

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.

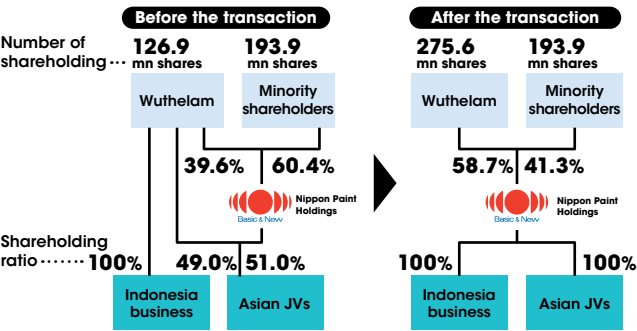
In addition, increasing capital through a third-party allotment has allowed us to strengthen the financial base to accelerate M&A activities in the future, as well as improve our credit rating. For these reasons, this acquisition has contributed to the Maximization of Shareholder Value (MSV).

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.

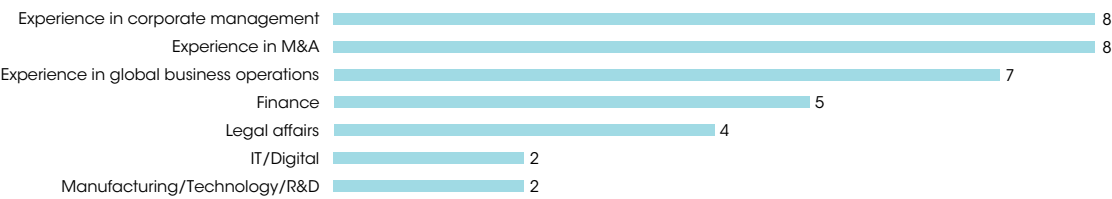


Directors and Executive Officers

(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

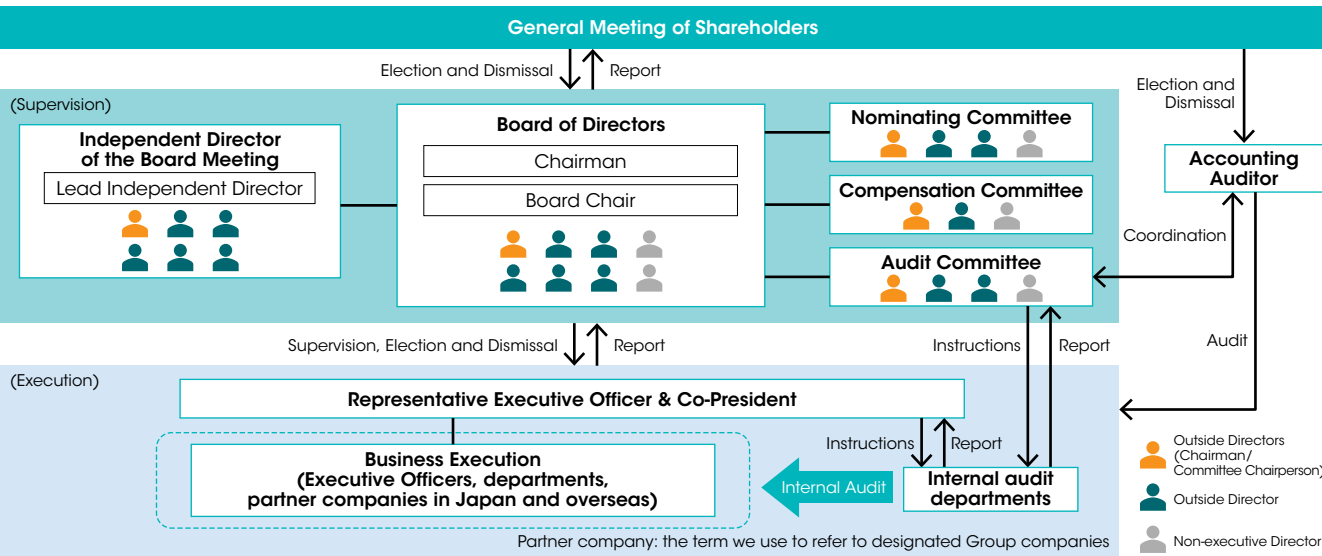
We have shifted to a Company with Nominating Committee, etc. with the aim of enhancing transparency, objectivity and fairness of management as well as separating and strengthening supervision of management and business execution. We, based on the Purpose as the significance of existence common to the 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.

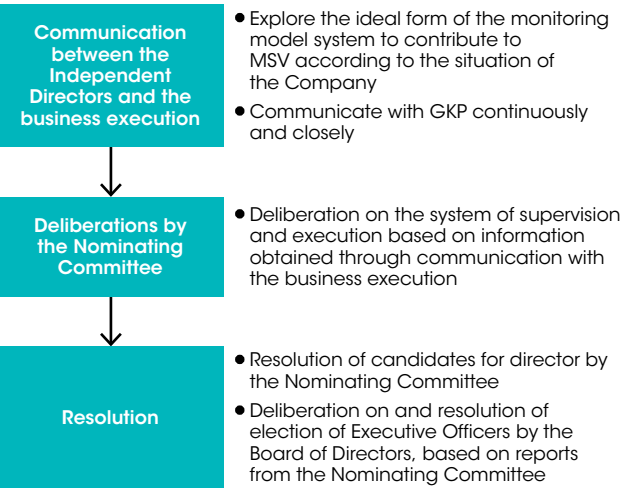
* For the Independence Criteria for Outside Director of the Board, see the Attachment "Nippon Paint Holdings Corporate Governance Policies" which is available in the Sustainability page of our website. <https://www.nipponpaint-holdings.com/en/sustainability/governance/cg/>

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.

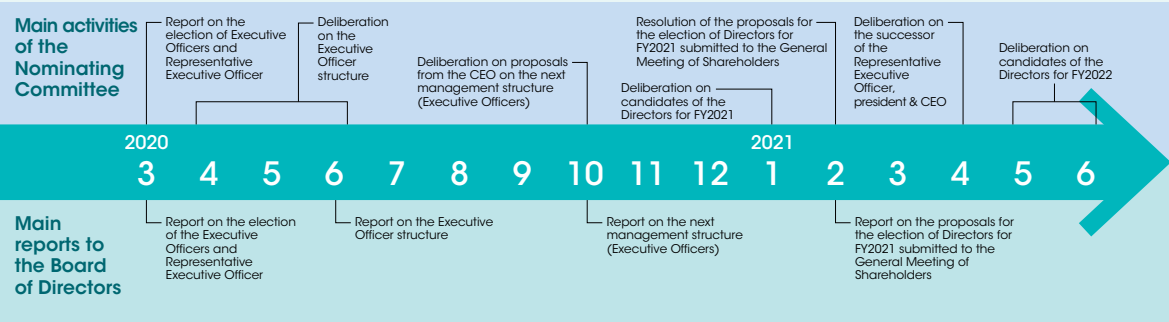
We do not have concrete requirements in the succession plan for the Representative Executive Officer. The reason is that, given the Group's ever-changing social and business environment, we do not think it is practical to automatically select a "superman" candidate just because they have more of the 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>1</div></div><div><div>Inside Director</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.

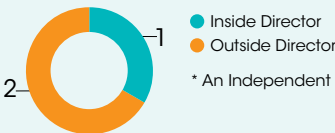
Takashi Tsutsui

Independent Director
Compensation Committee
Chairperson



Chairperson Takaishi Tsutsui (Independent Director)

Composition of
the Committee

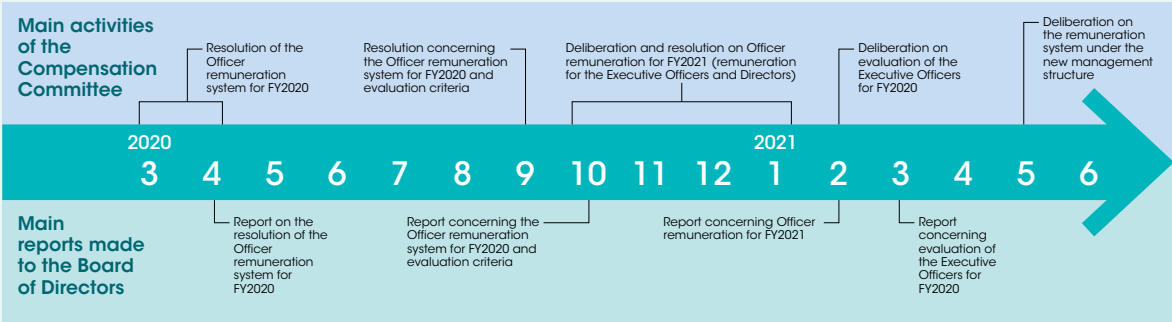


* An Independent Director serves as the Committee Chairperson.

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.

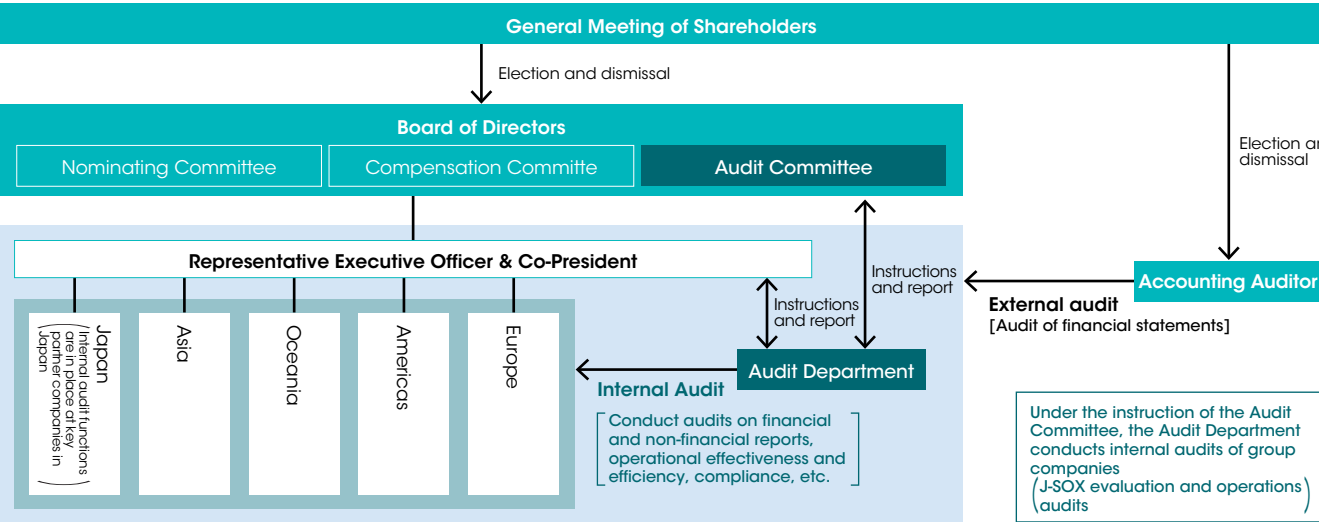
Promotion of global audits

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.

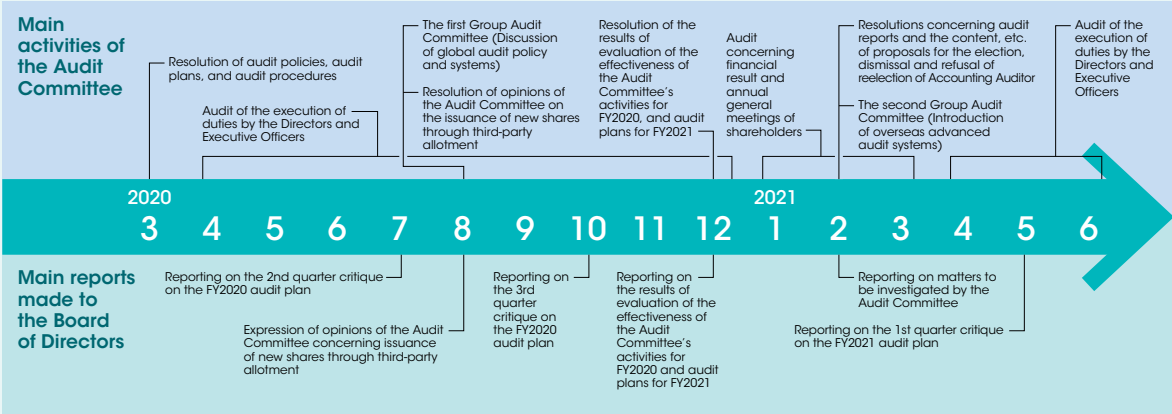
As concrete steps to establish the system, the partner companies share their best practices for internal audit based on governance, risk management, and compliance at the Group Audit Committee meeting, which is held twice a year. Rather than Nippon Paint Holdings making instructions unilaterally, the 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.