Small Meeting with the Independent Director–Q&A Summary

October 24, 2023

(Supplementary explanations added)

Question from **Mr. Tomoyuki Tsutatani, Resona Asset Management Co., Ltd.**

Q. *Can you elaborate on Board discussions concerning succession planning? Autonomous and decentralized management calls for highly sophisticated oversight, and I presume that much of its effectiveness is owed to the excellent insights and communication skills of the Co-Presidents and Mr. Nakamura. In this respect, I have serious concerns over the human risk that may surface following their retirement in the future.*

I would also appreciate your answers to the following questions:
(1) Does NPHD plan to maintain the co-president structure for the long term?
(2) What are your thoughts on the appropriate term of office for co-presidents and the lead independent director?
(3) How do you proceed with the actual selection process, including the selection of candidates?

A. Let me first talk about succession planning for our partner companies. In line with our policy of autonomous and decentralized management, the succession plan for the management team of each partner company is discussed within the respective partner company group (PCG; grouped by region/business). The co-presidents report the content of such discussions to the Board of Directors, and the Board provides feedback.

Those taking on key management roles within Nippon Paint Group are referred to as “global key persons” (GKP), and there are indeed many GKP candidates within each PCG. The Board is constantly searching among the GKP for a person with the right attributes to become the next-generation president of the Company. There are many similarities between the qualities necessary for operating a partner company and those necessary for taking on management at the holding company. Yet, there are also differences. Therefore, in selecting a candidate for the next-generation president, we consider both options: choosing someone from within or bringing in external talent.

In response to your next question, our co-president structure adopted at end-April 2021 is working extremely well. The current co-presidents have outstanding communication skills, and the two always communicate with each other to determine, for instance, how soon they need to make a decision or in what way they can complement each other (i.e., who will take the lead in a particular situation and who will take on a support role). The Board believes that the current co-president structure is absolutely the best setup for managing the Company as of now. As a clear proof, Co-President Wee, who has a wealth of knowledge and experience operating businesses across many countries and regions as CEO of NIPSEA Group, is also delivering solid results in the structural reform and profitability improvement of the Japan business, together with Co-President Wakatsuki.

The appropriate term of office for co-presidents cannot be discussed simply in terms of age or the actual length of tenure. The key lies in keeping the motivation levels of the co-presidents and other GKP high, and the Board bears the responsibility of monitoring the status and making appropriate nomination decisions as necessary.

Regarding the actual selection process, let’s take the adoption of the co-president structure in 2021 as an example. More than a year before the shift to a new structure, the Board began expressing concerns over the state of affairs. It was roughly six months later that I felt it was time for us to reach a decision. Over the course of the next six months, we considered multiple candidates and narrowed down the pool. Since we had already interviewed a number of high-potential candidates in the past, the selection process made headway in a very speedy manner. Several years in, we do not see any need to dissolve the co-president structure. The Board’s biggest challenge now lies in motivating the co-presidents even more so that they can fulfill unfinished endeavors with flying colors.

In the selection of director candidates, we ourselves are constantly on the lookout for suitable candidates within our spheres. NPHD does not use the method of creating a short list, which is then narrowed down. Instead, we select candidates mainly from our personal networks and consider their fit vis-à-vis the current co-president structure. Please take note that we are currently undergoing this process.

Lastly, when evaluating the co-presidents’ performances, we factor in assessments by the GKP in addition to quantitative results. The co-presidents evaluate the GKP, but we also have in place a mechanism allowing each director to directly communicate with the GKP. The Board conducts a hearing of the evaluations on both sides: from the co-presidents to GKP and vice versa.

As for my own succession plan, if I feel I can contribute to the Board even more than before, I will tell the nomination committee that I wish to be reappointed for the next fiscal year. That said, I am not too worried because many of my fellow independent directors are more than capable of taking on the role of lead independent director.

Question from **Mr. Yu Hosaka, Sumitomo Mitsui DS Asset Management Co., Ltd.**

Q. *The market environment has changed dramatically in recent years. Against this backdrop, how does the Board deliberate on the continuity and weaknesses of Asset Assembler model? Amid the shift in financing costs, etc., does the Board think Asset Assembler model can be sustained as long as interest rates are relatively low?*

A. As explained in our integrated report, the Board conducts brainstorming sessions and offsite meetings regularly to discuss the direction of the Company. Asset Assembler model is a topic we revisit at every Board meeting. In addition, we set aside time for more in-depth discussions twice a year, in March and September. There, we plan out our strategies based on a precise roadmap prepared by the execution side, factoring in various scenarios. We also continue to explore potential asset building through M&A, discussing whether we can still acquire sizeable assets going forward, as we did in the cases of DuluxGroup and NIPSEA, or should pursue bolt-on acquisitions to complement and strengthen existing businesses.

Autonomous and decentralized management, which underpins our Asset Assembler model, will not function effectively unless there is mutual trust among the co-presidents, GKP, and the Board of Directors. For this, it is important for us to internally foster individuals with deep understanding of the "maximization of shareholder value" (MSV) and Asset Assembler model or bring in such talent from the outside. We already have some people with great potential among the management of acquired companies, but outside Nippon Paint Group, not many can deeply understand or pursue MSV, so it is difficult to find the right people.

We are not satisfied with NPHD's recent stock price. The Board has been conducting discussions based on various proposals from the execution side, as we feel it is time to gear up. Looking at ROIC, ROE, and other multiples, our capital efficiency has declined slightly since the full integration of the Asian JVs and acquisition of the Indonesian business in 2021, and also partially due to subsequent acquisitions. Although we are working to improve capital efficiency, market sentiment has substantially deteriorated, with the equity market becoming more risk-averse overall due to COVID-19, Russia's invasion of Ukraine, and conflict in the Middle East, among other factors. All things considered, our businesses are doing well; we continue to post revenue and profit growth. However, it is also undeniable that our stock price has been trending slightly downward since the surge in China risk.

Looking from another angle, we also think our current stock price is sufficiently low to present a good investment opportunity, provided the China risk and other global geopolitical risks recede even slightly.

Question from **Mr. Atsushi Ikeda, Goldman Sachs Japan Co., Ltd.**

Q. *Wuthelam Group's ownership of a 58.7% stake in NPHD appears to have resulted in a reversal of roles in the capital relationship. The current capital relationship dates to the full integration of the Asian JVs in 2021, but do you find this structure appropriate for NPHD moving forward? Given that NPHD's current stock price is very low, is there any possibility of Wuthelam Group making the Company a wholly owned subsidiary?*

Also, many of the independent directors, including Lead Independent Director Nakamura, became independent directors of NPHD upon the request of Chairman Goh, and because of this, some investors doubt whether independence is genuinely ensured. What are your thoughts?

A. As I explained earlier, in our roadmap to achieve MSV based on Asset Assembler model, we clearly indicate debt and equity financing as our means of fundraising for acquisitions. The Board is also well aware of this. Exchanges during the Board meetings center on discussions on what kind of companies we can acquire and whether we can still raise our EPS even if we choose to issue new shares to finance the acquisitions. At present, there are no discussions on the possibility of Wuthelam Group making NPHD a wholly owned subsidiary or of NPHD going private, nor will there ever be such discussions.

In terms of the protection of minority shareholders, although Chairman Goh is both a director and major shareholder of NPHD, from the standpoint of the Board, he is just one of our nine directors. It's as simple as that.

Of the independent directors nominated in 2018 based on a shareholder proposal by Wuthelam Group, Mr. Hara, Mr. Morohoshi, and I still serve on the Board. Judging from our regular exchange of views and opinions, the three of us are not the type of people who change statements or decisions, reading the reactions of the major shareholder. Personally, back in 2018, when I became a candidate, I warned Mr. Goh that, as an independent director, I may take part in discussions and cast votes based on thoughts and judgments that are not in line with his intentions. Directors Mitsuhashi, Kirby, and Lim, taking office after 2018, were also selected because they too are not the type of people who are overcautious of others' reactions. I therefore believe the independent directors' independence is well maintained.

Question from **Mr. Takashi Enomoto, BofA Securities Japan Co., Ltd.**

Q. *Although your EPS is growing, your PER has been on a downtrend these past few years. You spoke about the China risk earlier, but NPHD's business structure has changed, becoming less and less reliant on China. As an independent director, what do you think is necessary to improve PER?*

A. Expectations for high growth in China used to lift NPHD's stock price, but more recently, the stock price has been adversely impacted by the China risk. As explained by the Co-Presidents time after time, the TUB business of NIPSEA China does not make up a large portion of our consolidated sales. Still, given the recent state of the economy, our stock price reacts sensitively at times to volatility in the Chinese real estate market.

Our PER has trended down because of the sluggish stock price and the increase in EPS. If individual partner companies continue to expand their operations through repeated bolt-on acquisitions, NIPSEA's China business may come to account for a smaller portion of our consolidated results.

When deciding on an acquisition, it is most important for the Board to figure out whether the target company's top management is worthy of building a relationship of trust with. Our Board has abundant expertise in the fields of paint and coating, adjacencies, and beyond and is capable of properly evaluating the target's top management. With the right partner, we can work together and build solid trust. In line with our Asset Assembler model, we will welcome those companies whose top management has the mindset to boost NPHD's EPS and contribute to MSV.

We think that steadily increasing EPS in such a way will lead to a higher stock price. Also, NIPSEA seeks to firmly expand the market share of its China business by implementing measures that leverage brand power. In particular, NIPSEA has secured high profits in the TUC business. In the TUB business, it is working to transform the business model into a more durable one by capturing infrastructure-related and repainting demands. While there is a possibility of economic fluctuations in China, we have sufficient reasons to expect steady revenue and cash flow generation in the China business.

Meanwhile, we also need a catalyst that could drive a major turnaround in the stock market's evaluation of NPHD. The Board has asked our management to find material that can convince the market that Asset Assembler model will not impede sustainable EPS growth.

Supplementary explanation:

We have not stated that our strategy is to be less reliant on the China business. We plan to continue growing our China business and have no intention of downsizing it.

Question from **Mr. Shigeki Okazaki, Nomura Securities Co., Ltd.**

Q. *NPHD has conducted multiple M&A transactions since shifting to a co-president structure. However, I understand that the acquired businesses have not necessarily grown smoothly due to factors like hyperinflationary accounting in Türkiye and the economic downturn in Europe. What discussions are conducted internally regarding the evaluation of past M&A transactions, and how will they be reflected in future transactions?*

A. We have had cases in the past where our management's M&A proposals were not executed as proposed following deliberations by the Board. When considering an M&A transaction, we always ask the target company's management what it wants to do by joining our group and why. In many cases, the management of such a company faces challenges in some aspect of business operation but is keen to resolve the issues and develop the business further. NPHD places importance on the entrepreneurial ambitions of the target's management and explores how providing support could contribute to our MSV.

We go through the process explained above to determine acquisitions. Now, as you have mentioned, Cromology and Betek Boya are facing their current situations due to external factors. For any transaction, we regularly assess the variance between the plan at the time of acquisition and the actual results. For example, when the management of DuluxGroup came to Japan at the end of September this year, the Board was updated on the progress rate of the plan presented to us at the time of the acquisition. DuluxGroup's management clearly explained the variance between the actual results and the plan, along with the underlying reasons, based on which we discussed the medium-term plan going forward.

In terms of managing impairment risks, when we determine the acquisition price, we conduct a detailed analysis to get a clear idea of the potential circumstances under which impairment losses may occur. Furthermore, each quarter, we verify the risk of incurring impairment losses, checking our data with great precision every time. As for the hyperinflationary accounting in Türkiye, we receive reports from the frontline as necessary, and the Audit Committee also regularly updates the Board regarding the risk level.

Naturally, if there is a concern for impairment loss from the start, the Board will tell the Company not to follow through with the deal. That said, pursuing an M&A strategy always entails an inherent future impairment risk. The Board is well aware of the mechanism and does its utmost to avoid such a risk.

Supplementary explanation:

A certain report stated that NPHD did not fear impairment risks, but this is incorrect, and the report has been revised accordingly. We do not embark on an acquisition if we see an impairment risk from the start. NPHD seeks to boost EPS, always with a healthy sense of caution.

Question from **Mr. Atsushi Yoshida, Mizuho Securities Co., Ltd.**

Q. *It is stated on page 59 of the Integrated Report 2023 that targeting entities with low risk and stable profitability is one of the focuses of NPHD's M&A strategy. This type of acquisition may contribute to raising EPS to a certain degree, but if the stock market doesn't see much value in the deal, your stock price will likely go down. Would this still contribute to MSV? When discussing M&A, does the Board take into account the reactions of the stock market? Also, in past M&A transactions, at what stage have the independent directors participated in discussions?*

A. The Board does not interpret "low risk" as low profitability. We are interested in management teams and businesses that are low-risk, and we are confident that the stock market will evaluate our transactions accordingly. Our directors have a very good sense of how the stock market works. At the Board meetings, we not only talk about M&A transactions but also discuss press releases and other disclosures, including disclosure methods, hearing the opinions of our management and the Investor Relations Department.

In terms of M&A, the Board gets involved in discussions from the stage of considering potential acquisition targets and remains involved through each of the subsequent processes. Prior to starting due diligence, we conduct a detailed analysis, using the projections submitted by the target as well as those prepared by ourselves, to determine whether the deal will improve our EPS. At the same time, we also make an assessment of our financing capability and the reactions of rating agencies. Based on the proposal from our management, we also discuss the target's post-acquisition management structure in line with the business plan.

While the Board engages in discussions at each step of the transaction, the most important point in making the final decision is whether our management can develop a relationship of trust with the counterparty.

From my experience, an acquisition that puts a strain in one way or another does not lead to a good outcome. I believe it is important to check each process of the deal with a discerning eye.

Questions from **Mr. Yasuhiro Nakada, JPMorgan Securities Japan Co., Ltd.**

Q1. *As the lead independent director, what efforts do you make to protect the minority shareholders? Has the Board ever vetoed a proposal? Please give a specific case, if any.*

A1. Board activities are not limited to discussions in the boardroom. My sense is that I work as a director of NPHD almost every day, communicating with the Co-Presidents, Mr. Goh (the major shareholder and one of our directors), and the other directors as necessary.

When the Company faces a situation or a transaction that could be problematic for the minority shareholders, the management needs to run it by the Board Chair before addressing it at the Board meeting. Therefore, it is the Board Chair's responsibility to get an overview of the matter from the management in advance.

At the time the issue is brought to the Board Chair, the management and the Board Chair discuss whether to take the matter to the Board. If it is difficult to decide at that point, we will consult the respective committees as necessary. The diversity of the Board gives us access to wide-ranging insights. We have people with expert knowledge of the paint and coating industry, people who have long been involved in capital markets that are more sophisticated than Japan's, and people who have experience struggling through PMI. In addition, there are those who are knowledgeable of past cases where the interests of minority shareholders were, in a sense, neglected. We listen to the insights of these individuals, along with views from an accounting standpoint, to make a decision.

On behalf of the Board, I tell our management to reconsider in some cases, as we need to be mindful of saving the time and efforts of the management.

Q2. A*re there many transactions that could lead to potential conflicts of interest within the Board?*

A2. To be honest, not very many. I presume you have in mind the transaction in which NPHD sold the European automotive business and the India businesses to Wuthelam Group, then bought back the India businesses.

With the initial divestiture, NPHD sought to mitigate risk by having Wuthelam Group bear the additional investment costs and expenses in the short term to rebuild the subject businesses. From the standpoint of a listed company, NPHD can implement more drastic measures by excluding these businesses from the scope of consolidation rather than keeping them. This is NPHD's greatest advantage of having Wuthelam Group as its major shareholder.

Needless to say, both NPHD and Wuthelam Group maintain their respective autonomy; we make our own decisions. The Board wasn't particularly negative about this transaction. Our intent was to take full advantage of our relationship with Wuthelam Group, our major shareholder and a private company well-versed in our businesses, to the extent possible while ensuring the interests of our minority shareholders.

At any rate, there have been only a few transactions of this nature. Aside from the European automotive business and the India businesses, there was the case of the full integration of the Asian JVs and the acquisition of the Indonesian business. Let me add that we are still not ready to repurchase the European automotive business.

Note: Some content from the Q&A has been omitted from this summary, as it touched upon matters of personal privacy.