

Governance

A corporate governance structure that realizes Maximization of Shareholder Value (MSV)



Strategies for achieving further growth are one of the highest priorities of the Board of Directors

Since January 2021, we have taken many actions, starting with the full integration of the Asian JVs and acquisition of the Indonesia business, which have been goals for many years, and completion of the transition to the Co-President setup. These actions made it possible to advance the management of Nippon Paint Group to our Asset Assembler model.

The Co-Presidents have successively launched new initiatives to strengthen collaboration among the management teams of partner companies based on mutual trust while respecting the autonomy of each partner company. Nippon Paint Group has generated additional revenue by sharing brands and technologies. In addition, we launched an autonomous sustainability structure for ESG activities at all partner companies and are devoting the group's management resources to the Japan segment to improve its profitability. This past year was an evolutionary year for the Board of Directors, making breakthrough reforms as Nippon Paint Group underwent several actions to advance to the next stage of growth.

To support these initiatives, the meetings of the Board of Directors, the Independent Directors, and the Nominating, Compensation, and Audit Committees, which all perform supervisory roles, were "always on," even outside the meeting hours. In addition, Directors maintained close and extensive communications with the Co-Presidents and other Executive Officers as well as Global Key Persons (GKP), who are local management of partner companies. These actions have allowed us to build a new framework for the Board of Directors to supervise Nippon Paint Group's growth model as Asset Assembler that is practiced by the Co-Presidents based on proper mutual understanding built on Trust.

The Co-Presidents have prepared the Group to move on to the next stage of growth. With the addition of the Co-Presidents and two new Independent Directors, Peter M. Kirby and Lim Hwee Hua as new members, the Board of Directors must now raise its perspective and provide guidance as needed to properly shape the future of Nippon Paint Group. To perform this role, we need to reform the Board of Directors so that it can shift its focus from dealing with immediate issues to concentrating on discussing and determining growth strategies to enable Nippon Paint Group to achieve more sustainable and further growth.

We are significantly revising the operations of the Board of Directors in order to accomplish our reformation. For example, the Directors hold brainstorming sessions to determine a long-term roadmap for achieving MSV and hold offsite meetings to thoroughly examine the feasibility of roadmaps submitted by the Co-Presidents.

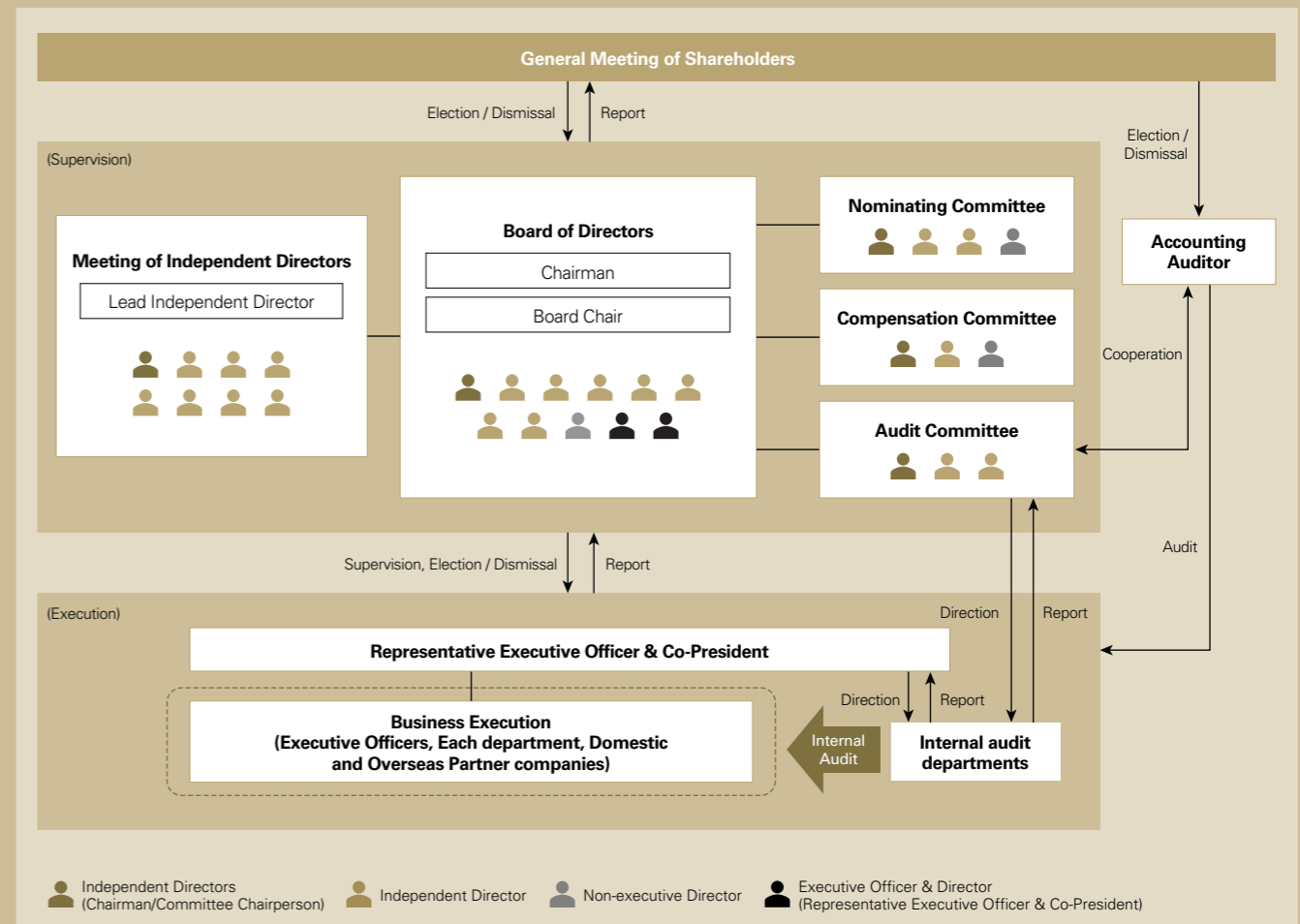
As the Board Chair, I will ensure that all Directors make the greatest possible contributions in order to enable NPHD to pursue growth relentlessly based on the Asset Assembler model and to fulfill the Board of Director's responsibility to protect the interests of minority shareholders.

Masayoshi Nakamura
 Lead Independent Director
 and Board Chair

Five features of our corporate governance structure

- 1 Ensure the protection of the interests of minority shareholders while sharing MSV as the common objective with the major shareholder** ▶ P99
- 2 Improved effectiveness of the Board of Directors under the leadership of Independent Directors** ▶ P101
- 3 Succession planning with a focus on substance rather than formalism** ▶ P103
- 4 Compensation design that truly contributes to achieving MSV** ▶ P105
▶ For more information about our compensation design, see "Governance Discussions by Independent Directors" on page 111.
- 5 Audit structures that respond to increasing globalization of operations** ▶ P107

Corporate governance structure



Basic approach to governance

The Company has adopted “a Company with a Nominating Committee, etc.” as its governance structure in order to enhance the transparency, objectivity, and fairness of management, as well as to separate and strengthen the supervision of management and business execution functions. In addition, the Company, based on its “Purpose,” which defines shared identity of the Group, and its “Business Philosophy,” which sets the Group’s guidelines, shall promote its business and engage in ongoing efforts to enhance and strengthen its corporate governance, and thereby, will maximize shareholder value that remains after fulfilling our obligations to customers, employees, suppliers, society, and other stakeholders (Maximization of Shareholder Value (MSV)) including obligations relating to sustainability, as its sole mission.

In order to realize MSV, the Company will respect the autonomy of partner companies based on mutual trust with the Co-Presidents and create a management environment as an Asset Assembler in which each partner company can realize its full potential and pursue unceasing growth.

* For further details, see the “Corporate Governance Policies (Attachment: “Independent Criteria for Outside Director of the Board”) and the “Corporate Governance Report” available on the Sustainability page of our website. <https://www.nipponpaint-holdings.com/en/sustainability/governance/>

History of governance reform

Since 2014, the Company has increased the number of Independent Directors and delegated authority from the Board of Directors to executive departments in order to separate and strengthen the business execution function and management oversight. To further accelerate this process, we shifted to “a Company with a Nominating Committee, etc.” structure in March 2020.

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

Relationship with major shareholder and protection of minority interests

The company shares a philosophy of MSV with Wuthelam Group which has a history of cultivating business partnerships with the Company for over 60 years, and which has taken steps to ensure that the interests of minority shareholders are properly protected. In addition, 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 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 Wuthelam Group our major shareholder. From the viewpoint of protecting the interests of minority shareholders, when conducting transactions with Wuthelam Group, we ensure appropriate involvement and supervision by the Independent Directors, such as obtaining approval at the Board of Directors with a majority of Independent Directors, and appointing an Independent Director to serve as the Board Chair.

In addition, the Company shall report significant transactions between related parties that exceed a certain amount (such as important transactions between the Company and a major shareholder, competing transactions between the Company and Directors or Executive Officers, self-dealings, and conflicts of interest transactions) to the Board of Directors and disclose them in the “Notice of Convocation of a General Meeting of Shareholders” and “Securities Reports.”

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

History of governance reform

2014	● Elected one Independent Director
2015	● Established Corporate Governance Policies ● Initiated an “Evaluation of the Effectiveness of the Board”
2016	● Abolished anti-takeover measures ● Increased the number of Independent Directors from one to two ● The Compensation Advisory Committee is renamed the Nominating and Compensation Advisory Committee, and began its deliberations on the nomination of candidates for the Directors and Company Auditors
2017	● Changed the composition of the Nominating and Compensation Advisory Committee to designate two of the four members from among the Independent Directors ● Appointed Independent Directors as the Chairperson of the Committees
2018	● Increased the number of Independent Directors from two to five (ratio of Independent Directors: 50%) ● Separation of the Nominating and Compensation Advisory Committee into the Nominating Advisory Committee and the Compensation Advisory Committee ● Established the M&A Advisory Committee
2019	● Established the Governance Advisory Committee
2020	● Transition from “a Company with Board of Auditors” to “a Company with a Nominating Committee, etc.” structure ● Six out of the nine members of the Board of Directors are Independent Directors (ratio of Independent Directors: 67%.)
2021	● Six out of eight members of the Board of Directors are Independent Directors (ratio of Independent Directors: 75%.) ● Appointed the lead Independent Director as the Board Chair
2022	● Eight out of eleven members of the Board of Directors are Independent Directors (ratio of Independent Directors: 72%.)

Message from Chairman

The Mission of Nippon Paint

Nippon Paint’s sole mission is Maximization of Shareholder Value (MSV). This was undoubtedly the mission for limited liability companies when they first emerged 400 to 500 years ago. Regrettably, this goal is now viewed as heresy.

Where I grew up, profit for shareholders was by default the only purpose of a for-profit company. There was never a need to state explicitly the company’s mission because everyone was born and bred with the same idea. MSV was a given. But upon getting involved in Nippon Paint, to my consternation, shareholder value was anything but the mission of the company. I was therefore forced to coin the language MSV and proselytize the idea. Frankly in spite of the fact that I’m the author of the term, I found it somewhat comical to have to invite my colleagues to recite it.

“Corporate Value Enhancement” is the widely accepted term in Japan. But both “corporate value” and “enhancement” are problematic terms. In reality, you can enhance corporate value while reducing shareholder value at the same time. If your purpose is to just “enhance” corporate value, you might opt for an easier decision that leads to a mere 10% earning boost over a more difficult one that gets 50% boost. This is why I have been advocating that a company should pursue maximization (not enhancement) of shareholder value (not corporate value).

Another concept I would like to clarify is “Stakeholder Capitalism”, which indicates that corporations should NOT ONLY focus on shareholders but ALSO pay attention to stakeholders. This is complete nonsense. I have never heard of a listed company that is not working to fulfill its obligations to suppliers, employees, communities, environmental protection, and other social needs 24 hours a day, 365 days a year. This is why I don’t understand why people say corporations should ALSO pay attention to stakeholders. The only imaginable use for this idea is an excuse for poor business performance. MSV is the maximization of the residual value after properly fulfilling obligations to all stakeholders. Shareholders come last from a legal and practical standpoint. We may be going against today’s social trends advocating stakeholder value maximization. But we are convinced that MSV should be the sole mission of notably publicly listed companies.



Goh Hup Jih
Chairman

Looking back, when I joined the management of Nippon Paint as Director of the board in 2014, I had a tough time getting my colleagues to take shareholder value seriously. Almost no companies advocated shareholder value and the Japanese Corporate Governance Code, which had just started, was at best ambiguous on shareholder value as the objective. Over the years, my colleagues have gradually come to understand and approve of MSV as the only corporate mission and I am grateful that the board members and operational decision makers of Nippon Paint Group are now making decisions based on MSV. In addition, the Asset Assembler model is evolving into the strategy towards this mission. I am glad that a framework for pursuing MSV through the maximization of EPS and PER is taking shape.

The relationship between Nippon Paint as a listed company and Wuthelam as a major shareholder is rarely seen in the world. Nonetheless the interests of the major shareholder and minority shareholders are completely aligned towards the maximization of long-term value. The funding capability of a listed company combined with the strength of a privately owned shareholder has created a more potent growth engine in Nippon Paint. This is clearly a Win-Win relationship as what is beneficial for Nippon Paint is without question good for Wuthelam.

With this in mind, as Chairman and Board Member, to the best of my ability, I pledge to work towards Nippon Paint’s MSV.

Analysis and assessment of the effectiveness of the Board of Directors

Issues for FY2020 based on effectiveness assessment and initiatives for FY2021

In FY2021, when the Company transitioned to the Co-President structure on April 28, 2021, we took the following actions on the four main issues that we identified for improvement on the basis of our FY2020 effectiveness assessment.

Issues that require stronger initiatives in FY2021	Main initiatives in FY2021
1) Upgrading the monitoring model	At the time of the Group's transformation, when the Co-President structure was launched, we focused on establishing a structure that would enable us to avoid information asymmetry and fulfill our respective roles toward the achievement of MSV, our sole mission, while further separating execution and supervision as "a Company with a Nominating Committee, etc." structure. In addition, assuming that the meetings would be held remotely due to the pandemic, the duration of each meeting was shortened, and regular Board of Directors meetings, along with non-regular Board meetings, were generally held twice a month (22 meetings during the FY2021 term). Furthermore, discussions with Global Key Persons (GKPs), the Group's key management personnel, were held at the Independent Director meetings (17 times during the same period), leading to deliberations at Board of Directors meetings based on an accurate understanding of the situation regarding execution.
2) Enhancement of discussion of important agenda items	For M&A projects such as DuluxGroup's acquisition of Cromology and JUB, the Board of Directors deliberated from the initial consideration stage and provided timely support for the implementation of growth strategies through appropriate risk-taking by the Co-Presidents. In the transfer of the European automotive business and the India businesses to Wuthelam Group a special committee of Independent Directors was established to ensure a highly professional and objective decision-making process, thereby expanding the discussion and improving transparency and fairness, as well as protecting the interests of minority shareholders.
3) Further reinforcement of audit	We have introduced "Audit on Audit" as the auditing system for the Group, which is rapidly globalizing, establishing an effective auditing system that is in line with the actual conditions of each partner company, which are growing autonomously under the Co-President structure.
4) Reinforcement of nominating function	In the transition to the Co-President structure, we have achieved a speedy and smooth Presidential succession. Furthermore, based on the skills matrix, two additional Independent Directors have been appointed, Mr. Peter M. Kirby and Ms. Lim Hwee Hua, who have management experience in global paint and investment companies. Also, by appointing both Co-Presidents as Directors, we have evolved to a Board of Directors structure that will contribute to further advancing MSV. Furthermore, by increasing opportunities for direct communication with GKP, we have gained an understanding of the current status of the "human capital" of our senior management and strengthened the foundations for the evaluation of Group management by the Co-Presidents, who unite the GKPs.

Evaluation for FY2021 and issues for FY2022

<p>Guidelines for making evaluations</p> <p>Target Group All Directors in FY2021: 8 Representative Executive Officers & Co-Presidents: 2 Managing Executive Officer and GC: 1</p> <p>Method Selected a third-party organization, Board Advisors Japan, Inc. (BAJ), and conducted questionnaire and individual interviews</p> <p>Content of Questions (i) Status of progress in resolving issues identified in the FY2020 Effectiveness Assessment of the Board of Directors (ii) Issues for the Board of Directors and various Committees following a transition to the Co-President Structure</p> <p>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 of the effectiveness evaluation at the Board of Directors meetings</p>	<p>Overview of evaluation outcome</p> <p>Based on the following evaluation by the BAJ and the Board of Directors' discussion that followed in response, the Board of Directors has assessed that the overall effectiveness of the Board of Directors for FY2021 is generally assured.</p> <p>BAJ's assessment summary</p> <ul style="list-style-type: none"> The Board of Directors has been proactively and positively responding to the evolution of the Company's management since the transition to the Co-President structure. The agenda setting and facilitation by the new Board Chair have greatly contributed to the effectiveness of the Board of Directors. By significantly increasing the number of Board of Directors meetings and holding them flexibly, deliberation on important matters has been enhanced. In order to improve the functions of the Board of Directors, steps are being taken to enhance the composition of the Board of Directors (such as inviting CEOs with experience overseas). Some progress has now been made in addressing the issues identified in FY2020, including measures to strengthen the audit function.
	<p>Issues requiring stronger initiatives in FY2022</p> <p>1) Enhance Growth Strategy discussions Further increase opportunities for strategic discussions and make the Board of Directors a place to concentrate more on growth discussions</p> <p>2) Streamline Board of Directors operations Minimize time spent on regular agenda and other usual proceedings, and focus on discussions that truly contribute to the achievement of MSV*</p> <p>3) Further contributions by Independent Directors Improve each Director's contribution by posing more constructively challenging questions to the management team</p> <p>4) Strengthen the Board of Directors secretariat functions Enhance support functions for Directors to further expand strategic discussions, and for secretariat functions to respond to the globalization of the Board of Directors</p>

* Ten regular Board of Directors meetings are planned for FY2022.

Roles of Independent Directors

The Company holds Independent Directors Meetings regularly, chaired by the Lead Independent Director and comprised solely of Independent Directors. Discussions take place 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 agenda on part of business execution and discussion on the Company's mid-to-long-term direction. In addition, 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.

Functions to support Independent Directors

Independent Directors regularly receive information from departments such as Finance and Accounting, and Investor Relations for the purposes of quickly and accurately grasping the status of business execution in the Company. In addition, the Co-Presidents directly share comments from the capital markets and a variety of information on business execution with the Independent Directors to support them to further deepen their understanding of our businesses. In addition, support is provided to Independent Directors by offering prior explanations about the background of the agenda at the Board of Directors meetings, coordinating schedules for attending meetings held by the business execution, sharing information, arranging regular plant and site visits, as well as to provide information on Companies Act and Corporate Governance Code for new Independent Directors.

The Board of Directors office provides various types of support, and, by sharing necessary information without delay, the Company has established a system that enables Independent Directors to work more effectively. Furthermore, since the Board of Directors office is also tasked with supporting the Nominating, Compensation, and Audit Committees, it is possible to comprehensively organize requests from Independent

Directors, taking into consideration language and time differences in response to globalization. In this way, the Board of Directors office endeavors to enhance the effectiveness of the Board of Directors.

Policy on cross-shareholdings

The Company makes a decision every year on the continued holding of cross-shareholders at the Board of Directors based on the policy described below and disposes of or reduces holdings of shares for which the rationality of their holding can't be recognized.

Cross-shareholding policy

The Company holds shares of other listed companies as Cross-Shareholdings, limited to where it can be determined to be reasonable in consideration of, among 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, the Company, based on the above policy and internal standards, exercises voting rights upon making comprehensive judgment, from the perspectives of maximization of corporate value in the medium to long term of the counterparty company of our Cross-Shareholdings and its impact on our Group.

As asset owner of corporate pension fund

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

- The Company systematically secures human resources with the qualities required for management and operation of the corporate pension from inside and outside the Group and assigns them to the Nippon Paint Corporate Pension Fund representative, asset management committee member, and secretary (hereinafter referred to as Representatives and other stakeholders)
- The Company, through the Representatives and other stakeholders, confirms the selection of an investment institution by the fund, the monitoring of the activity status and investment results of the investment institution, and that management of conflicts of interest that arise between the beneficiaries and the Company is performed appropriately and effectively, and voices an opinion when necessary.

Number of shares held for purposes other than net investment and carrying amounts

	2019	2020	2021
Number of stock issues	32	24	22
Of which, the number of listed issues	14	6	6
Total carrying amount (Million yen)	24,621	23,645	30,191
Of which, the total amount of listed stocks (Million yen)	23,717	22,704	29,268