

Corporate Governance Audit Committee Report

Addressing potential risks in our business model and enhancing the “Audit on Audit” system



Masataka Mitsuhashi

Independent Director
Audit Committee Chairperson

The Audit Committee audits and monitors the execution of duties by the Executive Officers, while simultaneously supporting the Group in achieving MSV.

In our business model, where corporate acquisitions are vital as an Asset Assembler, it is crucial to consider the potential impairment risks associated with the goodwill of the companies we acquire. Therefore, proper monitoring of these risks is a key focus for the Audit Committee. For ongoing M&A, we discuss and confirm that the financial assumption of the target company presented at the Board Meeting is appropriate and that we do not foresee any environment issues nor litigation risks that can give rise to material losses. We also monitor the post-acquisition status and, for instance, regarding Cromology in Europe, acquired by DuluxGroup in 2022, the Audit Committee has diligently worked to detect any signs of impairment. This has been achieved through careful scrutiny of estimated future cash flow and the rationality of discount rates related to goodwill valuation by interviewing the Co-Presidents and the management of DuluxGroup as well as by exchanging information with the Accounting Auditor. Furthermore, in 2022, our Company allocated 13.4 billion yen as a provision for

accounts receivable from Chinese real estate developers. The Audit Committee has meticulously verified through interviews with the Co-Presidents and local management that effective measures are being implemented. We have concluded that necessary actions, such as modifying previous business practices and minimizing the collection period, have been adopted to mitigate the risk of recurrence. The Audit Committee will continue to focus on these areas in 2024.

Alongside addressing individual cases and incidents, the Audit Committee is steadily upgrading organizational auditing through the “Audit on Audit” system. This approach is based on internal auditing within PCGs and self-evaluation via Control Self-Assessment (CSA). In 2023, we shared best practices concerning audit planning processes of our internal audits and broadened the scope of assessment items related to cybersecurity risks within our CSA. These initiatives are grounded in active discussions at the Group Audit Committee (GAC) meeting, a forum where those who are responsible for the PCG’s internal audit convene. We will continue to evolve the “Audit on Audit” system through effectively utilizing the GAC.

Overview and main activities

Chairperson	Masataka Mitsuhashi (Independent Director)	Number of meetings	FY2023 (late March 2023 to mid-March 2024) 8 FY2024 (late March 2024 to end of June 2024) 2
Committee members	<p>3 Independent Director</p>	Main activities	<ul style="list-style-type: none"> Prepared audit reports based on the results of audits on the status of the execution of duties by the Executive Officers and Directors and other items Resolved on proposals regarding the election, dismissal and refusal of reelection of Accounting Auditor to be submitted to the Ordinary General Meeting of Shareholders Conducted audits concerning financial results and the Ordinary General Meeting of Shareholders Shared best practices (e.g., audit cases, audit findings, risk management) and held theme-based discussions at GACs
Roles of the Committee	Conduct audits on the execution of duties by Executive Officers and Directors, prepare audit reports, and determine proposals regarding the election, dismissal and refusal of reelection of the Accounting Auditor to be submitted to the General Meeting of Shareholders		

Main activities



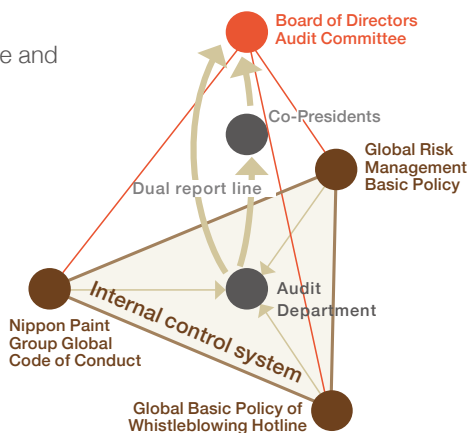
Corporate Governance

Monitoring of the internal control system by the Audit Committee and Audit Department

The Group audit system based on “Audit on Audit” is premised on the assurance by PCG’s internal audit department of the effectiveness of the autonomous internal control system operated by PCG. Our Basic Policy on Internal Control System is anchored by three core elements: Nippon Paint Group Global Code of Conduct, Global Risk Management Basic Policy, and Global Basic Policy of Whistleblowing Hotline. By ensuring that each PCG properly manages its internal control system in the realms of governance, risk management, and compliance, we have in place an effective internal control system across the entire Group.

The Audit Committee, which is responsible for overseeing the proper operation and functional effectiveness of these frameworks, obtains information from the Audit Department about the results of PCG internal audits and important PCG meetings. Additionally, the Audit Committee directly gathers information from members related to the internal audit departments across the major PCGs at the GAC meeting held twice a year. These processes enable the Audit Committee to evaluate the effectiveness of the

governance structure and the internal control system throughout the organization. Furthermore, the Audit Committee receives reports on the operation status of the internal control system from the Co-Presidents at



the Board of Directors meeting once a year. The Audit Department ensures its independence from execution by establishing a dual report line to the Audit Committee and the Co-Presidents. This structure allows the Audit Department to impartially monitor the operation status of the internal control system, and subsequently report its findings to the Audit Committee.

Enhancing the effectiveness of the group-level internal audit by the Audit Department

In fulfilling its role of supporting the activities of the Audit Committee, the Audit Department collects, analyzes and reports information regarding the audit activities conducted by the internal audit units of each PCG, results of the

J-SOX evaluations, and the critical group-level monitoring themes as determined by the Audit Committee.

Meanwhile, with a view to advancing the “Audit on Audit” system, the Audit Department is striving to elevate the audit level and improve the risk recognition within the Group by sharing each PCG’s audit methods and risk assessment results at the GAC meeting convened twice a year. In FY2023, the Audit Department implemented measures to respond to environment changes, such as adding questions about IT governance and cybersecurity risks to the risk assessment evaluation (CSA) conducted annually by the executive side. This effort is part of their commitment to enhancing the effectiveness of the group-level internal audits and risk management.

“Audit on Audit” Group audit system

