Godrej | CONSUMER PRODUCTS

Global Tax Policy

December, 2019

APPROACH TO TAX

We are committed to complying with tax laws and obligations in all countries where we operate, as well as with international treaties and international tax guidelines, in a responsible manner; and to having open and constructive relationships with tax authorities based on mutual respect.

We make payment of due taxes and levies, in accordance with the regulations of each country in which we operate. Corporate income tax is payable on the profits made by the Group companies after deducting business expenses and eligible tax reliefs in the respective countries of operation. In addition to corporate tax, we pay customs duties, stamp duties, employment taxes and we collect and pay a variety of taxes such as VAT, GST as well as employee taxes and withholding taxes on payments as may be applicable.

Since we operate in countries with very different tax legislations and interpretations, we seek to monitor, adjust and improve our tax compliance, identify and fix any compliance gaps that could happen, or adjustments that could arise upon tax audits and settlements. We employ/ engage appropriately qualified tax professionals with the necessary levels of tax expertise.

We conduct transactions between Godrej Consumer Products companies having regard to any local fiscal or regulatory considerations, including the current Organization for Economic Cooperation and Development (OECD) Guidelines on transfer pricing if applicable.

We recognise that all taxes that we pay and collect for governments are an integral element of our corporate responsibility. We do not pay taxes that are claimed on an unprincipled or unjustified basis.We study and interpret applicable provisions of the law and also consider available judicial precedence and tax guidance. Diligent professional care and judgement is exercised to assess tax risks, as we consider the interests of key stakeholders, such as shareholders, employees, consumers, customers, authorities and the communities where we operate.

The above approach reflects in our fundamental tax principles, which are elaborated in the following sections.

TAX PRINCIPLES

We have a fiduciary duty vis-a-vis our shareholders to manage and plan our total tax costs of doing business, in compliance with the prevalent regulatory framework as well as our fundamental tax principles (discussed below in detail), taking into account potential impacts on stakeholders and on our reputation.

1. Business substance

Business operations and market needs determine where activities take place, where profits are earned, and consequently, where taxes are paid. The objective of efficient tax planning is to support our business and reflect commercial and economic activity.

Tax Policies are framed in dialogue with business leaders and are discussed by the senior management before implementation. Our ethical, transparent and diligent approach and the tax practices that we adopt, together aim at ensuring a fair and reasonable share of taxes being paid in the territories where we operate.

Inter-company transactions

The OECD Guidelines and the laws of most countries establish the principle that transactions between group companies be priced on the basis of the "arm's length" standard – the same as if the transactions were between two independent companies. The transfer pricing approach of the Godrej Consumer Products Group for cross-border inter-company transactions seeks to set the transfer prices having regard to various business and commercial considerations, including but not limited to the functions, assets and risks of the transacting parties, available internal comparability if any, principal to principal nature of transactions and any requirements of local transfer pricing regulations in their respective countries as well as the OECD transfer pricing Guidelines as relevant. In respect of domestic inter-company transactions, the Group ensures compliance with the local laws and regulations as applicable.

Investments

The Group has achieved its global growth mainly through international acquisitions. The Group's expansion has been mainly supported by external borrowings and internal accrual as deemed appropriate. Accumulated earnings generated through subsequent years of operation, are used to repay the debt as and when due. We invest and establish entities in jurisdictions suitable to hold our overseas investments, giving consideration to our business activities and prevailing regulatory environment. Business structures and transactions are monitored by the Group to identify key tax issues of attention for action. We do not make use of secrecy jurisdictions in our business structures.

The Group's central tax team actively carries out consultation in all key commercial and operational transactions. Investment decisions are evaluated for any governance and or tax issues and its potential impact on stakeholders as well as our reputation.

Availing tax breaks backed by business rationale

Tax incentives and exemptions are sometimes implemented by governments in order to support investment, employment and economic development in respective jurisdictions. Where they exist, we seek to apply them in the manner intended, in alignment with our business and operational objectives.

The Tax function within the Group engages in value creation through managing responsibly and sustainably, our total tax costs of doing business in line with the Group"s business operations and commercial strategies. We do not engage in tax minimisation or optimisation without form or commercial substance.

We defend ourselves and take available actions, whenever we have a strong business and tax position. We seek to anticipate and resolve disputes without recourse to courts wherever possible. We do not take tax positions that are not defendable under full disclosure. The Group also strongly dissents double tax incidence on the same profits.

2. Compliance with financial and tax reporting norms

We are committed to ensuring compliance with all relevant financial, legal and tax reporting requirements everywhere we operate. In doing so, we observe and adhere to the tax law, the underlying tax policy intent, and the disclosure and reporting requirements in each jurisdiction.

3. Transparency in relationships with governments and tax administrations

We encourage governments' approach to ensure predictable, efficient, and rule-based tax administration. We have operations in more than 15 countries worldwide and our tax returns – similar to any multinational company – are periodically under audit around the world. We engage with tax authorities to respond timely to tax audit requests. Our working relationships with governments and fiscal authorities are conducted in a professional, constructive, and collaborative manner with full transparency of the facts of our business operations. Legislative changes are closely monitored in the territories where we operate and regular meetings/ trainings are set up to assess their impact on the business as well as to create awareness in the organisation.

TAX REPORTING

Godrej Consumer Products pays corporate income tax on a country-by-country basis. Our tax contribution is more than the corporate income tax we pay. Godrej Consumer Products also pays taxes to national and local governments in the form of sales taxes, payroll taxes, value added taxes, excise taxes, property taxes and customs duties.

Public disclosure

The Godrej Consumer Products Group's consolidated financial statements (CFS) are prepared in accordance with the Ind AS (Indian Accounting Standards). Note 9 of the CFS provides the tax reconciliation statement at the Group level. Form AOC-1 of the CFS discloses the annual provision for tax created by the Godrej Consumer Products Group member entities worldwide for the reporting period. The Godrej Consumer Products Group is also subject to the Indian regulations relating to the three-tier documentation (Country-by-Country Report [CbCR], Master File and Local File) in line with Chapter V of the present OECD Guidelines. Under these regulations, Godrej Consumer Products is required to furnish the CbCR with Indian revenue authorities. The CbCR captures information of the Group member entities on multiple parameters including actual taxes paid.

Tax charge vs. tax payments

There are a number of reasons why the corporate tax cash payments in a particular year will be different from the corporate tax charge in the financial statements, including:

Timing differences

Tax payments relating to a particular year's profits will typically be due partly in the current year and partly in the following year.

Deferred tax

The Group tax charge includes deferred tax which is an accounting adjustment arising from timing differences. Timing differences occur when an item has to be included in the financial statements in one year but is required to be taxed/ deducted for tax in another year.

Uncertain tax positions

Godrej Consumer Products is subject to taxation in many countries in which it operates. The tax legislation of these countries is often different, complex and subject to interpretation by management and the government authorities. These matters of judgment give rise to the need to create provisions that may result in a tax payment in future years. Provisions are made against individual exposures and take into account the specific circumstances of each case, including the strength of technical arguments, recent case law decisions or rulings on similar issues and relevant external advice. The provision is estimated based on the "more likely than not outcome" approach.

TAX GOVERNANCE AND RISK MANAGEMENT

Tax governance and risk management is the foundation of Godrej Consumer Products Group's approach to taxes. Godrej Consumer Products, being a multinational enterprise, tends to face diversity in approaches adopted by tax administrators in distinct territories, worldwide. In few territories, tax authorities adopt a reasonable and sound approach, whereas, in few others, tax administrations tend to have a more aggressive outlook during audit process. The complexity of tax laws also gives rise to interpretation issues leading to conflicting positions by tax authorities. This diversity sometimes leads to emergence of unplanned risks for the Group. Such risks could relate to factors such as significant incentive claims or intra-group transfer pricing arrangements or even foreign remittances. To address such risks, the Group has a risk management framework in place that is periodically reviewed.

We maintain and operate our tax affairs within the tax governance, reporting and control framework which includes the policies and guidelines that are framed in accordance with the Group's approach to tax set out by the Group Chief Financial Officer (CFO) and the Executive Board, as well as with its Committees as applicable. In line with the Group's tax risk management principles, the responsibility and accountability for tax risk is appropriately allocated and managed within the group.

Tax organisation

Our tax organisation consists of many experienced professionals around the world who are responsible for staying abreast of applicable tax laws and ensuring that we adhere to these laws in the countries in which we have a presence. We have internal/ external training programs for employees in tax, finance, and other disciplines to ensure that they have the skills, technical expertise and knowledge to effectively and accurately fulfil their tax responsibilities and perform to the best of their abilities. Additionally, these programs create overall awareness of the importance of tax governance, risk management and compliance throughout the company. We also engage experts around the world, as necessary, to assist in our compliance and interpretation of tax laws in the countries in which we operate.

Defined roles and escalation policy

The roles and responsibilities for the tax function have been defined within the Group. The Group has an experienced in-house tax team responsible for managing the wider tax affairs. In the international territories, this is supported by local tax expertise embedded within the Group. Material transactions of local group entities, including significant or recurring new transactions, business structures or operations with other Group affiliates or unrelated parties are brought to the attention of the central tax team for determining tax positions, exposures or actions regarding material, non-routine tax matters. Where there is sufficient uncertainty over the tax treatment of a particular transaction or there is a potentially material impact, external consultation/ advice is obtained. Matters indicating significant tax exposures are reviewed and closely monitored by the Group senior management including the Group CFO.

Leadership role

Our global and cluster leadership plays an important role in tax governance and risk management. Finance and Accounting (F&A) leadership periodically reviews our processes, including an annual review with the Audit Committee of the Board of Directors. Global F&A leadership also has an oversight responsibility, ensuring the Group's tax governance and risk management framework is in line with our internal controls, policies, and procedures, as well as with external compliance and regulatory requirements. Tax risk areas are subject to independent evaluation by internal auditors and risk committees who periodically review and highlight material risks, if any. Necessary steps are taken towards mitigation of such risks. The Group CFO also performs the role of the Chief Compliance Officer (CCO) who is responsible for overviewing compliance within the Group, ensuring that the company and its employees are complying with regulatory requirements as well as internal policies and procedures.

Tax-diligence in planning

We pursue tax planning that is consistent with our business operations and that is based on adequate business substance. At Godrej Consumer Products, tax planning must comply with both the letter and spirit of the law and be supported by requisite business substance. Our global expansion outlook largely reflects inorganic growth. At the time of acquisitions, the Group adequately evaluates potential areas of tax risk through the necessary systems and processes in place. Required measures are undertaken to mitigate such risks.

We engage in responsible and sustainable planning that aims at analysing and managing the tax impacts of current and future business operations and transactions, based on genuine business rationale and with a long term view of sustainability and predictability. We do responsible and sustainable, business-driven planning related to the Group's business models, supply and value chains, structure, organisations, assets, investments and financing. We do take advantage of tax benefits, incentives and low tax rates available under applicable laws, as long as they are justified legally and from a business standpoint.

COMMITMENT TO BEING TAX COMPLIANT

Godrej Consumer Products' Tax Principles set out the Group's commitment to being compliant with tax laws across all relevant jurisdictions. Specifically, the Group is committed to observing all applicable laws, rules and regulations in meeting the Group's tax compliance and reporting responsibilities in all jurisdictions where the business operates and ensuring that appropriate management structures are put in place to meet those obligations.

In completing the Group's tax compliance requirements, we aim to apply diligent professional care and judgement, including ensuring all decisions are taken at an appropriate level and supported by documentation that evidences the judgements involved.