

# 4

# GOVERNANCE



2-23

## KCE conducts its business in a fair and honest manner, acting in accordance with laws and ethics and meeting to society's expectations.

In 2023, Kao established the Corporate Governance Policy, positioning corporate governance as a top priority for the management team, in order to sustainably enhance the company's long-term value. At the same time, it reinforces the commitment to create a Kirei world in which all people live in harmony with the planet, which is our corporate philosophy, The Kao Way.

Kao and all Group companies continually strengthen governance in both systems and operations. By 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 aim of our efforts 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.



## 4.1 ETHICS AND COMPLIANCE

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### KCE devotes all its efforts 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 in a manner applicable to all Group companies is defined in the BCG.

This guidance is available to all employees and stakeholders on the Kao website, on the KOM-PASS corporate intranet, on local intranets, and on the KCE website. In addition, and as part of the corporate reporting programme to the parent company, reporting of possible breaches of the Code of Conduct, if any, is included. In 2023, no cases were reported at KCE.

In line with the above, diligent management of personal data governs, in compliance with the General Data Protection Regulation (GDPR), approved by the European Union on 25 May 2018. In 2019, Kao mandated that Information Security Committees (ISCs) will be established at all Group companies.

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

All KCE companies have formed these committees, which meet periodically to supervise the implementation of activities and detect possible risks and incidents, reporting these activities annually to Kao.

The main actions carried out by the Group's companies in 2023 focused on continuing the actions developed in the last two years: the dissemination of the Trade Secret Manual, the design of informative material and the reporting flow in the event of an incident, the review of the classification of the company's information assets, and the definition of roles within the committee.

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No incidents related to the Privacy Policy were reported in 2023.

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 trust of the company's customers, consumers, and society at large.

In 2023, all KCE companies complied with the annual report to the KCE Management Committee on antitrust matters, reporting 56 duly completed forms without detecting any risks that could jeopardise governance.



# 4.2 GLOBAL RISK ANALYSIS

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## 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, then formulate and implement the appropriate countermeasures.

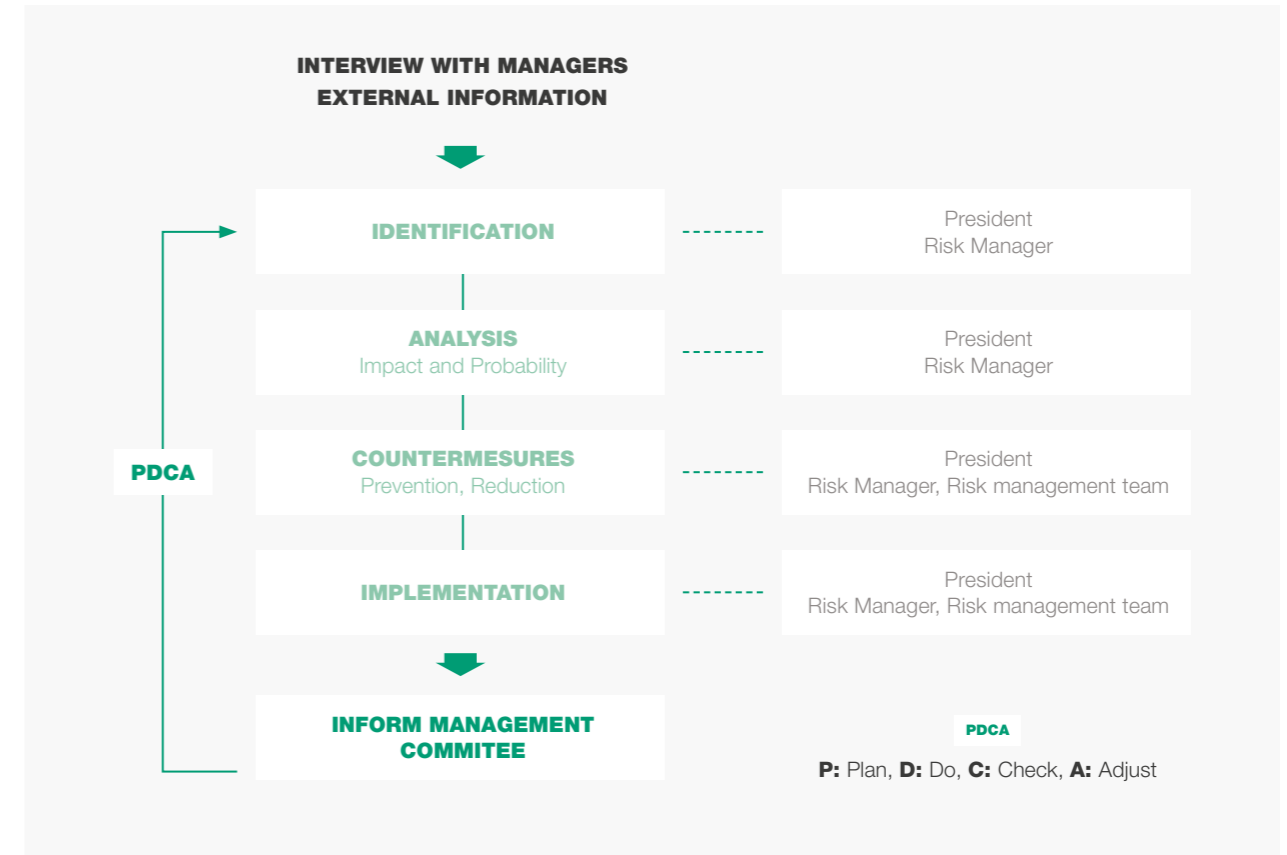
In terms of opportunity management, Kao establishes a structure that integrates and manages issues across the organisation to prioritise and promote ESG investments, which are related to strategic business development.

The risk management model implemented at KCE (known simply as Risk Management) is integrated into the corporate programme and is spearheaded by Kao. Both risks (potentially negative impacts on the achievement of objectives and business) and crises (materialisation of such risks) are taken into consideration.

The Risk Management programme is supervised directly by the president of each KCE company, together with the designated Risk Manager, and covers the various 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:

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



The risks identified by KCE that may have a relevant impact and the corresponding prevention and/or mitigation measures/actions are described below.

### STRATEGIC RISKS:

- **Risk of loss of profit generation**  
Obtaining and growing profits is important, but the assets used must be taken into account and the profit they can generate must be maximised. In this regard, the Company focuses on maximising the return that shareholders expect from their investment.  
**Risk management - prevention, mitigation:** At KCE, we monitor the Company's profitability and identify those factors and countermeasures that enable profit maximisation. To this end, we promote improvement actions aimed at optimising intangible and tangible fixed assets, optimising production processes, maintaining the appropriate volume of inventories, having a workforce and organisational structure suited to the business and promoting automation and digitisation.
- **Risks associated with implementing the digital business transformation**  
It is essential to accelerate the digital transformation to avoid the risk of losing

competitiveness in the face of rapidly changing technologies. Risk of loss of market share and growth opportunities.

**Risk management - prevention, mitigation:** KCE has established a strategic plan for the company's digital transformation, identifying digitisation opportunities in key processes, introducing new tools and methodologies, and increasing staff skills in the use of these new technologies.

• **Business Risks**  
Risk of change in customer preferences, as well as the risk of increased competition as a result of changing market conditions or the emergence of new competitors.

**Risk Management - prevention, mitigation:** KCE regularly assesses market trends, monitors the competitive landscape, and maintains ongoing communication and engagement with its stakeholders, especially customers and suppliers. Strategy is regularly assessed to adapt quickly to rapidly changing environments.



KAO KIREI - MAKING LIFE BEAUTIFUL

## ENVIRONMENTAL AND SUSTAINABILITY RISKS

- **Risks related to climate change**

These include both the physical risks that can interrupt our operations, causing discontinuity in our supply chain, as well as the transition risks due to new regulations, technological changes, and market shifts brought about by climate change. For example, the new energy transition regulation that penalises CO<sub>2</sub> emissions from production processes applies to us.

**Risk management - prevention, mitigation:**

An ambitious plan has been established to improve our production processes with the aim of achieving energy efficiency, reducing CO<sub>2</sub> emissions, and optimising water consumption. To that end, the use of the best available techniques is evaluated.

## OPERATIONAL RISKS

- **Risk of an accident at a plant**

Risk of accident at production facilities, warehouses, or during service at an operational centre, causing the paralysis of operations and suspension of our product supply.

**Risk Management - prevention, mitigation:**

We focus on the maintenance and renovation of our facilities, with special attention to issues defined as critical. We carry out comprehensive risk assessments and regularly conduct internal and external control audits.

- **Lack or shortage of raw materials**

Risk of unavailability of raw materials due to external factors, whether caused directly by our suppliers, natural disasters, or geopolitical tensions.

**Risk Management - prevention, mitigation:**

We focus on strategic raw materials, defining safety stock policies, establishing multi-supplier inventory strategies and prioritising local suppliers.

- **Risk of phishing and cyber-attack**

Risk of a cyber-attack resulting in loss of confidential information, suspension of IT network operations, or suspension of production operations.

**Risk Management - prevention, mitigation:**

We define security standards and specific plans to prevent intrusions. At the same time, we raise awareness and train our staff in the field of cybersecurity.

## STRUCTURAL RISKS

- **Risk of loss of qualified staff and/or difficulty in adapting the workforce to new challenges**

The lack of availability of qualified staff leads to a loss of efficiency across the company's different areas. This can hinder our ability to adapt to new challenges, such as the digitisation of the business and lead to a subsequent loss of competitiveness.

**Risk Management - prevention, mitigation:**

We implement security and organisational measures to maintain the workforce and design the organisational architecture adapted to new requirements. We implemented talent management strategies, identifying, assessing, and establishing a plan for staff development, retention, and turnover.

It should be noted that at no time have these risks had a significant impact on KCE or its stakeholders.



## 4.3

# ANTI-CORRUPTION, BRIBERY AND PREVENTION OF MONEY LAUNDERING

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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-bribery rules. The latter includes risk assessment during the process of selecting agents and distributors and renewing their contracts.

On matters of anti-corruption, bribery and conflict 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.

In this regard, all employees are required to obtain approval, notify, and report cases in which there is an actual, apparent, or potential conflict of interest. As set out in the Anti-Bribery Guideline, gifts, entertainment, and business-related expenses must be reasonable and proportionate, in accordance with the laws and customs of the countries where they are given and received, and cash gifts should always be avoided.

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

In 2023, all subsidiaries published (on their intranets or local platforms, and on Kompas, the corporate intranet) the guidelines for avoiding conflicts of interest, corruption, and bribery, requesting confirmation that these regulations have been read, as required by Kao Japan's Internal Control department on an annual basis.

In addition, all KCE companies have complied with annual reporting to the Kao Corporation's Compliance Committee secretary on matters pertaining to conflicts of interest, 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 have been duly completed to ensure appropriate approvals for all transactions related to entertainment expenses. In 2023, KCE reported 358 anti-corruption forms duly completed with the appropriate approvals. No conflict-of-interest forms were reported at any KCE companies, nor were any cases of corruption detected.

Regarding the prevention of money laundering, in 2021, the Group developed and formalised its policy on the matter. KCE adopted this policy to comply with the legislation in force in the countries of its subsidiaries.

The policy defines the obligation to assess the identity and legitimacy of customers and suppliers before entering into business relations, as well as to minimise cash receipts and payments by giving preference to bank transfers.

### 4.3.1 CONTRIBUTIONS TO FOUNDATION, NON-PROFIT ORGANIZATIONS AND POLITICAL PARTIES

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The Corporate Code of Conduct explicitly prohibits contributions to political parties. This prohibition is also detailed in the Donations Policy established by Kao and adopted by all Group companies. The Anti-Bribery Guidelines specifically prohibit donations to political parties and unregistered or unknown charities.

**The value of donations and sponsorship actions at the KCE Group level amounts to 46,299 euros.**

# 4.4 HUMAN RIGHTS

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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 lifestyle 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 work in dignified conditions, as well as the rejection of organised crime in all its forms.

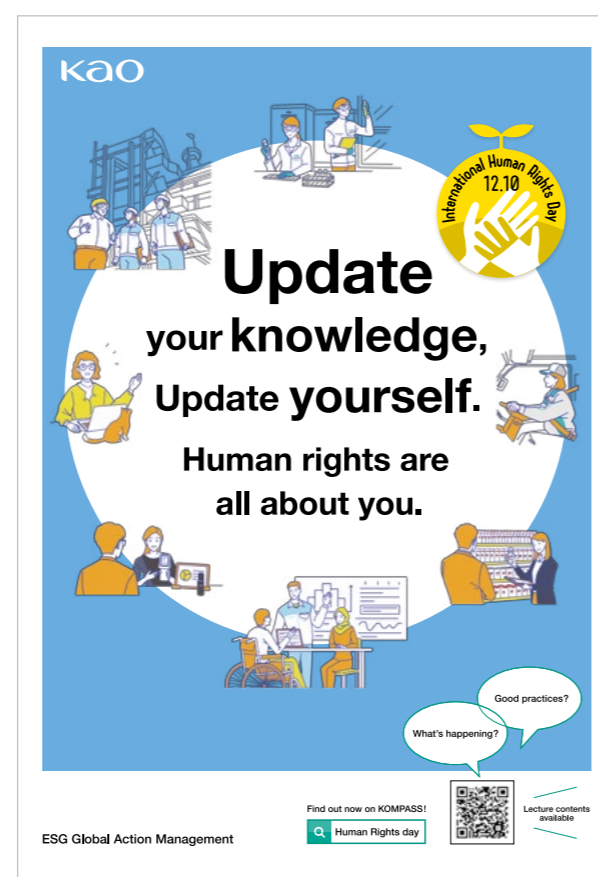
Fundamental principles of the [Code of Conduct](#):

- Conducting fair, honest and appropriate transactions.
- Respecting human rights in company activities.
- Respecting employee diversity and maximising employee empowerment.

Kao published its [Human Rights Policy](#) in 2015; it was last reviewed in April 2023 by the ESG Committee and approved 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 adverse human rights impacts;
- Appropriate training for all management personnel and employees;
- Dialogue, consultation, and dissemination of information.



# 4.5 ETHICS CHANNEL

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Specific guidelines on how to implement “The Kao Way” are defined in the Business Conduct Guidelines (BCG), ensuring that all employees are able to report and check compliance issues when necessary.

The main objective of the ethics channel is to provide staff with a means of reporting behaviour that contravenes the company's Code of Conduct.

This service, called the [Kao Group EthicsPoint](#) is accessible 24 hours a day, 365 days a year, and is provided by an independent company, which protects and guarantees the anonymity of those who wish to report to something they consider inappropriate or unethical, in accordance with KCE's policy.

The Ethics Point channel ensures compliance with the European Directive 2019/1937 for all Kao Group companies established in Europe. Similarly, this whistleblowing channel is also available for the QK company, though not directly affected by this European Directive.

In 2023, there were no allegations reported at any Group company, with one case reported to Kao's ethics channel in relation to one of the KCE Group companies.

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

We are committed to further advancing our Diversity, Equity, and Inclusion actions, enhancing collaboration with our stakeholders, including employees, business partners, and society at large, in an effort 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 conduct an annual human rights risk assessment on the working environment and incidents of discrimination. This assessment is carried out via the SEDEX platform by means of a questionnaire relating to health and safety issues, the environment, business ethics, working conditions, etc.

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In 2023, no operations were considered to be at risk for child labour, exposing young workers to hazardous and/or forced or compulsory labour.

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Throughout 2023, KCE recorded no cases of disciplinary action for breaches of the Code of Conduct or human rights violations.



# 4.6 STAKEHOLDERS AND COMMUNICATION CHANNELS

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

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

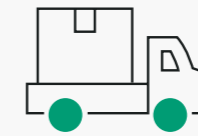


## KCE'S STAKEHOLDERS AND COMMUNICATION CHANNELS



### EMPLOYEES

- KCE website
- Corporate Intranet
- In-house Intranets: HR, HSE, A&F
- Non-financial report and Sustainability Report of KCE
- Company Boards
- Activities and CSR Days
- Social Media
- Committees
- Others: meetings and direct contact, internal communication by email, letters, in-house and external presentations



### SUPPLIERS

- KCE website
- Non-financial report and Sustainability Report of KCE
- Activities and CSR Days
- Social Media
- Others: meetings and direct contact, internal communication by email, letters, corporate presentations



### CUSTOMERS (CORPORATE)

- Business direct contact
- KCE website
- Non-financial report and Sustainability Report of KCE
- Activities and CSR Days
- Social Media
- Others: meetings and direct contact, communication by email, letters, corporate presentations



### PUBLIC ORGANIZATIONS AND ADMINISTRATION

- KCE website
- Non-financial report and Sustainability Report of KCE
- Activities and CSR Days
- Social Media
- Others: meetings and direct contact, communication by email, letters, corporate presentations



### MASS MEDIA

- Direct contacts (reply to inquiries)
- KCE website
- Non-financial report and Sustainability Report of KCE
- Social Media



### SOCIETY (INCLUDING NGOS AND LOCAL ORGANIZATIONS)

- KCE website
- Non-financial report and Sustainability Report of KCE
- Activities and CSR Days
- Social Media
- Others: meetings and direct contact

In 2023, several informative actions were undertaken to inform stakeholders about the Non-Financial Report. Most importantly, the entire workforce was asked to collaborate in the materiality project, which allowed us to learn the impact of the ESG issues that the company's stakeholders think KCE should prioritise. An analysis of the results was carried out in late 2023 and will continue in 2024.