

Q&A with the Lead Independent Director

The Lead Independent Director Masayoshi Nakamura comments on and answers to feedback and questions on governance topics received through engagement with investors.



Masayoshi Nakamura
 Lead Independent Director and Board Chair

Q₁ I understand that Maximization of Shareholder Value (MSV) is premised on the fulfillment of obligations to all stakeholders. How does the Board of Directors ensure that the management team's decisions are fulfilling those obligations?

A₁ As Independent Directors, we do our utmost to fully understand the expectations of our stakeholders and I believe that the best source of information is to hear directly from the local management, the heads of the each business, since, naturally, they undertake their operations by taking into account the views of various stakeholders. Therefore, we interview them about their onsite responsibilities to stakeholders and their expertise and knowledge regarding internal control systems to confirm that they are fulfilling their responsibilities in their existing regions and businesses.

In addition, at the Meetings of Independent Directors which were held 17 times during the 2021 term of office the focus was on deepening knowledge of and updating information about each Independent Director through discussions about the roles Independent Directors should play for Nippon Paint Group and the possibility of issues emerging in the future. Furthermore, we made efforts to enhance our knowledge about our obligations to stakeholders by exchanging views with persons in charge of compiling third-party evaluation reports when evaluating the effectiveness of the Board of Directors.

Q₂ How does the Board of Directors supervise the sustainability performance of Nippon Paint Group?

A₂ The fulfilment of obligations is the premise of our sole mission of achieving MSV. These obligations include not only legal contracts, but also social and ethical obligations, and also encompass the concept of sustainability. In FY2021, the Board of Directors established the "Nippon Paint Group Global Code of Conduct" that sets the standards of conduct including compliance, and ethics, and sustainability rules to be shared and complied with by everyone across the Group. Based on the Global Code of Conduct and using the Asset Assembler model, NPHD is controlling the risk of the Group and pursuing sustainable growth while respecting the autonomy as a "Corporate Group with Integrity."

The results of self-assessment by each Partner Company Group (Nippon Paint Group companies grouped by region or business) are reported to the Co-Presidents annually.

The Co-Presidents then analyze these assessments and report the content to the Board of Directors from a cross-group perspective. Besides these activities, the Board of Directors meeting has the Co-Presidents' Report as a regular agenda item whereby the Co-Presidents provide updates of risks and sustainability measures of the Group in a timely and appropriate manner.

When determining the compensation for the Co-Presidents at the Compensation Committee, we comprehensively evaluate the performance of the Group in relation to both financial and

non-financial indicators including the development of corporate culture, the strengthening of human capital and the status of management of sustainable growth at each partner company, along with our expectations for the future performance of these items. Through this comprehensive evaluation, the Board of Directors is constantly supervising the sustainability performance of the Group.

Q₃ Has the influence of Mr. Goh Hup Jin on the Board of Directors increased with the increase in the ownership of Wuthelam Group in NPHD? Are there any governance concerns regarding NPHD's actions, such as transactions with Wuthelam Group and the President's nomination process given that Mr. Goh is also a member of the Nominating Committee?

A₃ The Nominating Committee consists of four committee members, with Mr. Goh being one of the members, while the remaining three committee members are Independent Directors. Within the Board of Directors, Mr. Goh is asked to serve as a member of the Nominating Committee because he is the person most familiar with the Group's management teams who play an important role in the Group, and he is valuable when the Nominating Committee discusses succession planning and other specific issues.

As NPHD and Wuthelam Group share MSV as the common basis of our decision-making criteria and the Board members frequently communicate with Mr. Goh even outside the meetings. I think that it is unlikely that NPHD and Wuthelam

Group will have any significant disagreement in management decision making.

However, if Wuthelam Group were to be perceived to be making decisions and proceeding in a manner that disregarded the interests of minority shareholders, and did not prioritize the interests of minority shareholders, I believe that all of the current Independent Directors would find it impossible to fulfil their responsibilities and would tender their resignation.

We believe that it is likely that Mr. Goh himself fully understands that the Independent Directors approach the Board of Directors meetings from such a perspective.

Q₄ I believe M&A will be the key to the growth of Nippon Paint Group. Please tell us how the Board of Directors is involved in decision-making process concerning M&A.

A₄ We leave the decision-making on very small M&A deals to the management team on the ground. Only relatively large proposals are submitted to the Board of Directors. The management teams of partner companies in every operating region are requested to submit a long list of acquisition target companies both for investments and acquisitions. Based on this list, these potential deals are then prioritized. We subsequently examine the feasibility of these deals and hold concrete discussions to work out the details, such as the timing and how to realize the scheme. Moreover, the Board of Directors constantly discusses potential deals and the road maps to further medium- and long-term growth of the Group.

We consider potential M&A deals in advance based on such prior information and discussions. While some projects are abandoned midway through this process, there are no projects that we hear about for the first time at the resolution stage, and the members of the Board of Directors are basically always aware of the status of progress, so we can make quick and timely decisions.

Investor engagement

NPHD aims to achieve MSV by building a relationship of trust with its shareholders and investors through communications with capital markets, including thorough and fair information disclosure and continuous engagement with investors around the world, thereby reducing information asymmetries, holding down the cost of capital and thereby maximizing the PER, which will lead to MSV. NPHD also endeavors to understand its shareholder structure to engage in constructive dialogue with investors, and pays close attention to the prevention of leaks of insider information when engaging in dialogue.

NPHD has appointed the Directors, Representative Executive Officers and Co-Presidents and General Manager of Investor Relations Department as points of contact for dialogue with investors, and also provides opportunities for dialogue with independent Directors. Opinions and suggestions from investors obtained through dialogue are fed back to the Board of Directors in an appropriate manner and reflected in management, and the opinions of Directors, including Independent Directors, are also made use of in dialogue with investors.

In FY2021, we strengthened our communication with investors and held IR meetings with 519 companies (an increase

of 50.0% from the previous year), in order to promote understanding of the paint market and the company's strategy, and promote the understanding and dissemination of our medium- and long-term strategies. In March, we held the Medium-Term Plan (FY2021-2023) progress report briefing at which Co-President Wakatsuki explained the growth potential of the paint market, our strengths and the future strategic direction of Nippon Paint Group. In September, we held an investor briefing on the NIPSEA business in response to long-term requests from investors. At this event, Co-President Wee explained our medium- and long-term strategy for China and other Asian countries, the current market outlook, and

countermeasures against current risks. In October, both Co-President Wakatsuki and DuluxGroup CEO Houlihan hosted the investor briefing on the acquisition of Cromology, explaining the background and the significance of this acquisition.

Besides the above, we took a new approach and held a small investor meeting with Independent Director and Board Chair Nakamura, where he explained the effectiveness of the Board of Directors and the Board's relationship with Wuthelam

Group, the major shareholder of NPHD.

In addition, we are continuing to focus on proactive disclosure of information through measures, including the strengthening and expansion of our Integrated report and IR website.

Number of IR meetings held (companies)

	2019	2020	2021
Meeting with domestic investors	140	136	232
Meeting with overseas investors	141	210	287
Of which, meeting with ESG investors (in Japan and overseas)	3	9	30
Total	281	346	519

IR events held (times)

	2019	2020	2021
Teleconference on financial results	4	4	4
Briefing for institutional investors	0	1	4
Briefing on M&A	2	1	2
Briefing for individual investors	3	1	5
Total	9	7	15