

4 CORPORATE GOVERNANCE



KCE conducts its business in a fair and honest manner, acting in accordance with laws and ethics and meeting the expectations of society.

LONG-TERM MANAGEMENT STRATEGY

The Group's vision for 2030 focuses on harmonising sustained profitable growth with a contribution to society. Our aim is to move toward a global presence by being a company of value to society. Through our ESG initiatives we aim to maintain our relevance to people, society and the planet in the future. On governance (G), we are committed to effective management and acting with integrity, in partnership with our stakeholders and with the aim of remaining a profitable company while creating a better future.

In 2023 Kao established the Corporate Governance Policy, positioning corporate governance as a top priority for the management team to sustainably enhance the long-term value of the company. The policy also strengthens our commitment to a Kirei world in which all people live in harmony with the planet, which is the message of our corporate philosophy, The Kao Way.

Kao and all group companies continuously strengthen governance in both systems and operations. In applying the Corporate Governance Policy, KCE views corporate governance as a framework for transparent, fair, prompt and decisive decision-making, taking into account the perspectives of all stakeholders.

The basis of our efforts in this regard is to establish and operate the necessary management structures and internal control systems, to implement the necessary measures in a timely manner, and to always act in a responsible and transparent manner in accordance with the corporate purpose of "Walking the right path".

EFFECTIVE CORPORATE GOVERNANCE

All KCE holding companies are assessed annually by the ECOVADIS platform on aspects such as anti-corruption controls, anti-competitive practices and responsible information management. In accordance with the ECOVADIS methodology, KCE ensures a structured sustainability approach and has tangible commitments, policies and actions with detailed information on implementation, for all European subsidiaries at an advanced level and for the Mexican subsidiary at a suitable level.



4.1 ETHICS AND BUSINESS CONDUCT



2-24

KCE is dedicated to improving the effectiveness of corporate governance in line with its values and corporate philosophy, The Kao Way.

Specific guidance on how to implement The Kao Way across all group companies is defined in the Business Conduct Guidelines (BCG).

This guide is available to all employees and stakeholders on the Kao website, the KOMPASS corporate intranet, local intranets and the KCE website. In addition, incidents of possible breaches of the Code of Conduct, if any, are included in the corporate reporting to the parent company. In 2024, no cases were reported at KCE.

In line with the above, the diligent management of personal data is governed by the General Data Protection Regulation (GDPR), approved by the European Union on 25 May 2018. All group companies have established Information Security Committees (ISCs).

These committees are made up of representatives from the different corporate areas that are directly involved in the monitoring, control, and protection of personal data and the company's confidential assets.

All KCE companies have such committees, which meet on a regular basis to supervise the implementation of activities and detect possible risks and incidents, reporting these activities to Kao on an annual basis.

The main actions carried out by the group's companies in 2024 focused on raising awareness of possible IT fraud, training actions, improvements in reporting and the definition of roles within the committee.

In 2024, Kao Corporation's Information Security Committee (ISC) revised Kao Corporation's "IT Security Guidelines for Administrators" and "IT Security Guidelines for Users" and is rolling them out globally.

418-1

No incidents related to the privacy policy were reported in 2024.

The Code of Conduct states that the company will conduct its business transactions and activities in compliance with the laws of each country or region, including those related to competition. In doing so, they will adhere to the principle of free and fair competition to ensure the confidence of the company's customers and consumers and society at large.

In 2024, all KCE companies complied with the annual report to the KCE Management Committee on antitrust matters, and 35 duly completed forms were submitted without detecting any risk that could jeopardise corporate governance.

4.2 GLOBAL RISK ANALYSIS

2-12 / 2-13

STRATEGY AND MANAGEMENT MODEL

Kao has a Risk and Crisis Management Policy in place, and the Risk and Crisis Management Committee establishes the system and guidelines for action. Based on these, all group companies identify and assess risks and then formulate and implement appropriate countermeasures.

In terms of opportunity management, Kao establishes a structure that integrates and manages issues across the organisation to prioritise and promote ESG investments, which are related to strategic business development.

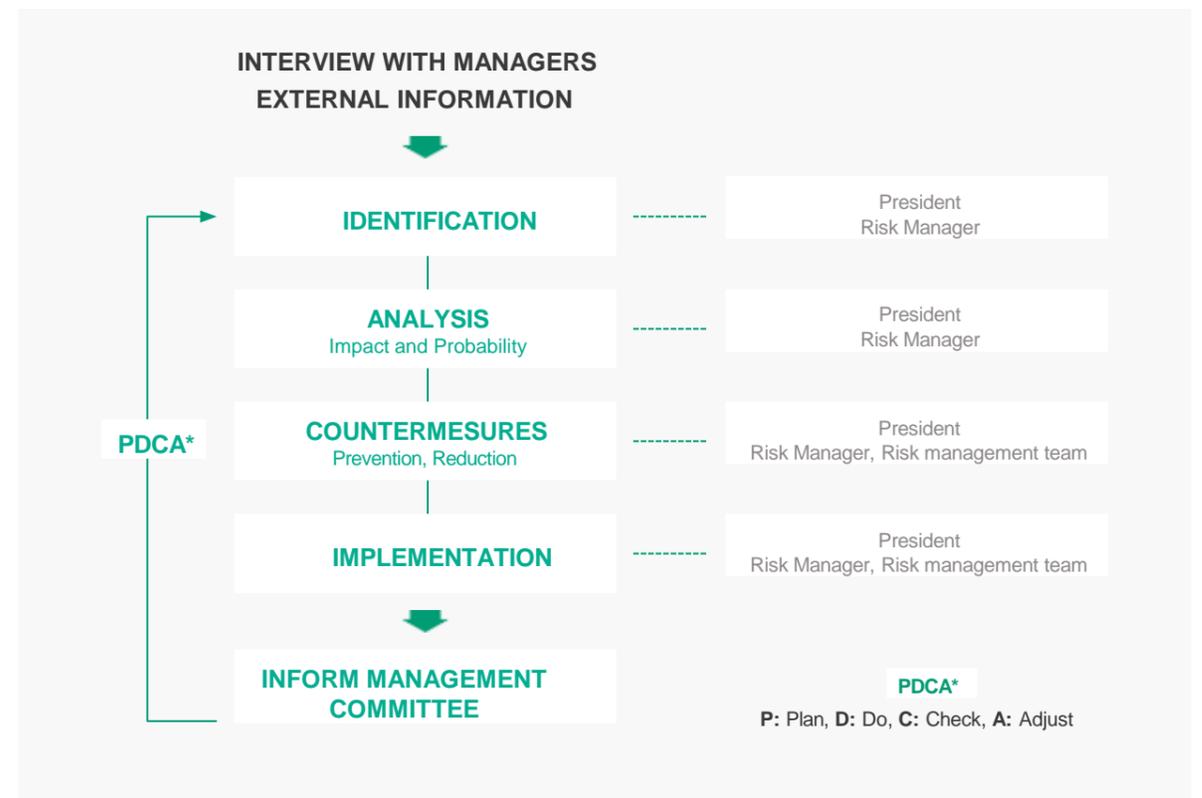
The risk management model implemented at KCE, called Risk Management, is integrated into the corporate programme and is led by Kao. Both risks (potentially negative impacts on the achievement of objectives and business) and crises (materialisation of such risks) are considered here.

In 2024 Kao revised its Risk and Crisis Management policy, specifying the responsibilities of the Risk Committee, incorporating the need to identify emerging risks in the current VUCA context, and detailing the main crises to be reported.

The Risk Management programme is supervised directly by the President of each KCE company, together with the designated Risk Manager, and covers different types of risks that may affect the group. In addition, for each of the prioritised risks, a Risk owner is appointed along with a team.

The general approach involves carrying out the following activities:

- Determine all possible risks and their causes. To this end, the methodology provides a checklist with typical risks of the activity grouped into risks specific to each country and those related to management.
- Assess the level of impact and the likelihood of a risk materialising. In this case, the methodology provides a system to determine the probability, severity for the business and the level of response available.
- Consider countermeasures to prevent or reduce the selected risks by means of an action plan for each accidental scenario, with different systems to cover the risk.
- Establish measures for action if risks materialises, to minimise the consequences and damage; establish recovery plans and contingency plans.



Of the possible risks to be considered, classified according to whether they are strategic, environmental and sustainability, operational and structural, those that KCE believes may have a significant impact are shown in the following table, which also shows details mitigation actions to be taken..



STRATEGIC RISKS

Risks	Risk management (Prevention/Mitigation)
Loss of profit generation	<ul style="list-style-type: none"> • Optimising intangible and tangible fixed assets. • Optimising production processes. • Maintaining adequate inventory volumes. • Having a workforce and organisational structure appropriate to the business and promoting automation and digitisation.
Digital business transformation	<ul style="list-style-type: none"> • Establishing a company-wide strategic plan for digital transformation.
Commercial	<ul style="list-style-type: none"> • Assessing market trends. • Evaluating and adapting the business strategy.

ENVIRONMENTAL AND SUSTAINABILITY RISKS

Risks	Risk management (Prevention/Mitigation)
Climate change	<ul style="list-style-type: none"> • Establishing an ambitious plan to improve our production processes with the aim of achieving energy efficiency, reduction of CO2 emissions and efficiency in water consumption.

OPERATIONAL RISKS

Risks	Risk management (Prevention/Mitigation)
Plant accident	<ul style="list-style-type: none"> • Maintaining and renovating of our facilities, with special attention to those defined as critical; carrying out exhaustive risk assessments and regularly establishing internal and external control audits.
Lack or shortage of raw materials	<ul style="list-style-type: none"> • Focusing on strategic raw materials, defining safety stock policies, establishing multi-supplier supply strategies and prioritising local suppliers.
Hacking and cyber-attack	<ul style="list-style-type: none"> • Definition of security standards and specific plans to prevent intrusions. • Raising awareness and training for our staff in the field of cybersecurity.

STRUCTURAL RISKS

Risks	Risk management (Prevention/Mitigation)
Loss of qualified staff and/or difficulty in adapting the workforce to new challenges.	<ul style="list-style-type: none"> • Implementing security and organisational measures to maintain the workforce and design of the organisational architecture adapted to new requirements. • Implementing talent management strategies, identifying, assessing and establishing a staff development, retention and succession plan.

During 2024, none of these risks had a material impact on KCE or its stakeholders.



4.3 FIGHT AGAINST CORRUPTION, BRIBERY AND MONEY LAUNDERING

3-3 / 2-23 / 205-1 / 205-3

The Kao Group is committed to doing business with honesty and integrity in all countries and territories where it operates. No employee of the company may engage in dishonest practices or any other form of bribery and corruption.

Kao's Anti-Bribery Guidelines specify the rules and obligations regarding the protocol for invitations and gifts, as well as the Anti-Corruption Guidelines. The latter include risk assessments during the process of selecting agents and distributors and renewing their contracts.

On anti-corruption, bribery and conflicts of interest, in accordance with the Anti-Bribery Guidelines, KCE takes a firm stance against bribery by not offering or receiving any form of bribery in connection with business transactions. The company understands bribery to mean cash payments, gifts, entertainment or other benefits intended to encourage favourable business treatment.

All KCE companies carry out risk and control activities for gifts, entertainment, donations and sponsorships. In this regard, all employees are required to obtain approval, disclose and submit reports in cases where there is an actual, apparent or potential conflict of interest. As set out in the Anti-Bribery Guidelines, gifts, entertainment and business-related expenses must be reasonable and proportionate. They should be in accordance with the laws and customs of the countries where they are given and received, and under no circumstances involve cash gifts.

Similarly, employees should question whether there is a business justification for giving a particular gift or invitation, and whether that gift is reasonable and proportionate in the circumstances and in accordance with good business practice.

In 2024, all affiliates published (on their intranets or local platforms, and on Kompas, the corporate intranet) the guidelines for avoiding conflicts of interest, corruption, and bribery.

KCE companies comply with annual reporting to the secretary of the Kao Compliance Committee on matters pertaining to conflicts of interest and anti-corruption and bribery.



INTERNAL CONTROL MECHANISMS

Within the framework of corporate reporting on compliance matters, and as an internal control mechanism, anti-corruption control forms are duly completed to ensure the appropriate approvals in all operations related to representation expenses. In 2024, KCE completed 404 forms with no conflicts of interest or cases of corruption reported at any of the companies.

With regard to the prevention of money laundering, the group's policy was developed and formalised in 2021. KCE has adopted this policy, in addition to the legislation in force in its subsidiary countries.

This policy defines the mandatory assessment of the identity and legitimacy of customers and suppliers before entering into business relations, as well as the minimisation of cash receipts and payments, giving preference to bank transfers. All group companies report to Kao Corporation's compliance secretary the number of transactions that have required due diligence.

4.3.1 CONTRIBUTIONS TO FOUNDATIONS, NON- PROFIT ORGANISATIONS AND POLITICAL PARTIES

415-1

The Business Conduct Guidelines explicitly prohibit contributions to political parties and unregistered or unknown charities, a prohibition also detailed in the Donations Policy and Anti-Bribery Guidelines established by Kao and adopted by all group companies.

The value of both donations and sponsorships group-wide amounts to 48,982 euros.

4.4 HUMAN RIGHTS

3-3 / 2-23 / 407-1

Human rights are fundamental rights and, as such, KCE strives to build a society in which no person suffers prejudice or discrimination. To fulfil the goal of creating a Kirei life for all, respect for human rights is essential.

The Code of Conduct stipulates the need to respect human rights and to ensure that group companies systematically and permanently guarantee children's rights and decent work, as well as the rejection of organised human crime in all its forms.

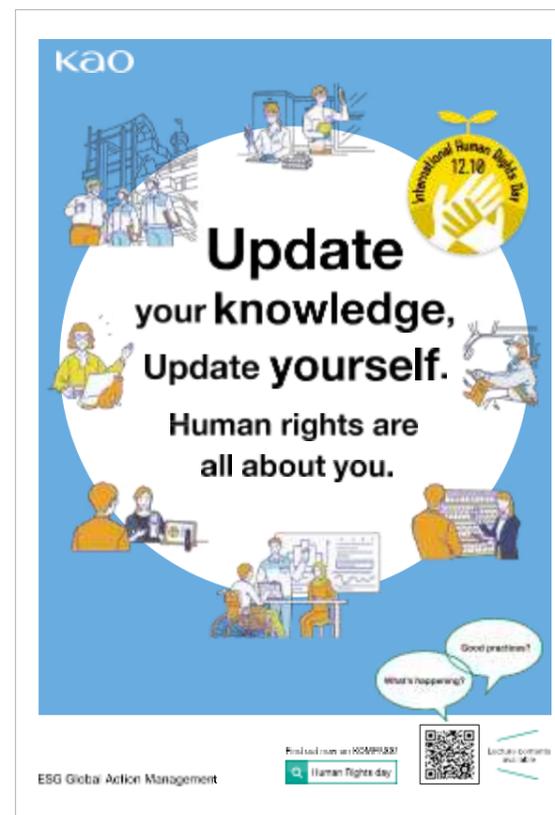
Fundamental principles of [the Code of Conduct](#):

- Conduct fair, honest and appropriate transactions
- Respecting Human Rights in the company's activities
- Respecting the diversity of employees and maximising their potential

Kao published the company's [Humans Rights Policy](#) in 2015, which was last reviewed in April 2023 by the ESG Committee and overseen by the Board of Directors. This policy outlines our commitment to respect human rights in all our business activities, as well as specific actions to achieve this:

- Compliance with applicable laws and regulations
- Respect for Human Rights in all business activities
- Human Rights Due Diligence
- Remediation in the event of identified negative human rights impacts
- Appropriate training for all management staff and all employees.
- Dialogue and consultation, and dissemination of information

In 2023, Kao establishes the Diversity, Equity and Inclusion (DEI) Policy to let individual values and talents shine through.



4.5 ETHICAL CHANNEL

2-23

The Business Conduct Guidelines includes all relevant information on the operation of the ethics channels, ensuring that all employees can report and consult on compliance issues when necessary.

The main objective of the ethics channel is to provide staff with a communication tool to report, by means of an anonymous call, any conduct that violates compliance with the Guidelines.

This service, called [EthicsPoint del Grupo Kao](#), is accessible 24 hours a day, every day of the year and is provided by an independent company, which protects and guarantees the anonymity of those individuals who wish to bring to the organisation's attention something they consider inappropriate or unethical, in accordance with KCE's policy, principles and values.

The EthicsPoint whistleblowing channel ensures compliance with both the European Directive 2019/1937 on the protection of persons who report breaches of Union law, as well as the internal regulations through which the Spanish and German states have transposed this directive (law 2/2023 on the protection of whistleblowers and the Hinweisgeberschutzgesetz, respectively). Likewise, this whistleblower channel is also available for the company QK, although it is not directly affected by this European directive.

In 2024, no complaints were reported at any group companies, although one case was reported through the EthicsPoint that affects a KCE group company located in the European Union, but which in no case falls within the objective scope of Directive 2019/1937 or the national law that implements it.

In 2024, the Human Rights Policy was strengthened and published in 19 languages in order to make it accessible to all employees of the Group. The policy is available on the KCE website in English, Spanish, German and Portuguese.

<https://www.kaochemicals-eu.com/publications>

We are committed to further advancing our actions on diversity, equity and inclusion, enhancing collaboration with our stakeholders, including employees, business partners, and society at large, to promote equal opportunities for all people. This DEI Policy applies to all Kao Group employees.

RISK MANAGEMENT

In accordance with Kao's Human Rights Policy, all KCE Group companies carry out an annual human rights risk assessment on the working environment and discrimination. This assessment is conducted via the SEDEX platform by means of a questionnaire on health and safety issues, the environment, business ethics, working conditions, etc.

409-1 / 408-1

In 2024, no operations were deemed to be a significant risk for child labour nor were young workers exposed to hazardous work and/or forced or compulsory labour.

2-27 / 411-1 / 406-1

Throughout 2024, KCE recorded no cases of disciplinary action for breaches of the Code of Conduct or human rights violations.



4.6 STAKEHOLDERS AND COMMUNICATION CHANNELS

2-29

KCE's key stakeholders include our customers, suppliers, employees, local communities, government and local agencies, non-governmental and non-profit organisations (NGOs/NPOs), associations and business peers.

Through two-way communication with all of them, we deepen our mutual understanding and gather feedback to improve and develop new products and services.

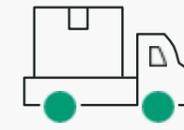


KCE STAKEHOLDERS AND COMMUNICATION CHANNELS



EMPLOYEES

- KCE Web
- Corporate intranet
- Internal intranets: HR, HSE, A&F
- EINF and KCE Sustainability Report
- Information panels and signage
- Conferences and activities
- Social networking
- Committees
- Other: meetings and direct contact, internal communication via email, letters of any kind, internal and/or external presentations, etc.



SUPPLIERS

- KCE Web
- EINF and KCE Sustainability Report
- Conferences and activities
- Social networking
- Other: meetings and direct contact, internal communication via email, letters of any kind, internal and/or external presentations, etc.



CUSTOMERS (Corporate)

- Direct commercial contacts
- KCE Web
- EINF and KCE Sustainability Report
- Social networking
- Other: meetings and direct contact, internal communication via email, letters of any kind, internal and/or external presentations, etc.



PUBLIC INSTITUTIONS

- KCE Web
- EINF and KCE Sustainability Report
- Social networking
- Other: meetings and direct contact, internal communication via email, letters of any kind, internal and/or external presentations, etc.



MEDIA

- Direct contacts (answering queries)
- KCE Web
- EINF and KCE Sustainability Report
- Social networking



SOCIETY (Including NGOs and local associations)

- KCE Web
- EINF and KCE Sustainability Report
- Meetings and gatherings
- CSR events and activities
- Social media

In 2024, the policy regarding the communication of economic-financial, non-financial and corporate information that applies to KCE companies was approved. The purpose of this policy is to ensure the commitment to disclose information in an active, effective and transparent manner, developing a relationship of trust between KCE and its stakeholders, which at the same time allows two-way communication.