

Kao ensures transparency regarding taxes, as well as compliance with tax laws and regulations in every country and region. Furthermore, we also provide various types of education on proper tax management, with each and every employee working to raise tax compliance awareness.

## Kao's creating value to address social issues

### Social issues we are aware of

We understand that international efforts such as the OECD's Base Erosion and Profit Shifting (BEPS) project are important measures in maintaining tax transparency and preventing aggressive tax avoidance. For example, the pricing for transactions between related parties is determined under the arm's length principle and in accordance with OECD transfer pricing guidelines, calculated based on the functions, assets and risks involved.

### Kao's creating value

Based on the fundamental values of "walking the right path," which is our corporate philosophy of the Kao Way, we contribute to the creation of social value that enriches daily life with sincere and sound business practices, acting in accordance with ethics and the law, and making adequate tax payments.

Concerning income from business activity in emerging and developing countries, we believe that conducting sound tax affairs and paying taxes in accordance with tax laws of each country and region, without violating local tax rights, serves an important role in the economic and social development of each country and region in which we operate.

We also believe that the use of tax havens or tax planning that is not aligned with either commercial purposes or business substance impedes the appropriate payment of taxes in each country and region in which we operate. We strive to prevent the use of aggressive tax avoidance and

abusive tax planning involving, for example, tax havens. We only expand internationally or implement global business structures where this is aligned with our commercial purposes. Moreover, we do not take part in any tax structuring used for international tax avoidance.

### Contributions to the SDGs



## Policies

Aiming to improve corporate tax governance, we established tax policy to serve as a standard tax-related code of conduct.



→ Kao Group tax policy  
[www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance\\_004.pdf](http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_004.pdf)

## Education and promotion

At Kao, we believe that it is important for both management and employees to promote tax compliance awareness in order for the tax compliance system to function properly.

We strive to reduce tax risks through awareness, education, information sharing and consultation, while ensuring thorough legal compliance.

## Collaboration and engagement with stakeholders

We provide timely and appropriate information to the tax authorities and strive to build relationships of trust by responding to all enquiries expediently and in good faith. In order to minimize tax risks, we periodically consult with an external tax advisor in order to address tax filing accuracy.

Additionally, we work with the business community through industry associates in assisting with tax reform requests that contribute to enhancing the international competitiveness of Japanese companies.

## Framework

Senior Vice President of our Accounting and Finance Division does business with Administration Tax Accounting Group and tax officers in each country or region. We share information with tax officers in each country or region on a quarterly basis for current and future tax risk comprehension and to resolve issues. By regularly compiling tax issues in each country or region to understand current situation, our system receives information in a timely manner on urgent tax issues. In addition, a system has been established to cope with solutions in cooperation with external experts.

Furthermore, important tax issues and strategies are reported at regular Management Committee and Board of Director meetings.

## Our initiatives

### Global accounting and finance collaboration

We regularly hold meetings that bring together global leaders in the accounting and finance functions. In the meetings, leaders share company-wide policies, ensure their implementation and discuss new tax issues while communicating with tax officers at our overseas subsidiaries.

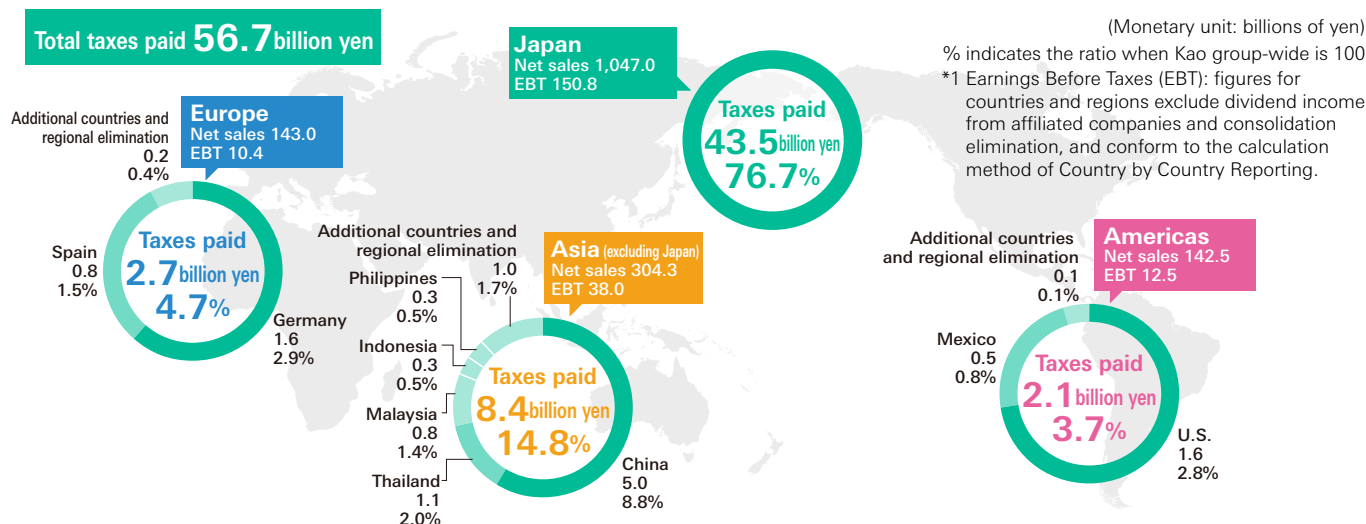
### Collaboration with the Japan Chemical Industry Association (JCIA)

Through JCIA, we are actively working on tax reform requests that contribute to improving tax practice efficiency and enhancing corporate competitiveness.

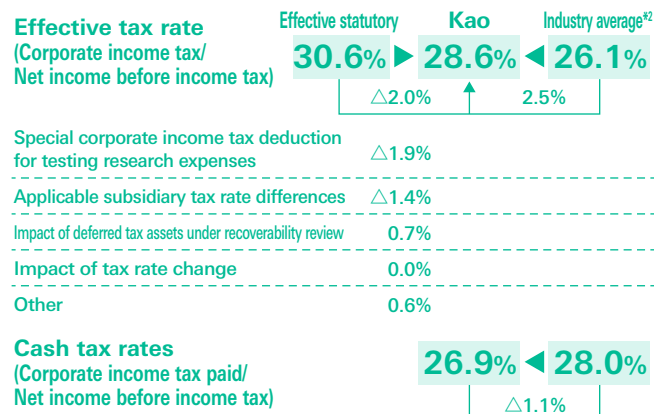
### Performance report and tax payment record

Kao's performance report and tax payment record in 2019<sup>\*1</sup>

(Unit: billions of yen)	Net sales	EBT	Total taxes paid
<b>Japan</b>	<b>1,047.0</b>	<b>150.8</b>	<b>43.5</b>
China	107.4	16.1	5.0
Indonesia	52.0	3.0	0.3
Thailand	42.6	4.8	1.1
Malaysia	36.4	4.2	0.8
Philippines	29.9	2.1	0.3
Additional countries and regional elimination	36.0	7.8	1.0
<b>Asia totals</b>	<b>304.3</b>	<b>38.0</b>	<b>8.4</b>
Germany	69.6	4.6	1.6
Spain	39.0	3.9	0.8
Additional countries and regional elimination	34.4	1.9	0.2
<b>Europe totals</b>	<b>143.0</b>	<b>10.4</b>	<b>2.7</b>
U.S.	121.1	11.3	1.6
Mexico	12.1	1.2	0.5
Additional countries and regional elimination	9.3	0.1	0.1
<b>Americas totals</b>	<b>142.5</b>	<b>12.5</b>	<b>2.1</b>
Pan-Regional elimination	(134.6)	(1.3)	
<b>Total</b>	<b>1,502.2</b>	<b>210.6</b>	<b>56.7</b>



### 2019 effective tax rate difference analysis



Our effective tax rate for FY2019 was 28.6%. The -2.0% effective statutory tax rate difference is due to the impact of a special corporate income tax deduction for testing research expenses within Japan as well as differences in applicable tax rates with our overseas subsidiaries. In addition, due to the 2.5% plus in the industry average effective tax rate issued by RobecoSAM, we believe the company has paid the adequate tax amount.

Similarly, regarding the cash tax rate, which is the amount of tax paid divided by net income before income tax, our company achieved an appropriate rate that was 1.1% lower than the industry average, despite the effect of payment timing issues, etc.

\*2 Personal care business