

We ensure 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.

ESG Keyword

Compliance with OECD transfer pricing guidelines

Appropriate tax declaration and tax payment

Tax payment record by region

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 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.

As of the end of December 2020, there were no Kao Group companies located in countries that are classed as tax havens by the OECD.

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

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.

Tax strategies 102-13, 102-43, 103-2, 207-2, 207-3 (Tax 2019)

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 groups in assisting with tax reform requests that contribute to enhancing the international competitiveness of Japanese companies.

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.

Framework

The Senior Vice President of our Accounting and Finance 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 the current situation, our system receives information in a timely manner on urgent tax issues. In addition, a system has been established to coordinate solutions in cooperation with external experts.

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

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.

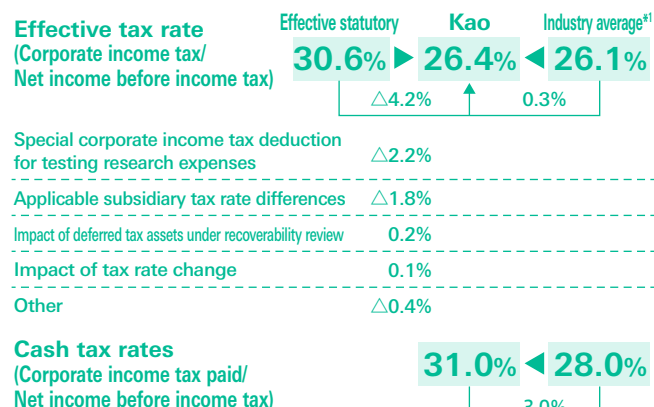
Tax strategies 207-4 (Tax 2019)

Performance report and tax payment record

Our effective tax rate for 2020 was 26.4%. The -4.2% 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. Furthermore, given that, when compared to the industry-specific effective tax rate calculated by S&P Global, our effective tax rate is 0.3 percentage points higher, we believe that, compared to the industry average, we are paying an adequate amount of tax.

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 3.0% higher than the industry average, despite the effect of payment timing issues, etc.

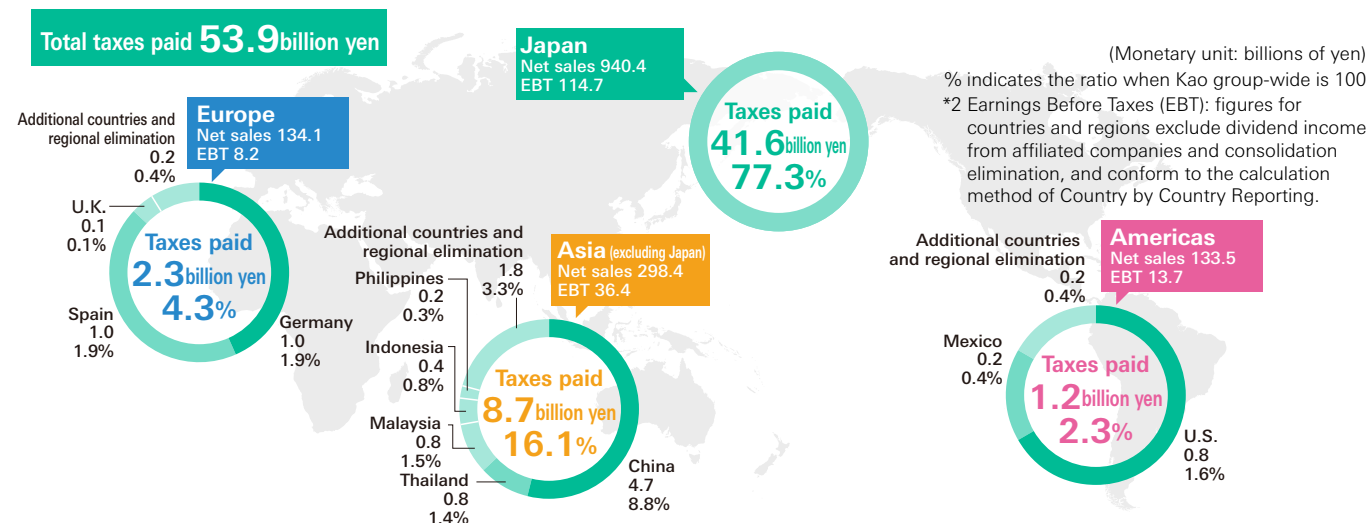
2020 effective tax rate difference analysis



*1 Consumer products business

Kao's performance report and tax payment record in 2020*2

(Unit: billions of yen)	Net sales	EBT	Total taxes paid	Accrued corporate income tax	(No. of employees)
Japan	940.4	114.7	41.6	23.6	(22,026)
China	108.8	18.6	4.7	1.3	(1,532)
Indonesia	52.3	3.5	0.4	0.7	(1,994)
Thailand	40.0	4.0	0.8	0.5	(1,390)
Malaysia	36.4	3.0	0.8	0.1	(510)
Philippines	29.4	0.7	0.2	0.1	(204)
Taiwan	30.9	3.3	0.8	0.4	(710)
Singapore	13.6	1.3	0.1	0.2	(154)
Hong Kong	12.7	1.6	0.7	0.0	(237)
Vietnam	5.9	0.3	0.1	0.0	(426)
Additional countries and regional elimination	(31.5)	0.0	0.0	—	(30)
Asia	298.4	36.4	8.7	3.3	(7,187)
Germany	63.8	2.2	1.0	0.8	(914)
Spain	39.7	4.1	1.0	0.0	(574)
U.K.	19.3	0.6	0.1	0.0	(533)
Switzerland	5.9	0.1	0.0	0.0	(104)
Netherlands	4.1	0.4	0.0	0.0	(108)
Italy	3.2	0.1	0.0	0.0	(37)
France	1.9	0.0	0.0	0.0	(15)
Sweden	1.0	0.0	0.0	—	(44)
Additional countries and regional elimination	(4.8)	0.7	0.1	0.0	(218)
Europe	134.1	8.2	2.3	0.9	(2,547)
U.S.	112.9	11.9	0.8	0.1	(1,266)
Mexico	11.7	1.1	0.2	0.1	(177)
Australia	5.8	0.4	0.1	0.0	(94)
Canada	5.7	0.2	0.0	0.0	(96)
Brazil	1.0	0.1	0.1	0.0	(9)
Additional countries and regional elimination	(3.5)	(0.1)	0.0	0.0	(7)
Americas	133.5	13.7	1.2	0.3	(1,649)
Pan-regional elimination etc.	(124.5)	1.0			
Total	1382.0	174.0	53.9	28.1	(33,409)



List of taxable entities as of Jan. 2020*1, *2

Tax Jurisdiction	Company Name	Primary business	
Japan	Kao Corporation	Brand owner of the Kao brand products (Beauty care, Human health care, Fabric & home care and Chemical businesses)	
	Kanebo Cosmetics Inc.	Brand owner of the Kanebo brand products (Beauty care business)	
	Kao Salon Japan CO., LTD.	Beauty care business	
	Kao Field Marketing Co., Ltd.	Business services (e.g., store support services)	
	Kanebo Beauty Counseling Co., Ltd.	Beauty care business	
	Sofina Beauty Counseling Co., Ltd.	Beauty care business	
	Kao-Quaker Company Limited	Chemical business	
	Kao Sanitary Products Ehime Co., Ltd.	Human health care and Fabric & home care businesses	
	Inogami Co., Ltd.	Human health care business	
	Kao Paper Manufacturing Fuji Co., Ltd.	Chemical business	
	Kao System Logistics Company Limited	Proposed-based sales and operation planning	
	Kao Professional Services Company, Limited	Fabric & home care business	
	Molton Brown Japan Ltd.	Beauty care business	
	e'quipe Ltd.	Beauty care business	
	Kanebo Cosmillion Ltd.	Beauty care business	
	Kao Business Associe Co., Ltd.	Business services (e.g., services including HR, general administration, accounting, etc.)	
	Kao Peony Co., Ltd.	Contract services (e.g., manufacturing of sample products)	
	Kao Cosmetic Products Odawara Co., Ltd.	Beauty care business	
	SENSAI COSMETICS INC.	Beauty care business	
	Kao Group Customer Marketing Co., Ltd.	Beauty care, Human health care and Fabric & home care businesses	
	Kao Transport and Logistics Company Limited	Inventory management and delivery of the Kao brand products	
	Indonesia	PT Kao Indonesia	Beauty care, Human health care and Fabric & home care businesses
		PT Kao Indonesia Distribution	Beauty care, Human health care and Fabric & home care businesses
Australia	PT Kao Indonesia Chemicals	Chemical business	
	Kao Australia Pty. Limited	Beauty care and Fabric & home care businesses	
Singapore	Kao Singapore Private Limited	Beauty care, Human health care, Fabric & home care and Chemical businesses	
	Crescent Insurance Pte. Ltd.	Reinsurance underwriting of the Kao Group	
Thailand	Kao Industrial (Thailand) Co., Ltd.	Beauty care, Human health care, Fabric & home care and Chemical businesses	
	Kao Commercial (Thailand) Co., Ltd.	Beauty care, Human health care and Fabric & home care businesses	
	Kao Holdings (Thailand) Co., Ltd.	Holding company	
	Kao Consumer Products (Southeast Asia) Co., Ltd.	Beauty care, Human health care and Fabric & home care businesses	
New Zealand	Kanebo Cosmetics (Thailand) Co., Ltd.	Beauty care business	
	Kao New Zealand Limited	Beauty care business	
Philippines	Pilipinas Kao, Inc.	Chemical business	
	PKI COMMERCIAL, INC.	Chemical business	
Vietnam	Kao Vietnam Co., Ltd.	Beauty care and Human health care businesses	
	Kao (Malaysia) Sdn. Bhd.	Beauty care, Human health care and Fabric & home care businesses	
Malaysia	Kao Trading (M) Sdn. Bhd.	Beauty care, Human health care and Fabric & home care businesses	
	Fatty Chemical (Malaysia) Sdn. Bhd.	Chemical business	
	Kao Soap (Malaysia) Sdn. Bhd.	Beauty care business	
	Kao Oleochemical (Malaysia) Sdn. Bhd.	Chemical business	
	Kao Plasticizer (Malaysia) Sdn. Bhd.	Chemical business	
	Kanebo Cosmetics Malaysia Sdn. Bhd.	Beauty care business	
Korea	Kanebo Cosmetics Korea Co., Ltd.	Beauty care and Human health care businesses	
	Kao (Hong Kong) Limited	Beauty care, Human health care and Fabric & home care businesses	
Hong Kong	KPSS Hong Kong Ltd.	Beauty care business	
	Kao (Taiwan) Corporation	Beauty care, Human health care, Fabric & home care and Chemical businesses	
Taiwan	Taiwan Kanebo Cosmetics, Co., Ltd.	Beauty care business	
	KPSS Taiwan Ltd.	Beauty care business	
	Kao Corporation Shanghai	Beauty care, Human health care and Fabric & home care businesses	
China	Kao Chemical Corporation Shanghai	Chemical business	
	Kao Commercial (Shanghai) Co., Ltd.	Beauty care, Human health care and Fabric & home care businesses	
	Kao Trading Corporation Shanghai	Chemical business	
	Kao (China) Holding Co., Ltd.	Management of affiliates in China (Human health care, Fabric & home care and Chemical businesses)	
	Kao (China) Research and Development Center Co., Ltd.	Beauty care, Human health care and Fabric & home care businesses	
	Kanebo Cosmetics (China) Co., Ltd.	Beauty care business	
	Kao (Hefei) Co., Ltd.	Human health care business	
	Kao Huludao Casting Materials Co., Ltd.	Chemical business	
	Kao (Shanghai) Chemical Industries Co., Ltd.	Chemical business	
	Kao Shanghai Business Consulting Co., Ltd.	Beauty care business	

Tax Jurisdiction	Company Name	Primary business
U.K.	Molton Brown Limited	Brand owner of the Molton Brown brand products (Beauty care business)
	Kao (UK) Limited	Beauty care business
	Washing Systems Limited	Fabric & home care business
Italy	KPSS (UK) Ltd.	Beauty care business
	Kanebo Cosmetics Italy S.p.A	Beauty care business
	KAO CHIMIGRAF ITALY, S.R.L.	Chemical business
Austria	Kao Italy S.p.A	Beauty care business
	Kao Austria Handelsgesellschaft mbh	Beauty care business
Netherlands	Guhl Ikebana Cosmetics B.V.	Beauty care business
	Kao Business Service B.V.	Business services (e.g., accounting of the Kao Group)
	Kao Netherlands B.V.	Beauty care business
Switzerland	Kanebo Cosmetics (Europe) Ltd.	Beauty care business
	Kao Switzerland AG	Beauty care business
Sweden	Kao Sweden AB	Beauty care business
	Kao Corporation S.A.	Chemical business
Spain	Kao Chemicals Europe, S.L.	Chemical business
	KAO CHIMIGRAF, SOCIEDAD LIMITADA	Chemical business
	Goldwell Cosmetics (CZ) s.r.o.	Beauty care business
Czech	Kao Denmark A/S	Beauty care business
	Kao Germany GmbH	Brand owner of salon products (Beauty care business)
Denmark	Guhl Ikebana GmbH	Beauty care business
	Kao Chemicals GmbH	Chemical business
	Kao Manufacturing Germany GmbH	Beauty care business
Germany	Kanebo Cosmetics Deutschland GmbH	Beauty care business
	Kao Collins GmbH	Chemical business
	Kao Norway A/S	Beauty care business
Norway	Kao Finland Oy	Beauty care business
	Kao France SARL	Beauty care business
Finland	KAO CHIMIGRAF FRANCE, S.A.S.	Chemical business
	N.V. Kao Belgium S.A.	Beauty care business
France	Kanebo Cosmetics Rus LLC	Beauty care business
	Kao South Africa Pty. Ltd.	Beauty care business
Belgium	Kao USA Inc.	Brand owner of mass products (Beauty care business)
	HPC Realty Inc.	Asset management
Russia	Oak Brook Enterprises Inc.	Asset management
	Kao America Inc.	Corporate services for affiliates and holding company for Chemical business in the U.S.
South Africa	Kao Chemicals Americas Corporation	Chemical business
	High Point Textile Auxiliaries LLC	Chemical business
	Kao Specialties Americas LLC	Chemical business
	Molton Brown USA LLC	Beauty care business
	Kao Collins Inc.	Chemical business
	SAMGAM, LLC	Asset management
	Oribe Hair Care, LLC	Beauty care business
	STAR (Delaware) Realty LLC	Asset management
	Washing Systems Intermediate Holdings, Inc.	Holding company
	Washing Systems, LLC	Fabric & home care business
	Santec Products, LLC	Fabric & home care business
	WSI Water, LLC	Fabric & home care business
	Custom Chemical Solutions, LLC	Fabric & home care business
BioHygienix, LLC	Fabric & home care business	
Canada	Kao Canada Inc.	Beauty care business
	Kao do Brasil Representacao Comercial Ltda.	Chemical business
Brazil	TBP Importação e Comércio de Cosméticos LTDA	Beauty care business
	Quimi-Kao S.A. de C.V.	Chemical business
Mexico	Jergens Mexico, S. de R. L. de C. V.	Beauty care business

*1 Data were correct as of the end of December 2020 (business content is based on the old segmentation).

*2 The Cosmetics business and the Skin care and hair care business are collectively referred to as the Beauty care business