

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 FT2023. 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

