2020, we also established the harassment desk as a contact point for employees to consult on issues of concern, even on minor

### Employee satisfaction level (Japan)<sup>\*4</sup>



<sup>\*4</sup> Survey by Nippon Paint Labor Union

issues encountered in daily work. In FY2020, Group companies in Japan received 19 whistleblowing reports in total and took corrective actions based on investigation results, and dealt with a total of 10 consultations received by the harassment desk.

As a result of these efforts, the employee satisfaction level in Japan has been improving year by year.

## Creating a rewarding workplace

In Japan, we are striving to create a clean, comfortable and attractive workplace environment to build a rewarding workplace. Since FY2020, we have been promoting the "Food Reform Project," a reform of cafeterias in Group companies in Japan. The objective is to build a corporate culture that fosters the creation of new value by fostering refreshment and stimulating communication among employees by renovating the places where all the Group employees in Japan have lunch and breaks to enhance their mental and physical well-being. Under various restrictions imposed by COVID-19, we are steadily refurbishing our plants and other workplaces based on a concept that takes into account the needs of our employees.

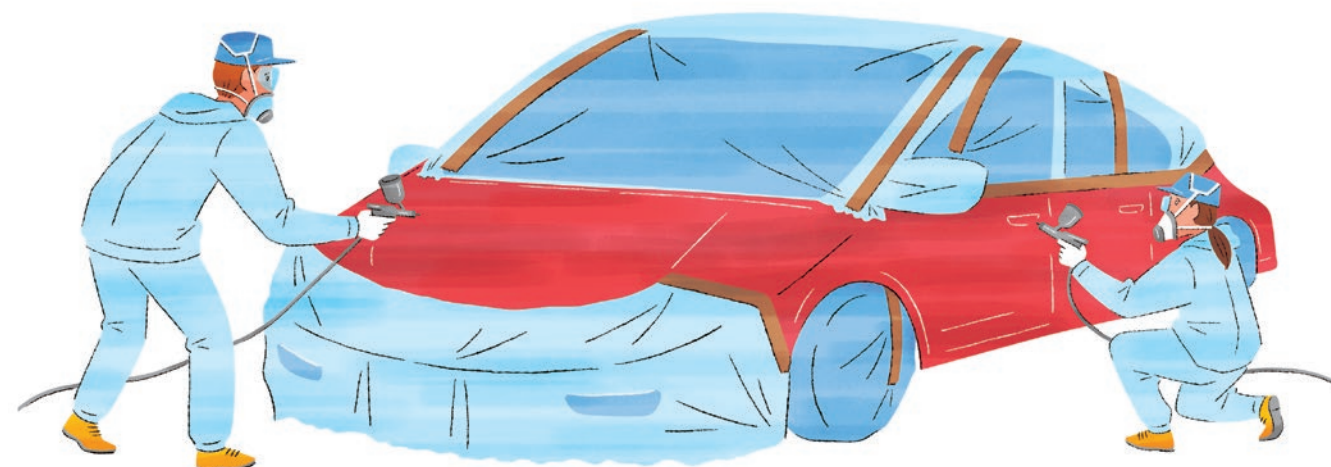


Food Reform Project (in Hiroshima, Chiba and Tochigi)

## Basic approach to respecting human rights

Our Group expresses its recognition about issues involving respect for human rights in its materiality. We respect the human rights of employees and other people involved in our business, and are working to address human rights issues.

In accordance with laws and regulations of countries around the world, we aim to eliminate discrimination based on race, religion, gender, age, sexual orientation, disabilities, nationality, etc., and to become a company where people can fully demonstrate their individuality and capabilities.



## Safe People and Operations

As a chemical manufacturer, we believe that accidents and health effects caused by handling chemical substances continue to be major risks.

To ensure the safety of employees and everyone involved in our business, we make investments and provide various training programs to minimize risks.

### Global health and safety initiatives Support for overseas group companies in safety activities

Our Group has continuously been providing its overseas partner companies comprehensive support for the safety and environmental initiatives. In FY2020, although we were not able to visit each site due to COVID-19, we worked to strengthen safety activities in each country and improve leaders' competencies through the NIPSEA Safety & Sustainability Council and online meetings with each site.

In the same year, to effectively prevent serious accidents, we revised our safety assessment to identify and eliminate the risks that might result in a plant shutdown, such as fires and explosions, and deployed it to overseas partner companies. Although overseas accidents have been increasing since FY2017, this is mainly due to the expansion of the scope of data collection.

### Health and safety initiatives in Japan

Our Group is committed to the prevention of accidents under the concept that safety takes priority over everything. In FY2020, we engaged all employees (including on-site contractors) in the health and safety activities taking actions based on decisions at the RC Committees, Group safety and environment meetings and Group product safety meetings.

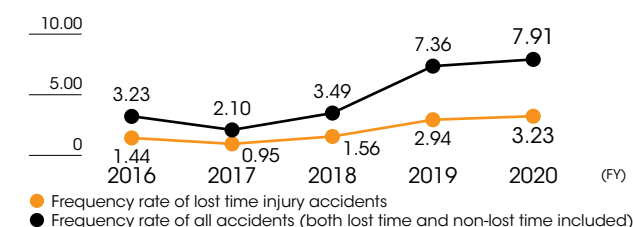
In FY2020, accidents in our Group increased by seven from FY2019, but lost time injury accidents decreased by six. Regarding risk assessment, one of our key health and safety activities, we carried out a review focusing on injuries resulted from falls or dangerous postures, which had been increasing in recent years. Moreover, information about accidents that occurred in the Group were shared with our Group partner companies in Japan for reviewing and strengthening worksite safety rules and precautionary measures.

During FY2020, our Group conducted the following Group-wide training programs in Japan.

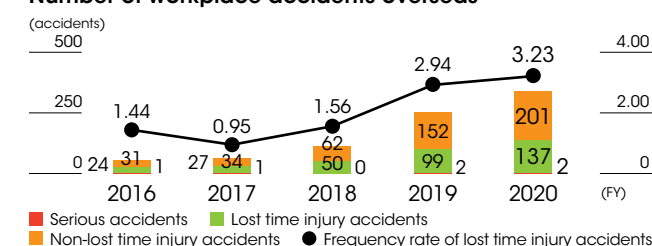
- Online safety training for new employees: 97 participants
- Online Follow-up training for new employees (contents: risk prediction training, static electricity safety lecture, product safety lecture): 78 participants

<sup>\*5</sup> Scope of data collection  
FY2020: NIPSEA, NPAC, NPMC, Dunn-Edwards, DuluxGroup, and Betek Boya  
FY2019: NIPSEA, NPAC, NPMC, and Dunn-Edwards  
FY2018: NIPSEA, NPAC, and NPMC  
FY2017: NIPSEA and NPAC (In FY2016 + Asia)  
FY2016: NIPSEA and NPAC (Europe and the Americas only)

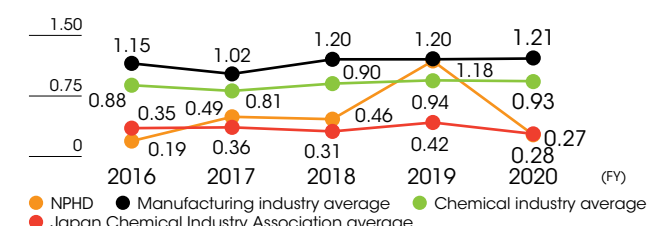
### Frequency rate of lost time injury accidents overseas<sup>\*5</sup>



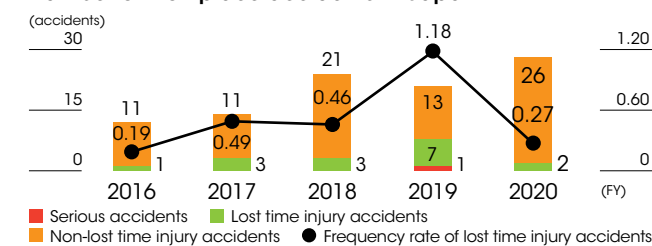
### Number of workplace accidents overseas<sup>\*5</sup>



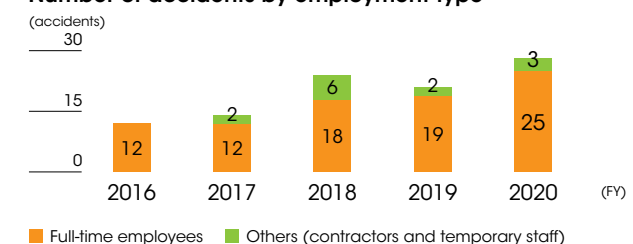
### Frequency rate of lost time injury accidents in Japan<sup>\*3</sup>



### Number of workplace accidents in Japan<sup>\*3</sup>



### Number of accidents by employment type<sup>\*3</sup>





## Growth with Communities



We will invest in communities through our value chain to achieve sustainable business growth based on market growth, brand reinforcement and good relationships with local communities.

### Globally unified social contribution policy

To achieve sustainable development with coexistence and co-prosperity between the Nippon Paint Group and local communities, we formulated the basic policy on social contribution activities in FY2021. As part of this effort, we launched a global initiative for social contribution activities “NIPPON PAINT Group Global Outreach Program” with the three pillars of the activities: “Education” for the development of future stakeholders; “Empowerment” for the development of industry through support of activities and vocational training for the socially vulnerable; and “Engagement” for collaboration with local communities and stakeholders.

#### Promotion system

In FY2020, we established meeting bodies to promote materiality both globally and in Japan. We will further drive cooperation within the Group through close information sharing and consultation.

Efforts for cooperation are also being made at each partner company. For example, NIPSEA has a meeting body that connects partner companies in Asian countries and is promoting various global projects. In FY2020, they collected data on social contribution activities for the first time, and received the Asia Responsible Enterprise Awards 2020 under the social empowerment category in September of the same year for their young painter development project and vocational training activities for women in impoverished regions in India.

#### Pillars (focus areas) and examples of social contribution activities

Pillar	Description	Example of activities
Education	Activities for children and students who are our potential customers or employees	Asia Young Designer Awards (NIPSEA: International competition for students who want to be professional architects or interior designers); Dulux Colour Awards and Dulux Study Tour (DuluxGroup: Awards and study tours for young designers); and social contribution activities by Nippon Paint Mallets (Nippon Paint Holdings)
Empowerment	Support of activities and vocational training for socially vulnerable people, and activities to find talented individuals	n'Shakti (NIPSEA: Vocational training program for women in impoverished regions in India); Ladies Who Paint (Dunn-Edwards: Support for female mural painters); Nippe Fan Farm (Nippon Paint Industrial Coatings: Management of agricultural farms by employing the disabled), etc.
Engagement	Activities including collaboration with local communities and stakeholders, cooperation with NGOs, and disaster relief	Response to the COVID-19 pandemic (Worldwide: Distribution of masks, disinfectants, face guards, etc. to local medical institutions); Response to forest fires in Australia (DuluxGroup, Nippon Paint Holdings); and the industry-academia co-creation agreement with the University of Tokyo (Nippon Paint Holdings)

### Measures against and responses to global epidemics

In FY2020, our Group responded to COVID-19 with the following three basic policies: “To protect employees and their families from coronavirus infections,” “To secure funds to protect the Group’s businesses around the world,” and “To have a business continuity plan (BCP) firmly in place.”

We implemented activities taking advantage of our Group’s business and know-how, including the donation of supplies worth 12 million yen to medical institutions (Japan), the monetary support to painters (Bangladesh, India, etc.), the donation of anti-viral paints (China, Thailand, etc.), and the donation of masks to customers (various countries).



Arrival of supplies      Researchers using the masks      The Advanced Research Center for Infectious Diseases  
Photo: Noguchi Memorial Institute for Medical Research, University of Ghana Medical School

### Effects and impacts of social contribution activities

Our Group is not simply implementing social contribution activities, but also pursuing strategic initiatives paying attention to the impact of these activities on our core business and local communities.

#### Investment in social contribution activities and its results and impacts

	FY2020	Data collected	Results
	Country/region		19
	Number of projects		> 198
Global	Resources input	Money spent on the activities	> 14.6 million USD
		Time spent on the activities	> 170,000 hours
		Employees and volunteers who participated in the activities	> 9,800 participants
		Paint used in the activities	> 1.74 million liters
	Results and impacts	People impacted	> 5.33 million people
		Media coverage	> 3.73 million USD

For our initiatives worldwide, please visit the “Sustainability” page on our website:  
<https://www.nipponpaint-holdings.com/en/sustainability/social/>



## Innovation for a Sustainable Future



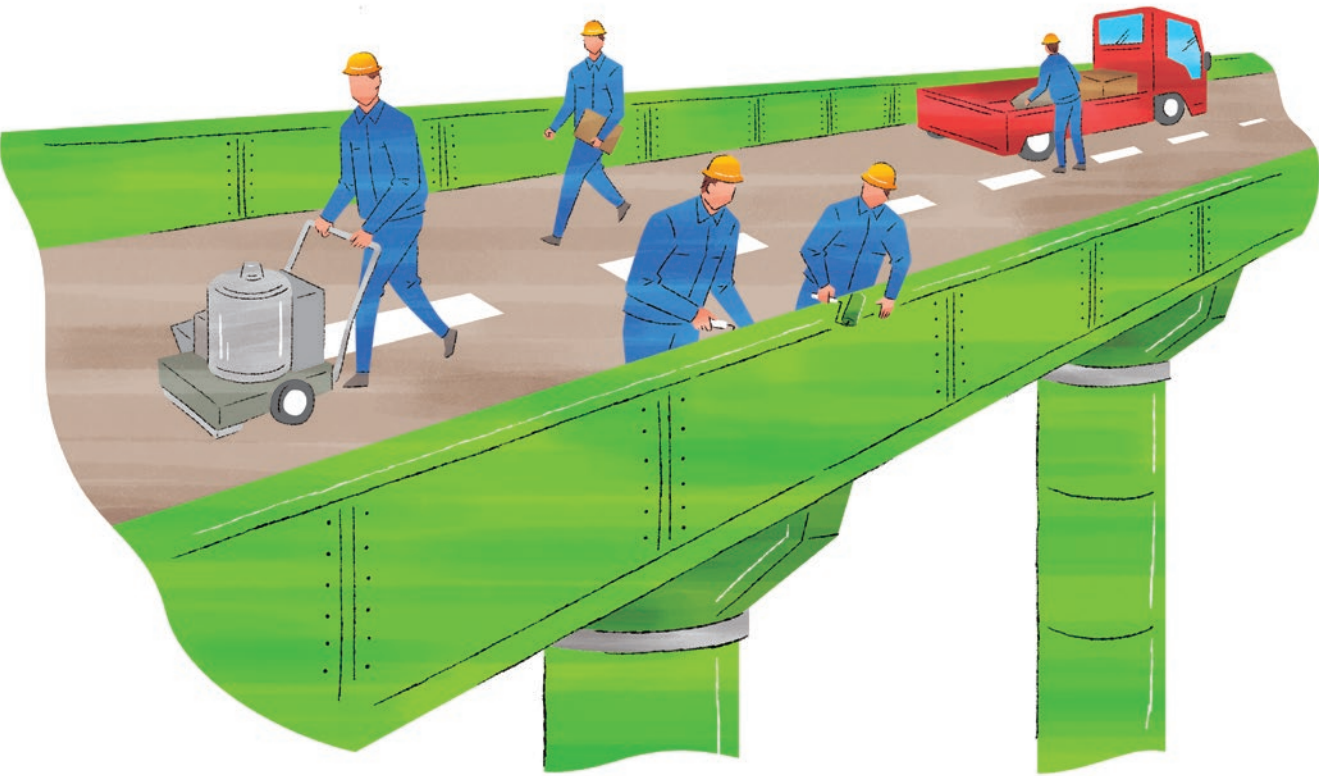
In today’s society, problems that are difficult to resolve with conventional approaches are emerging increasingly. We will strengthen our innovation creation capability with active utilization of partnerships.

### Innovation strategies and sustainable products

From automobiles to landmarks, the Nippon Paint Group uses its paint and coating technologies to provide colors and joy in every aspect of people’s lives. In particular, as indicated by our Group’s Purpose “Enriching our living world through the power of Science + Imagination,” we have been committed to the development of sustainable products for many years with the aim of resolving social issues through technology. In FY2020, we strategically built a technology development structure, including the collaborative activities with the University of Tokyo and a wide range of other partners to discover new values for social contribution and the enhancement of our organizational structure to develop anti-viral products. We also promoted contribution to climate change mitigation through products such as heat shield paints and fuel-saving hull coatings. In FY2021 and beyond, we will strive to maximize the Group synergies by establishing indices for global initiatives and shifting to full-scale innovation progress management.

### Sustainable products

Our Group calls products with features that help resolve social issues “sustainable products.” The products are classified into two categories: products that reduce environmental impact throughout product lifecycle by reducing VOCs emitted into the atmosphere or using environmentally friendly raw materials; and beneficial products, which actively contribute to the resolution of new social issues with their features, such as helping customers reduce CO<sub>2</sub> emissions during painting. In FY2020, in response to COVID-19, we actively promoted the development of paints with functions to help prevent infections. We will seriously work to contribute to the resolution of various issues such as prevention of climate change and pollution.



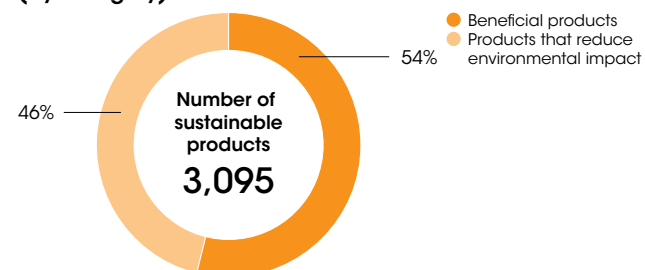


## Achievements in sustainable products

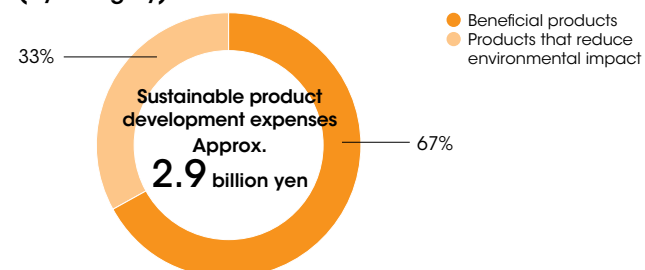
In FY2020, we sold approximately 3,000 sustainable product items in Japan. Of this total, sales of beneficial products with features designed to contribute to solving social issues reached approximately 24.5 billion yen. Research and development expenditures amounting to approximately 2.9 billion yen were allocated to some 120 development themes for sustainable technologies and products in Japan in FY2021.

Going forward, we plan to disclose data on a global basis.

### Total number of sustainable products sold in FY2020 (by category)



### FY2021 sustainable product development expenses (by category)



### Sustainable product (1) Antifouling hull paint AQUATERRAS

Nippon Paint Marine Coatings' antifouling hull paint AQUATERRAS won in April 2021 the TECHNOLOGY AWARD of the environmental award GREEN4SEA VIRTUAL AWARDS hosted by the European maritime NPO SAFETY4SEA for the first time as a Japanese company.

AQUATERRAS is the world's first biocide free self-polishing antifouling paint with a marine-environment-friendly formulation, free of heavy metals, active ingredients and silicone. In addition, this product can reduce the total resistance on hull by up to 10%, thereby contributing to reduction of CO<sub>2</sub> emission. AQUATERRAS received a global award for its innovative technology that achieves both environmentally responsible and efficient vessel operation.

In January 2021, moreover, we launched FASTAR, the next-generation hydrolysis antifouling hull paint that incorporates for the first time a hydrophilic and hydrophobic nanodomain technology, focusing on coating surface control technology, under the concept "Precise, Predictable, Performance."

These low-friction antifouling hull paint products have been continuously developed and provided since 2007, when LF-Sea, the world's first product of this kind, was developed. In 2013, we launched A-LF-Sea, an advanced ultra-fuel-saving antifouling paint for ship bottoms. This type of products has reduced CO<sub>2</sub> emission from global shipping. Our unique low-friction technology, the water trapping technology, won the Minister of the Environment Award in 2019 for its contribution to CO<sub>2</sub> reduction. As of the end of June 2021, low-friction antifouling paint on ship bottoms has been adopted for approximately 3,800 vessels in total.



### Sustainable products (2) Anti-viral paint brand PROTECTON



In accordance with our mission of protecting people's health and creating a safe and pleasant future, the PROTECTON

brand debuted in September 2020. PROTECTON is a paint technology brand with anti-viral and anti-bacterial functions developed by combining our paint, coatings, and surface treatment technologies. The name implies the function to "PROTECT" people's lives from threats of viruses and bacteria + to turn the function "ON" to the surfaces of all things.

We are developing the PROTECTON brand for deployment across our partner companies in Japan. We have already launched five anti-viral paint products for industrial, DIY, and household use, including PROTECTON Barrierx™ Spray released by Nippon Paint Industrial Coatings in July 2021. PROTECTON will produce various types of products in addition to paint products as a product brand with anti-viral and anti-bacterial functions.

### PROTECTON brand proven effective in suppressing novel coronavirus (including its variant): Joint development of new anti-viral nano photocatalyst

Five PROTECTON products have been proven to be effective in suppressing the novel coronavirus (SARS-CoV-2) and its Alpha variant on coated surfaces. This is based on a joint research project between our Group and the Graduate School of Engineering of the University of Tokyo and the Institute of Medical Science. This is the first time in Japan that anti-viral and anti-bacterial products have been proven to be effective in suppressing the Novel coronavirus

(SARS-CoV-2) and its Alpha variant. We have also developed a new anti-viral nano photocatalyst that suppresses Novel coronavirus and its variant (Alpha variant), and are considering its social implementation by introducing it into new PROTECTON products.

Our Group and the University of Tokyo have jointly conducted research activities on coatings technologies with anti-viral functions and functions to prevent the spread of infections for a sustainable post-COVID-19 society. This is one of the joint research themes under the industry-academia co-creation agreement we concluded on May 18, 2020. Through the collaborative research with them, we will continue to conduct tests to verify the effectiveness of our innovative coatings technologies including anti-viral technology using visible light-responsive photocatalyst in suppressing the SARS-CoV-2 virus under actual conditions of use.

\* The products used for the test are not intended for medical use as a medical product or medical device. The test results do not indicate the effectiveness of these products in preventing infections.

\* These products do not suppress indoor airborne viruses.

