

Further strengthen risk management by setting appropriate agendas and prompt responses



Yuri Inoue
Managing Executive Officer and GC

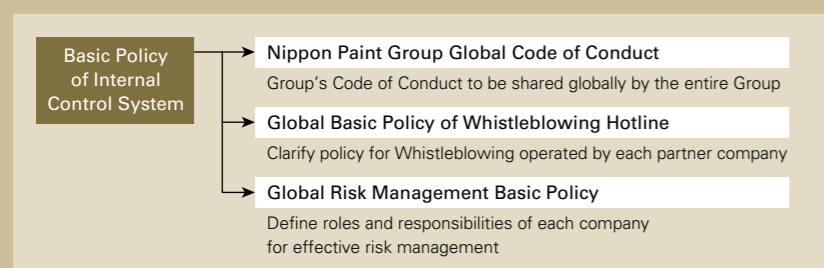
Many hidden risks exist in the frontline. This means that the most effective risk management can be implemented by partner companies around the world that are familiar with their respective regions and markets, rather than by Nippon Paint Holdings, which is a pure holding company. We believe that the best way to contribute to the Group's sustainable growth is to entrust detailed internal controls to the Partner Company Group (PCG: Nippon Paint Group companies grouped by region or business) as a "Corporate Group with Integrity," while limiting our centralized internal controls of partner companies to the minimum required level. Under this concept, we, as an Asset Assembler, take a role to control the Group's risks while respecting the independence and autonomy of the partner companies.

We have reformed our internal control system into one suitable for Asset Assembler model. In addition, we have built a mechanism that enables checking the risk factors at the Group in a simple manner by incorporating the newly established Global Code of Conduct (see the next page), the internal reporting system (Whistleblowing Hotline), and risk management policies into this internal control system (see the figure below). The effective functioning of this internal control system requires "mutual trust" and "simple communication channels" that ensures sharing important information between NPHD and its partner companies. In addition, there is a structure in place to immediately and appropriately take actions by using daily communication channels in case a serious problem or concern occurs.

Regarding human capital, raw material procurement, IT, and other risk factors that were identified in January 2022, we decided to take measures on a case-by-case basis in conjunction with the management of each region because taking actions in individual regions is more effective. We believe that this risk management system is superior because it enables us to respond with flexibility to new risks in present society that is difficult to predict and changes rapidly. In Japan, where structural reforms are being carried out to improve profitability, we are also increasing the sophistication of our risk management methods in cooperation with the audit department, which is conducting data analysis, for improving the depth and efficiency of both the structure and the methods for risk management.

Global themes related to ESG, such as the environment, ethical procurement, and human rights, will become increasingly significant business risks. In order to address these issues that are related to global social demands and are difficult to deal with in a single region or business unit, I will further strengthen risk management of the Group by setting appropriate agendas and promptly addressing them with the Co-Presidents and the Global Teams and a proper level of vigilance as the General Counsel.

Relationship between Basic Policy of Internal Control System and related regulations



Establishment of the Global Code of Conduct

In January 2022, our Group established the Nippon Paint Group Global Code of Conduct, a code of conduct on compliance, ethics, and sustainability to be shared and observed by all Group companies. Drafting was conducted with the participation of Compliance, Finance, and Human Resources managers from NPHD and its partner companies in Japan and overseas, and based on discussions from a global perspective with an eye to future business in each region and market.

Promotion of risk management

In January 2022, our Group established a Global Risk Management Basic Policy with the aim of clarifying the global framework for risk management. The Policy specifies that, while the Co-Presidents will be the responsible persons, the head of PCG is accountable for identifying risks that need to be addressed as the first line of defense, for planning and executing their management, conducting self-inspections, and making improvements. The Co-Presidents oversee these risk management activities and monitor the functioning of the risk management system from a Group-wide perspective.

The self-inspection results of each PCG are reported to the Co-Presidents once a year, and global "Risk Management Committee" meetings are held as necessary to discuss the results after recognizing the risks to our Group as a whole and identifying any common risks. These risk analysis results are also reported to the Board of Directors.

Based on the results of self-inspection conducted by PCG in January 2022, the following Group risks have been identified.

Identified Group risks

- Risks related to human capital, including the succession of the Group's management team
- Risks related to the Group's Business Continuity Plan (BCP), including global raw materials price hikes, natural disasters, and IT security
- Risks related to international taxation, etc., resulting from the deepening cooperation among Group companies in terms of brands, and technologies, etc.

- Risks related to compliance issues, such as information leaks and employee misconduct, for which the demand from society to respond is increasing

In addition to the Group risks mentioned above, we also recognize the following individual risks identified in each region and business.

- Risks related to R&D to enhance differentiation and competitiveness in China, and strategic adaptation to changes in customer conditions, etc.
- Risks related to organizational efficiency and labor productivity enhancement to improve profitability in Japan, etc.

Nippon Paint Group Global Code of Conduct

Global Code of Conduct ensure our people act according to our Purpose and our stakeholders understand how we operate.

DEALING WITH INTEGRITY	WORKING TOGETHER	RESPECTING ENVIRONMENT & COMMUNITIES
<p>We maintain our reputation by conducting our business in a fair and honest way.</p> <ul style="list-style-type: none"> We compete fairly We market responsibly We conduct business ethically We comply with laws, regulations and maintain accurate records We do not tolerate bribery or corruption We avoid conflict of interest and are responsible to act sensibly with gifts and entertainment We prohibit insider trading We do not compromise on quality or safety We protect our assets and confidential information We use technology and innovation to enhance and enrich 	<p>We care and work as a team to ensure the safety and well being of all our stakeholders.</p> <ul style="list-style-type: none"> We care about people We work as a team We embrace diversity We treat each other and our stakeholders fairly We provide a safe and healthy workplace free from harassment and discrimination We act in the best interest of the company We work collaboratively with our partner companies for the greater good We act in accordance with the Global Code of Conduct and protect those that speak up 	<p>We respect and enrich the environment & communities that we operate in.</p> <ul style="list-style-type: none"> We embrace social and environmental responsibility We respect human rights, including supporting all efforts to eliminate forced labour and child labour We strive to reduce the environmental impact of what we do We aim to leave a positive and sustainable footprint

Acting in accordance with Global Code of Conduct, Speaking Up when there is a suspected breach and protecting others who Speak Up is a responsibility for all who work with us. (To Speak Up*)

*Concrete focal point information/procedures for Speak up by employee is provided locally in a manner of no unfair treatment or fear of retaliation to those who make honest speak up.

Risk management system

