1. Transition from the Board of Corporate Auditors to the Audit Committee

Nakamura · It has been three years since NPHD changed its corporate governance structure from a Company with a Board of Corporate Auditors to a Company with Three Committees (Nominating, Compensation and Audit). One of the aims set out by the Board for implementing this change was to strengthen our global audit system.

Under Asset Assessor model led by our Co-Presidents, Nippon Paint is now working to build up quality assets to accomplish sustainable growth and to ultimately achieve MSV. In this model, Co-Presidents delegate the business execution authority and the internal controls responsibility to the head of each Partner Company Group (PCG) based on a relationship of mutual trust. The underlying idea is to maximize autonomous growth of every PCG. The Board is responsible for oversight of the Group’s management team, starting with Co-Presidents, that is in charge of business operations spanning 45 countries and regions around the world. And in terms of the Board’s functions, maintaining appropriate transparency in Group operations and supporting timely and appropriate risk-taking by the management are of utmost importance. In this respect, there is a growing need to strengthen the group audit system and ensure its effectiveness.

What is the ideal form of group audit system for pursuing MSV under Asset Assessor model? This is the topic explored in today’s discussion with Mr. Mitsuhashi, who has been the Audit Committee Chairperson since NPHD changed its corporate governance structure from a Board of Corporate Auditors to a Company with Three Committees. We will look back on our past activities and discuss our current challenges and goals for the future. First, please explain the situation when we were elected the Audit Committee Chairperson in March 2020. What was your intention when we changed to the Audit Committee under a Company with Three Committees from the Board of Corporate Auditors?

Mitsuhashi · In 2019, the year before the establishment of the Audit Committee, NPHD completed the acquisition of Batek Boya in Turkey and DuluxGroup in Australia. Following these acquisitions, our Group’s portfolio further expanded globally. During this time, the Board had its eyes set on the full integration of the Asian JVs as our Company’s next step towards achieving MSV. We believed that a reexamination of the business processes in our Group by the Audit Committee, whose members are Independent Directors, DuluxGroup’s viewpoint can catalyze the organizational shakeup needed to eliminate routine work done just for the sake of conforming to official procedures. We created dual reporting lines to the President and the Audit Committee for the Audit Department, which is the internal audit unit of NPHD, and the Audit Committee for the Audit Department, which is the internal audit unit of NPHD, and thus set up the Audit Department. We believed this tied the groundwork for strengthening cooperation involving audits between the internal audit function on the management side and the Audit Committee.

Nakamura · Let me dig deeper into the background that enabled NPHD to quickly strengthen its group audit system at that time. What were the issues you had identified that instigated this move?

Mitsuhashi · Following the occurrence of quality fraud issues at a number of manufacturing companies in Japan that started around the end of 2017, rebuilding internal controls and internal audits at Japanese companies became the focus of attention. We couldn’t see this as somebody else’s problem. In fact, there were instances at our key Japanese subsidiaries involving the failure to promptly report to our headquarters about customers’ complaints caused by inadequate quality management. As a result, there was an urgent need for the reform of our organization and culture to correct the distortions and insufficient discipline in our customs and rules. We believed that a reexamination of the business processes in our Group by the Audit Committee, whose members are Independent Directors, DuluxGroup’s viewpoint can catalyze the organizational shakeup needed to eliminate routine work done just for the sake of conforming to official procedures. We created dual reporting lines to the President and the Audit Committee for the Audit Department, which is the internal audit unit of NPHD, and the Audit Committee for the Audit Department, which is the internal audit unit of NPHD, and thus set up the Audit Department. We believed this tied the groundwork for strengthening cooperation involving audits between the internal audit function on the management side and the Audit Committee.

Nakamura · In addition to these dual reporting lines, you emphasized the concept of “Audit on Audit” as a group audit system as soon as the Audit Committee was established. What was the aim of this concept, Mr. Mitsuhashi? How did you arrive at this concept?

Mitsuhashi · The group audit system plays a part in the management structure and business model of our Group. Before explaining “Audit on Audit,” let’s take a look on the significant changes in the management structure and business model of our Group in recent years. The transition process can be broken down into three stages. The initial stage is the period between the consolidation of the Asian JVs (an increase in NPHD’s ownership ratio from 40% to 51%) in December 2014 and the end of 2019, when we pursued the World Headquarters (WHQ)/Regional Headquarters (RHQ) model. The second stage is Spider Web Management, which we started with the transition to a Company with Three Committees in March 2020. The third stage is the current period with Asset Assessor model based on autonomous and decentralized management, which we started following the establishment of the Co-Presidents. We believe the ideal form of the group audit system and ensure its effectiveness.

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### Transitions in the Group management structure/model and design concept of Group audit framework

<table>
<thead>
<tr>
<th>Organizational structure</th>
<th>Company with the Board of Corporate Auditors</th>
<th>Company with Three Committees (Nominating, Compensation, Audit)</th>
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<tr>
<td>Group management structure</td>
<td>Centralized management</td>
<td>Spider web management</td>
</tr>
<tr>
<td>Business model</td>
<td>World Headquarters (WHQ/Regional Headquarters (RHQ) model</td>
<td>Asset Assembler model</td>
</tr>
</tbody>
</table>

#### Design concept of the Group audit framework
- Pursued the Global audit structure through the cooperation between the Board of Corporate Auditors and the internal audit unit based on the WHQRHQ model.
- Evolved our audit framework to Audit on Audit suited to autonomous and decentralized management based on Asset Assembler model.

#### Our key M&A/group restructuring, financial and non-financial data

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales (JPY million)</th>
<th>Consolidated employees (companies)</th>
<th>Net profit (JPY million)</th>
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</thead>
<tbody>
<tr>
<td>2019</td>
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<tr>
<td>2020</td>
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<td>2023</td>
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<td>190</td>
<td>28,000</td>
</tr>
</tbody>
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### Governance Discussions

#### Transitions in the Group management structure/model and design concept of Group audit framework
- Our current management structure is based on a decentralized model centered on the Asset Assembler model.
- We have implemented a Global Audit framework to enhance the effectiveness of group audits.

#### Our key M&A/group restructuring, financial and non-financial data
- The acquisitions of DuluxGroup and Betek Boya have significantly contributed to our growth.
- Our net profit has increased year-over-year, reflecting our strategic decisions and market performance.

### Governance Discussions
- The adoption of the Asset Assembler model has been fundamental in strengthening our governance and risk control systems.
- The Global Risk Management Basic Policy has been instrumental in ensuring the continuity and effectiveness of our internal controls.

### Governance Discussions
- The establishment of a Co-President structure in April 2021 has been crucial in enhancing our management efficiency.
- Our commitment to the Global Basic Policy of Whistleblowing Hotline is reflected in the implementation of a comprehensive whistleblowing system.

### Governance Discussions
- The transition from FY2021 to FY2022 has seen improvements in our consolidated subsidiaries and employees, reflecting our strategic focus on growth and efficiency.

### Governance Discussions
- The adoption of the Asset Assembler model has been pivotal in enhancing the effectiveness of our group audits, with a goal of achieving MSV by 2030.
Our Management Structure

Our Audit Committee has recently decided that by 2023, the Audit Committee will have the power to make decisions about our group audit system. This is an essential step in our group audit system, as it will help to ensure that our audits are conducted effectively and efficiently. By 2023, we will have established a framework for aligning our group audit system with the changes we have made to our group management structure. This will enable us to improve the quality and efficiency of our audits, and to maintain our position as a leading company in the market.

The Audit Committee will have three main responsibilities:

1. Oversee the effectiveness of risk management system.
2. Ensure that our group audit system is aligned with our group management structure.
3. Monitor the evolution of our group management structure.

The Audit Committee will also have the power to make decisions about our group audit system, and to approve the audit plans and budgets for each group company. This will enable us to ensure that our audits are conducted effectively and efficiently, and to maintain our position as a leading company in the market.

In conclusion, the Audit Committee will have a critical role in the development and implementation of our group audit system. By 2023, we will have established a framework for aligning our group audit system with the changes we have made to our group management structure. This will enable us to improve the quality and efficiency of our audits, and to maintain our position as a leading company in the market.