

Operating Status of the Systems for Ensuring Appropriate Operations

1. Basic approach to the development of internal control systems

In accordance with the Basic Policies on Internal Control System established by the Board of Directors, the Company assesses the contents of the Group's internal control system and its operation, and takes improvement measures. The Board of Directors also confirms the operation of the internal control systems established through reports from Representative Executive Officers & Co-Presidents, and endeavors to supervise the Representative Executive Officers & Co-Presidents to ensure that the system is reviewed in light of changes in the business environment.

2. Matters concerning execution of duties by Executive Officers

(1) Ensuring efficiency

- (a) The Company's Board of Directors has delegated important decisions related to business execution to the two Representative Executive Officers & Co-Presidents from FY2023, and clarified that each Co-President shall be responsible for global business operations or M&A promotion and corporate functions, including financial policy and fundraising, and that the Managing Executive Officer and GC shall be responsible for supporting governance (including internal controls) of group management under the Co-President structure, ensuring efficiency in execution.
- (b) Representative Executive Officers & Co-Presidents delegate authority to the Partner Company Groups based on "trust" while respecting their independence and autonomy, and they ensure that each Partner Company Group can concentrate on business management while operating their own internal control systems.
- (c) The Board of Directors receives reports on the status of the execution of duties from the Co-Presidents on a regular or as-needed basis, and it deliberates appropriately on important matters and the implementation of the Medium-Term Strategy, and so forth, as well as advising the Co-Presidents on such matters. The company announced its Medium-Term Strategy, which was formulated by the Board of Directors, in April 2024, and the Board of Directors provides appropriate advice and support for the implementation of this strategy by the Representative Executive Officers & Co-Presidents.

(2) Storage and management of related information

The Company regularly reviews its internal regulations and information management systems regarding information management, information security, and prevention of insider trading to ensure further effectiveness. In addition, the Company appropriately stores and manages various information related to the execution of duties, such as minutes of meetings of the Board of Directors and other important meetings, as well as electromagnetic records of electronic approvals, and has established and operates a database that Directors can access as needed. In 2024, the Company reviewed the scope of application and various procedural processes of its Global Rules for the Prevention of Insider Trading to enhance the effectiveness of their implementation, and the revised rules were enacted in June 2024.

3. Matters relating to ensuring the appropriateness of business operations of the corporate group

(1) Group management system

- (a) The Company ensures the fairness and appropriateness of its relationship with the Controlling Company by clearly stating in its Board of Directors Rule and Corporate Governance Policies that when the Company enters into a transaction with the Controlling Company, it must obtain approval from the Board of Directors, of which the majority are Independent Directors, or the Special Committee, and so forth.
- (b) In accordance with the Global Risk Management Basic Policy, the Company receives reports on the results of self-inspections on risk management by each Partner Company Group once a year, and the Representative Executive Officers & Co-Presidents oversaw these risk management activities to ensure proper business activities in the entire Group.
- (c) The Company's Representative Executive Officers & Co-Presidents supervised the execution of businesses of important subsidiary companies by participating in their

- important meetings such as the Board of Directors and the Executive Committee as necessary.
- (d) In evaluating the head of the Partner Company Group, the Company took into consideration financial factors and non-financial factors such as fulfilment of its responsibilities related to internal control, and it made appropriate decisions regarding the election and dismissal.
 - (e) The Audit department analyzes the significant risks related to the internal control system at each site and returns the results to the internal audit department of each region to share the risk awareness of the Group as a whole and reflect the results in the internal audit plans of each region. It monitors the effectiveness of the Group's internal control system through internal audit reports from each site.
- (2) Risk management system
- (a) In accordance with the Basic Policies of Global Risk Management, the Company receives reports on the results of self-inspections on risk management by each Partner Company Group once a year, and the Representative Executive Officers & Co-Presidents, who oversee risk management, reported the results of these inspections to the Board of Directors. Since FY2023, inspection items have been added to address cyber risks, which have been increasingly recognized in recent years.
 - (b) In accordance with the Basic Policies of Global Risk Management, the Company receives reports on incidents with certain degree of influence from each Partner Company Group in a timely manner, and it responded appropriately.
 - (c) The Company receives reports on the results of self-inspections of risk management by each Partner Company Group and encouraged each Partner Company Group to improve and develop an effective internal control system. There were no matters to be deliberated by the Global Risk Management Committee during the current fiscal year.
- (3) Compliance system
- (a) Based on the Nippon Paint Group Global Code of Conduct, the Company requires the Officers and Employees of the Group to honor such Code of Conduct when they conduct businesses, monitors whether a compliance system is in place for each Partner Company Group through annual self-inspections, and the Representative Executive Officers & Co-Presidents point out and provide guidance if there are any problems.
 - (b) In order to ensure appropriate financial reporting and so forth, the Company has evaluated the internal controls related to its financial reporting, and has ensured their appropriateness.
 - (c) In accordance with the Global Basic Policies of Whistleblowing Hotline, which stipulates the general conditions for whistleblowing contact points to be established, the Company has established whistleblowing contact points available to employees at each Partner Company Group. The status of the operations is reported annually by each Partner Company Group to the Company.
4. Matters concerning the execution of duties by the Audit Committee
- (1) Establishment of assisting department and securing independence
- (a) The Audit department is responsible for assisting the Audit Committee in its activities. The Audit department is in charge of secretariat duties for the Audit Committee, and also investigates, analyzes, and reports on matters subject to audit under the direction of the Audit Committee, and oversees audit activities conducted by the regional internal audit departments, thereby establishing a global internal audit system. The Audit department has a dual reporting line to the Representative Executive Officers & Co-Presidents and the Audit Committee to ensure independence from execution.
 - (b) The “Audit Committee Rules” stipulate the authority of the Audit Committee to consent to matters related to personnel authority of the General Manager of the Audit department, the basic policies, audit plans, and budgets of the Audit department, and stipulate that the instructions of the Audit Committee regarding audits prevail over those of the Representative Executive Officers & Co-Presidents.
- (2) Reporting system to the Audit Committee
- (a) The Audit Committee actively exchanges opinions with Directors, Executive Officers, and

management team of Partner Company Groups to confirm the status of issues to be addressed by the Company and the execution of their duties, and receives regular reports on audit results from the internal audit departments in each region and from the Audit & Supervisory Board members of partner companies in the Japan region.

- (b) In accordance with its Basic Policies of Global Risk Management, the Company has established a system whereby the Officers and Employees of the Group who become aware of any situation (including violation of laws and regulations and serious accidents) that may cause serious damage to the business or property of the Group report such situation to the Audit Committee and the internal audit departments in each region, without delay.
 - (c) The Audit Committee holds Three-Party Audit Meetings, which are attended by the Financial Auditor and the General Manager of the Audit department, on a regular basis to share information and exchange opinions on matters such as issues identified through audits. The Audit Committee also directly interviews local audit firms in charge of accounting audits of major overseas partner companies to discuss audit findings, financial and tax risks, and the status of communication between local management and the Company's Financial Auditor, in order to understand risk factors and confirm the status of execution of duties by local audit firms.
 - (d) The Company has established the "Global Basic Policies of Whistleblowing Hotline" and ensures that no disadvantageous treatment is given to any person who reports to the Audit Committee or the Audit department, or through the whistle-blowing system.
- (3) Ensuring the effectiveness of the audits by the Audit Committee
- (a) The Audit Committee holds regular meetings with Representative Executive Officers & Co-Presidents, and exchanges opinions with regard to matters such as the status of business execution, risks to be addressed by the Company, the status of the audit environment, and important audit matters.
 - (b) The Audit Committee receives regular reports from the Audit department on the results of audits conducted by the regional internal audit departments, and the Group Audit Committee, held twice a year to bring together internal audit personnel from major Partner Companies in Japan and overseas, shares best practices in internal audit and risk management. The Group Audit Committee meets twice a year to share best practices in internal auditing and risk management.
In Japan, the Audit Committee also meets regularly with the Audit & Supervisory Board member of Partner Companies to share information and exchange opinions on issues identified through audits. Through these activities, the Audit Committee is continuously working to strengthen the Group's auditing system and improve the effectiveness of audits through "Audit on Audit" based on the results of audits conducted at each site.
 - (c) The Audit Committee instructs the General Manager of the Audit department to attend meetings deemed important by the Audit Committee or to receive reports on the results of confirmations of meeting materials, minutes, and important decision records, thereby auditing the appropriateness of the decision-making process in management.
 - (d) As for expenses necessary to execute duties of the Audit Committee, the Company responds to a payment promptly after the request of payment is made so that their activities are conducted without any constraints.