

## **System to Ensure the Appropriateness of Operations and the Operational Status of This System**

### **1. System to ensure the effective execution of duties by the Executive Officers (business management plans, etc.)**

#### **(a) System for the execution of duties by the Executive Officers (the Co-President Structure)**

During the FY2021 Fiscal Year, Nippon Paint Holdings Co., Ltd. (the Company) adopted a management structure in which two Representative Executive Officers & Co-Presidents (the “Co-Presidents”) assume the leadership roles based on the approval of the Board of Directors on April 28, 2021, while maintaining the delegation of important decision-making authority related to business execution to the Executive Officers based on the governance framework of Company with a Nominating Committee, etc.

Both the two Co-Presidents of the Company have clear assignments of roles, with one supervising business operations and the other supervising the corporate office functions, to ensure the efficient execution of duties by divisions that fall under their respective supervision.

The role of the Executive Officer & General Counsel (GC) of NPHD was strengthening the risk management system and compliance system across the Nippon Paint Group under the Co-President who supervises the corporate office functions.

The Company clarified the group of subsidiaries classified by region or business group (the “Partner Company Group”) and gave greater authority to the heads of the Partner Company Groups and established a structure that allows individual Partner Company Groups to focus on their business management.

The Board of Directors received reports on the status of the performance of the Co-Presidents on a regular basis or as necessary, conducted appropriate deliberations on important projects and for the implementation of the Medium-Term Plan, and gave advice to the Co-Presidents.

#### **(b) Business management plan and the Purpose**

During the FY2021 Fiscal Year, following deliberations by the Board of Directors, the Company formulated and announced the Medium-Term Plan for FY2021-2023 and the Purpose that defines the shared identity of the Nippon Paint Group.

The Co-Presidents submit progress reports concerning the annual budget and the achievement of goals to the Board of Directors on a regular basis.

## **2. System related to the management of the risk of loss (risk management) at the Company**

### **(a) Important meetings**

During the FY2021 Fiscal Year, the Company held Executive Committee meetings by region, including the Japan segment and the Asia segment, and other important meetings on a regular basis. The Co-Presidents attended important Executive Committee meetings to keep updated on the progress of business operations of the Nippon Paint Group and responded to risks when business risk factors emerged by identifying and monitoring the risks appropriately and continuously.

### **(b) Risk management activities**

The Company established the Basic Policy on Global Risk Management that took effect on January 1, 2022 to improve risk management across the Group. In accordance with this basic policy, we established our global risk management system that is predicated on autonomous risk management based on self-inspections of risks by the Partner Company Groups.

The Company held Risk Management Committee meetings of the Japan segment to monitor the status of the establishment and operation of the risk management system at group companies in Japan and conducted deliberations to appropriately respond to material risks related to the Group in Japan as a whole. In addition, the subcommittees of the Risk Management Committee conducted activities to strengthen credit management, information management, Export Control, BCP and other matters.

### **(c) The Audit Department**

During the FY2021 Fiscal Year, the Audit Department conducted business audits using a risk-based approach and the data analysis method to evaluate the effectiveness of internal control systems such as governance, processes, and risk management of the Group. The Audit Department reported the business audit results to the Audit Committee and the Co-Presidents and provided feedback to companies and divisions subject to audits to share issues and discuss risk response policies for the future.

### **(d) Responses to COVID-19**

The Company held meetings of the Coronavirus Disease Control Headquarters as necessary, which are continuing from the previous fiscal year, and considered and implemented actions to respond to the pandemic by cooperating with group companies in Japan and other countries.

We received reports on the status of responses from overseas group companies. In Japan, we provided workplace vaccinations to our employees and their family members and employees of business partners on request. Under the declaration of the state of emergency in Japan, we set the upper limit to the attendance rate of employees at group companies in Japan at 20% and promoted remote working for our employees without losing business continuity.

### **3. System to ensure that the execution of duties by the Executive Officers and employees complies with laws and regulations and the Articles of Incorporation (compliance)**

#### **(a) Compliance activities (development of systems, dissemination, education)**

During the 2021 Fiscal Year, as part of its global compliance activities, the Company established the Global Code of Conduct that applies to all officers and employees of the Nippon Paint Group including overseas group companies and clarified matters to be observed by all the group officers and employees globally.

The Company regularly held meetings of the Compliance Committee in the Japan segment, and deliberated and implemented measures about different themes, such as strengthening quality control, preventing harassment, and enhancing compliance education.

In addition, the Company provided regular compliance training for all employees of group companies in Japan and conducted a comprehensive compliance questionnaire concerning compliance awareness and issues among employees in all group companies in Japan.

#### **(b) Training for the Directors and the Executive Officers**

During the 2021 Fiscal Year, the Company provided training to Directors and Executive Officers regarding the importance of risk management and risk management approaches.

The Board of Directors of the Company held a workshop on group corporate governance that respects the initiative and autonomy of partner companies in order to perform the function of a pure holding company.

#### **(c) Enhancement of the internal reporting system**

During the 2021 Fiscal Year, the Company established the Basic Policy for the NPHD Group Global Internal Reporting System, which took effect on January 1, 2022 with the goal of disseminating and improving the Nippon Paint Group's internal reporting system, including at the overseas group companies.

In addition, the Company clarified the organizational structure of the secretariat that investigates whistleblowing cases based on the NPHD Group Hotline, which is the internal control system at all group companies in Japan, to make the internal reporting system known internally. In addition, we enhanced the effectiveness of the internal reporting system by handling individual cases while ensuring the protection of whistleblowers and by implementing corrective actions to prevent problems from happening again.

**(d) Elimination of relationships with antisocial forces**

We are working on the elimination of relationships with antisocial forces in the entire organization. We have a system to eliminate relationships with antisocial forces, such as organized crime groups, crime group members and others to ensure the safety of officers and employees and fair transactions by officers and employees.

**4. System to preserve and manage information concerning the execution of duties by the Executive Officers (information management)**

The Company has created a system to enable the minutes and approval systems for important meetings, such as the General Meeting of Shareholders, the Board of Directors, and Executive Committee, the technical information database system with full information security measures, and other documents and electromagnetic records concerning the execution of duties by the Executive Officers to be preserved and managed according to their importance and to be kept available for inspection by the Directors of the Board as necessary.

**5. System to ensure the appropriateness of operations in the Nippon Paint Group (the Group management system)**

Under the holding company system, the Company performs proper management of operations across the Nippon Paint Group based on the authority rules that prescribe the authorities of the Company and the Partner Company Groups and through involvement of the Co-Presidents at the meetings of the Board of Directors and the Executive Committee of important group companies in Japan and other countries.

Pursuant to these authority rules, the group partner companies in Japan and other countries make reports to or obtain approval from the Company with respect to certain projects. Important matters are deliberated by the Board of Directors of the Company.

Regarding relationships with controlling shareholders, the Company ensures independence from controlling shareholders. When conducting transactions with

controlling shareholders, the Company ensures the fairness and appropriateness of relationships with these shareholders by properly performing procedures when engaging in transactions with these shareholders, such as by obtaining approval of the Board of Directors of the Company, where independent directors are the majority.

#### **6. Matters relating to organizations that assist the Audit Committee in the performance of its duties**

The Company has established the Audit Department as an organization that assists the Audit Committee in the performance of its duties. In addition to serving as secretary of the office of the Audit Committee, the Audit Department assists the Audit Committee in conducting audit activities by investigating, analyzing, and reporting on matters subject to auditing under the instructions of the Audit Committee. In addition, the Audit Department engages in audit activities on its own.

Furthermore, in order to ensure the independence from the Executive Officers of organizations that assist the Audit Committee in the performance of its duties, the Company's Audit Committee Rules stipulate that the Audit Committee has the authority to consent to necessary matters (matters related to the authority of the General Manager of the Audit Department over personnel issues, the basic policy of the Audit Department, audit plans, budgets, etc.) and that the Audit Committee's instructions on audits take precedence over the Co-Presidents' instructions on audits.

#### **7. System for reporting to the Audit Committee**

The Audit Committee exchanges opinions with the Directors of the Board, the Executive Officers and others to identify and confirm issues that the Company should deal with, the status of the performance of duties, and other matters. In addition, the Audit Committee members attend important meetings of the Company with the General Manager of the Audit Department. The Audit Committee also holds "Three-way audit meetings," which are attended by the Audit Committee Members, the accounting auditor, and members of Audit Department, and meetings with corporate auditors of the partner companies in Japan on a regular basis to share information and exchange opinions on issues identified through audits and other matters. Furthermore, the Audit Committee receives reports on a monthly basis from the department responsible for the internal reporting system about reports received through the Group's internal reporting system and responses. The Audit Committee directly deals with some of the reported matters.

#### **8. Other systems to ensure the effectiveness of audits performed by the Audit Committee**

The Audit Committee has regular meetings with the Co-Presidents to exchange opinions on issues that the Company should deal with, the status of the auditing environment, and important audit issues. In addition, the Audit Committee convenes the Group Audit Committee, which is attended by the heads of the Audit Department and the internal audit departments of key partner companies in Japan and other countries, in order to share best practices of internal audits and exchange opinions. Through these activities, the Audit Department will improve and reinforce the group-wide internal audit system, with the goal of establishing a framework for the “Audit on Audit” system based on the results of internal audits conducted by each location.

Furthermore, with respect to the expenses necessary for the execution of duties of the Audit Committee, the Company reimburses expenses incurred by the Audit Committee immediately upon request to allow unrestricted audit activities.

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