



TAX RISK MANAGEMENT POLICY

VODAFONE GLOBAL POLICY STANDARD

Objective/Risk

This policy addresses the management of tax risks arising for the Group. Its primary purpose is to set out the framework for management of these risks and to define the tax risk management requirements that need to be implemented within Group and within local markets.

These tax risk management requirements are consistent with the OECD recommendations for responsible business conduct in a global context.

Scope and Compliance

This Policy Standard applies to all Vodafone companies and joint ventures with an interest of 50%, or more, or management control.

Compliance levels will be monitored on a regular basis and results reviewed by appropriate governance bodies. Any breach will be treated as a serious disciplinary offence and may be subject to disciplinary actions in accordance with the provisions of the relevant local HR policy.

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1 Principles

1.1 Prevention of tax disputes and risk appetite

Over-riding principle:

Vodafone believes its obligation is to pay the amount of tax legally due in any territory, in accordance with the rules set out by governments. Nevertheless in certain aspects of tax law there can be ambiguity about the application of rules which can lead to differing interpretations by taxpayers and tax authorities and which result in tax disputes. Vodafone aims to prevent unnecessary tax disputes, however we recognise that, in order to achieve our key objective of enhancing shareholder value, disputes are sometimes unavoidable.

We aim to prevent unnecessary disputes by:

- Having strong technical tax positions
- Clearly explaining those positions
- Documenting the facts
- Establishing good working relationships with tax authorities, and
- Implementing strong compliance procedures to ensure accurate and complete tax returns

When addressing tax risk, the following factors should be considered:

- The impact on corporate reputation/brand
- The impact on relationships with governments
- The consequence of disagreements with tax authorities over the application of law.
- The benefit of certainty in respect of uncertain or disputed tax positions.

Risk appetite:

The commercial needs of the Group are paramount and we will work with the business as an equal partner in providing clear, timely and relevant business focused advice across all aspects of tax. Where alternative routes exist to achieve the same commercial results the most tax efficient approach in compliance with all relevant laws should be recommended.

Vodafone follows “the more likely than not” principle for making decisions on tax matters. Although there may be materiality considerations, all Group and local Tax function members should use this principle in their day to day roles to guide their decision making.

For example when concluding on the tax treatment of a transaction, we would not undertake it unless it is at least more likely than not that our proposed treatment would stand up to examination by tax authorities. This principle can be applied to different types of decisions.

Further definition of the components for interpreting and assessing risk are available in supporting documents.

1.2 Tax function commitments

The Tax function will work hand in hand with the business to mitigate tax risk. We will:

- Work with the business as an equal partner in providing clear, timely, and relevant business focused advice across all aspects of tax
- Ensure the business understands our tax risk management policy and principles, including our appetite for risk
- Work to ensure the business understands that the tax function should be involved throughout transactions from planning and implementation to documentation or maintenance
- Provide appropriate input as part of the approval process for business proposals to ensure a clear understanding of the tax consequences (i.e. costs, benefits, risks).



The prominence of the commercial needs will in no circumstances override compliance with all applicable laws. The tax function will therefore provide appropriate input as part of the approval process for business proposals to ensure a clear understanding of the tax consequences.

All such tax support will be given in the context of the Tax function being an enabler not a gate-keeper, willing to accept uncertainty and risk in line with our approved appetite for risk.

In addition to these rules Vodafone has a Tax Code of Conduct (Appendix A) that sets out the standards of professional conduct that we expect from each one of our Tax function employees.

2 Controls and deliverables required for compliance

2.1 Tax decision-making

The Tax function must be involved in the planning, implementation and documentation for:

- Significant changes to existing business activities including new products, services and promotions.
- All business or share acquisitions and disposals
- All changes in corporate structure
- All cross- border financing arrangements
- All significant business transactions
- All intra-group trading arrangements
- All significant new processes affecting tax compliance

The FD in each jurisdiction must also be part of this engagement.

In all of the above situations local and Group Tax functions, where relevant, must be involved well in advance to ensure arrangements being put in place are in accordance with the Group Tax strategy and are properly documented.

All decisions must consider the financial return, potential reputational risk and financial risk (likelihood of payment and the cash and P/L impact). The framework and thresholds for making these assessments are illustrated in Appendix B (Decision making limits).

Risk Assessment

All decisions must be supported by a detailed risk assessment that must be presented to the owners of the tax decision.

Risk assessment must include but not be limited to:

1. A full description of the issue including a clear summary statement of the facts.
2. An assessment of the financial costs and benefits of all potential scenarios.
3. An assessment of the non-financial costs and benefits including an assessment of the nature and amount of resources to secure the benefit.
4. An assessment of the probability of the risk crystallising.
5. Commentary on the likely process of dispute resolution.
6. Recommendations.

Authority to make tax decisions is split into three categories: Low, Medium and High risk decisions. The authority is as follows and applies in addition to local governance requirements (e.g.: local FD or other approval):

- **Low Risk Area (Green):** Managed by the Head of Tax for Large local markets and the Financial Controller or equivalent for Small local markets.
- **Medium Risk Area (Amber):** Managed as set out in the Low area plus second opinion is required either from external advisers or Group Tax. All risks falling within this area should be referred to Group Tax for information.



- **High Risk Area (Red):** Medium Area control applies plus specific approval by Group Tax. The Regional and Group CFO must also be informed.
- **STR:** Short term reputation issues will fall within the Medium Risk area, regardless of the value. This is something that might appear in the press for a day or two
- **LTR:** Long term reputation issues fall within the High Risk area, regardless of the value. An LTR issue is something that might damage Vodafone's reputation, which for example could have an impact on our share price or customer experience.

In assessing reputational risk, the group does not want its tax affairs to appear in the public domain and will work to avoid any negative impact on shareholder value. The Group CFO, Media Relations and appropriate parties must be informed to ensure they can easily explain any relevant situation to investors.

2.2 Tax and disclosure requirements

As stated in the Tax Code of Conduct the Group must comply with all tax regulations and disclosure requirements in all countries in which it operates. Where compliance processes have been outsourced to a shared service centre (e.g. VSSB) both the shared service centre and the group company using the services of the centre must equally ensure this principle is adhered to.

In order to comply with Tax and disclosure requirements both local market and Group tax functions must:

- Submit all returns by their due dates in line with local tax law
- Be able to support any material positions taken through documentation and legal interpretation
- Be able to reconcile Technical positions affecting two Vodafone tax jurisdictions in advance of any tax authority filing
- Be able to robustly defend tax positions taken in the Group's tax returns
- Proactively pursue any tax timing benefits within the context of the tax risk management policy
- Monitor changes in relevant tax law and practice and undertake regular training
- Manage their compliance affairs to minimise the risk of any adverse public comment
- Implement appropriate administrative safeguards with regard to back up procedures and electronic signatures will be established and executed by each tax team.

2.3 Tax authority relationships

In line with the Tax Code of Conduct requirements to foster good relationships with tax authorities, governments and related third parties and to undertake all such dealings in a professional, courteous and timely manner both local market and Group Tax functions must:

- Pro-actively manage the relationship with the tax authorities with the aim of minimising the risk of challenge, dispute or damage to Vodafone's credibility
- Participate in any tax authority formal consultation process where it is expected that the matter under consultation will have a material impact on Vodafone (See Appendix C)
- Participate in discussions and the development of proposals with national and international organisations such as the OECD and EU where possible and appropriate (local markets to align key messages with Group Tax so Vodafone speaks with one voice).
- Share information/request input as to whether subjects for consultation are in place or have been monitored in other countries.

It is Vodafone's policy to be transparent and proactive in all interactions with tax authorities. The application of this principle should be tailored to each territory style and engagement. Each tax team is encouraged to proactively foster this principle and share with the Vodafone tax community their local best practices. Note: Vodafone has specific guidance on how to interact with government officials (Appendix C)



2.4 Audit Resolution

All significant audits (for all taxes) must be subject to risk assessment and discussion as part of the appropriate local and Group governance approval processes to analyse and determine the choice of any potential compromise positions on audit and the method thereof versus litigation / tribunals and other dispute processes.

Elements to be taken into consideration:

- Assessment of the technical merits (and political merits) of each issue under enquiry.
 - Including a detailed review of the advice provided at the time of implementation
 - any subsequent advice received
 - Legislation updates
 - Recent case law updates
 - Tax authority statements / practices
 - EU / OECD developments including updates to guidelines and commentary
- Assessment of the facts, quality of the documentation and implementation
- Process options
 - Scope (years, values, queries that authorities are entitled to pursue)
 - Alternative Dispute Resolution
 - Cross border resolution
 - Arbitration
 - Litigation
- Cost v Benefit analysis (including looking at a portfolio of issues (if applicable))
 - Reputational issues with both tax authorities and stakeholders, culpability (interest and penalties), advisory fees, time value of money on tax deposits
 - Include long term consequences – for how long can we afford uncertainty
 - Cash flow implications (above and below line)
 - Losses, deduction capacity

2.5 Use of tax amnesties

Given Vodafone's tax compliance principles and approach to relationships with tax authorities the use of tax amnesties is unlikely to be deemed necessary or appropriate. The use of tax amnesties must be approved by the Group's Tax Director, regional governance teams and the local FD subject to a risk assessment with Group Tax.

2.6 Tax reporting procedures and provisions

The Tax Code of Conduct requires that we comply with all laws and disclosures and act with due professional care. These requirements are never more relevant than in ensuring accuracy and completeness of the presentation of our tax position in the financial reporting of the group.

The reported financial accounts whether at year end or interims are expected to reflect all taxes including those accounted for above the EBIT line. This section refers only to the procedures for tax reporting of taxes below EBIT.

Absolute transparency is needed between local markets/ Group entities and Group Tax to ensure appropriate accounting and disclosure decisions for external reporting and accurate and complete briefing of the group's tax responsible Director and Group CFO.

At each reporting event, tax charge and provisioning decisions must reflect the most up to date information to ensure that the group will have no significant adjustments to the actual tax charge or tax returns.



In meeting the above the Group Tax Reporting team will issue appropriate instructions and timetable for each reporting event for completion and review of Tax Packs.

Local markets must:

- Calculate all tax charges in accordance with the group accounting policy (Appendix D), referenced in the appendix
- Provide timely, complete and accurate tax packs and provision templates in accordance with instructions from the Group Tax reporting team
- Share relevant information in update calls in accordance with the reporting team agenda;
- Assist Group Tax with questions and clarifications required as part of the reporting process.

Group tax reporting team must:

- Prepare, subject to all inputs, the group's consolidated tax charge in accordance with all applicable governance and accounting requirements.
- Undertake local market provision reviews following reporting team guidelines
- Undertake review and update of group level transfer pricing provisions in line with the transfer pricing strategy (Appendix E).
- Ensure appropriate briefing of investor relations team
- Prepare the tax and total economic contribution report and OECD country by country report.

In preparing the tax and economic contribution report Group Tax must ensure that tax messages are:

- Correct and complete
- Supported and supportable with documented positions where necessary
- Follow the principles of the OECD guidelines for multinational enterprises

3 Roles and responsibilities

Group Policy Champion (Group Tax Director) – is accountable and responsible for setting tax risk policy and controls, providing specialist support and measuring compliance levels.

Local operating company FD or Group function CFO – is accountable and responsible for maintaining compliance levels with tax risk policy and legislation within their local markets or group function

Local and Group Heads of Tax – Usually has the delegated responsibility from the FD/CFO for ensuring compliance with the tax risk policy and with tax legislation within their local market or group function.

Group and local tax teams – are responsible and accountable for their own compliance with tax risk policy.

4 Exceptions

There are no exceptions to the policy.

5 Glossary of selected terms

Accepted practice transactions:

An accepted practice transaction is designed to create a tax benefit (including cash flow advantage) or avoid a tax burden but has little or no other commercial reason when viewed in isolation. Robust and open assessment is required to distinguish accepted practice transactions from artificial tax arrangements.

For example, a change in share ownership by indirect means versus a direct change comprising more individual steps than would otherwise be needed to achieve the same overall objective could be either an



accepted practice transaction or an artificial tax arrangement. The additional steps enable a more favourable or less unfavourable taxation in comparison to the economically (pre-tax) most appropriate and simplest transactions. It is of utmost importance for Vodafone to adhere to the transparency principle in this context with full disclosure of all relevant facts and circumstances to the tax administration (and of course our strong position and qualification). It is not our intention to disguise or to hide transactions from tax authorities.

In contrast, the routing of goods imported into the EU via the Netherlands to avoid a VAT cash flow disadvantage before onward sale to other EU destinations is fully accepted by all jurisdictions involved.

Artificial tax arrangements:

The tax code of conduct provides that we will enter into tax planning where the financial benefit is tax related but we will not engage in artificial tax arrangements. The test of artificiality is generally aligned with the existence of commercial purpose.

Some such cases could include, for example, the rationale for and ability to hold investments in other entities of the group, or the choice of tax jurisdiction for the undertaking of certain activities or the involvement of a particular entity in a transaction, or the role of a particular entity in a transaction.

The use of such arrangements would be "artificial" where there is otherwise no commercial purpose for the activities or if the attribution of profits or other benefits to a jurisdiction were not based on the actual activities and capabilities but merely on a contractual description of rights for which no capability exists.

Other artificial arrangements could include the provision of debt where there is no commercial rationale, provision of goods and services where there is no benefit to the recipient, the routing of transactions either financially (for withholding tax) or physically (for VAT) through companies which play no part in the underlying commercial arrangements.

Tax (filing) positions:

A filing position refers to the treatment of income, expenditure or transactions on a tax return. The code of conduct "more likely than not" criterion of a position being sustained on its merits if challenged by a tax authority is expected to cover the majority of situations. However, there are instances in which a filing position will not meet the more likely than not standard but would still be tenable.

Examples of such tenable filing positions acceptable under this strategy (subject to full disclosure and the principle that we will pay the right amount of tax due) are:

- Where there are current uncertainties created by a comparison of any or all of the wording of law, tax authority interpretation of law and experience of the law as interpreted by the legislative system.
- Where there are current uncertainties or opportunities created by recognised errors in law not yet corrected.
- Where a position would be in accordance with an announced future correction of law.
- Where the cost of full compliance with the law would be prohibitive but a reasonable estimate can be reflected.

Tax filing positions taken by Vodafone will never be based on a principle of "not being found" nor for the sole purpose of obtaining leverage in the bargaining process of a settlement.



Transparency:

Transparency goes beyond the observation of all applicable laws, rules, regulations and disclosure requirements. It requires the proactive consideration of the provision of information to tax authorities in respect of tax relevant facts and circumstances if they will aid the resolution of the matter under discussion. For example if information not available in a territory is requested, Vodafone will not 'hide' behind territorial borders or the absence of legal obligations but will take reasonable efforts to provide the relevant fact based information. This is a fundamental element of our aim to develop and foster good working relationships with tax authorities. There is however a limit to proactive transparency where over time a relevant tax administration does not show it is willing to make its own contribution to a good and professional working relationship with Vodafone.

6 Supporting documents

Related implementation and procedure documents

- Appendix A – Tax Code of Conduct
- Appendix B – Transfer pricing strategy



Appendix A – Tax Code of Conduct

1. Introduction

This Code of Conduct applies to all tax professionals working in companies owned by Vodafone Group Plc. It endeavours to guide the role of tax professionals within the Group, their key responsibilities, their professional conduct and their approach to working relationships with external parties.

Vodafone believes its obligation is to pay the amount of tax legally due in any territory, in accordance with rules set by governments. In so doing it is not able to determine the "fair" amount of tax to pay,

It is not appropriate for the details of the Group's tax affairs to appear in the public domain. Vodafone will however only enter into transactions which would be fully justifiable should they become public.

2. Responsibilities and Professional Conduct

Tax professionals will aim to:

- Effectively manage risk by application of components of the tax risk policy
- Observe all applicable laws, rules, regulations and disclosure requirements.
- Apply diligent professional care and judgment to arrive at well-reasoned conclusions
- Ensure all decisions are taken at an appropriate level and supported with documentation that evidences the facts, conclusions and risks involved
- The Group aims for certainty on tax positions it adopts but where tax law is unclear or subject to interpretation, written advice or confirmation will be sought as appropriate to ensure that our position would, more likely than not, be settled in our favour.
- Where the tax treatment of an item is so uncertain and/or unquantifiable preventing the assessment of more likely than not, filing positions¹ should be subject to robust risk assessment and supported by full disclosure.
- Develop and foster good working relationships with tax authorities, government bodies and other related third parties
- Undertake all dealings with tax authorities, government officials, ministers and other third parties in a professional, courteous and timely manner.
- Be compliant with all anti-bribery legislation.
- Seek to influence applicable industry bodies or associations, governments and other external bodies (e.g. OECD and the EU) where possible and appropriate to shape future tax legislation and practice in ways that balance the Group's interest (e.g. consistency, stability, competitiveness) with those of the relevant authority or policy.

3. Commercial Rationale

The commercial needs of the Group are paramount and all tax planning will be undertaken in this context. All transactions must therefore have a business purpose or commercial rationale.

Due consideration will be given to the Group's reputation, brand, corporate and social responsibilities when considering tax initiatives, as well as the applicable legal and fiduciary duties of directors and employees of the Group and will form part of the overall decision-making and risk assessment process.

¹ As defined in the glossary at the end of this document.



4. Policy on Disclosure

Compliance with all relevant legal disclosure and approval requirements will be adopted and all information will be clearly presented to the tax authorities or other relevant bodies, as appropriate. Openness, honesty and transparency will be paramount in all dealings with the tax authorities and other relevant bodies.

5. Other Policies and Procedures

On all projects the required approvals and procedures detailed in the group governance manual and official delegations of authority will be complied with.

In addition, the group business principles and any other relevant codes are separate requirements which apply to all members of staff.

6. Assurance

Should any person have specific queries about this Code, or would like advice on implementing it, they should speak with their line manager and, if not adequately addressed, those queries should be brought to the attention of the Director of Tax Strategy and Policy or the Corporate Finance Director. If confidential advice is required or there are concerns that cannot be addressed through line management, please contact the Group Human Resources Director or the Group Audit Director. Alternatively, concerns can be raised anonymously through the Speak Up web page on the intranet.



Appendix B – Transfer pricing strategy

This Transfer Pricing Strategy supports, and should be read in conjunction with, Vodafone's Tax Risk Management Policy.

1. Background

The key principle of transfer pricing is that intercompany transactions within an MNE group should follow the arm's length principle in line with the OECD Transfer Pricing Guidelines.

Given the extensive nature of those Guidelines, differing methodologies contained therein, and a range of prices that may legitimately be applied, the precise determination of arm's length pricing is recognised as being challenging for both MNC's and tax authorities.

Although the OECD Guidelines have been developed and adopted by some 35 countries which span Europe, North and South America, and Asia Pacific, there are other jurisdictions that do not expressly follow them.

Accordingly it is expected for there to be occasional transfer pricing disputes, both within and between those countries who follow OECD guidelines and those who don't.

In particular for multiple transactions covering various countries in a complex industry such as telecommunications, where transfer pricing can be a significant determinant of the tax liability in a country, it is anticipated that transfer pricing disputes may arise, and indeed where two tax authorities on either side of the same transaction cannot easily agree the appropriate arm's length price for a transaction, that double taxation may arise.

In such cases, the OECD guidelines, along with domestic tax laws and bilaterally negotiated double tax conventions between sovereign States, provide for various Mutual Agreement or Dispute Resolution procedures to ensure that multinational businesses do not suffer double or multiple levels of taxation.

2. Vodafone's transfer pricing strategy

Over-riding principles:

All transfer pricing arrangements will be consistent with the OECD Transfer Pricing Guidelines and in particular follow the arm's length principle.

For identical intercompany transactions within the Vodafone Group across different markets, Vodafone seeks to use a consistent intercompany pricing methodology.

If, after detailed explanation following OECD guidelines, two or more tax authorities cannot agree on the appropriate transfer price, Vodafone will often consider it necessary to use all legal dispute resolution channels available to it in order to prevent, or reduce double taxation.

We aim to prevent transfer pricing disputes by

- Always considering and complying with OECD guidance on arm's length pricing when parties enter into the transaction and to do so by any date required by local laws
- Meeting all transfer pricing requirements through observing all applicable laws, rules, regulations, disclosure and documentation requirements
- Always considering both sides of the transaction
- Only using transfer pricing to help implement business transactions, not drive them



- Obtaining Advance Pricing Agreements (APAs) where possible to obtain upfront tax authority agreement to material transfer prices
- Being consistent across countries whilst taking into account local economic factors necessitate differences
- Having strong technical positions for our transfer pricing and clearly explaining those positions and the underlying business transactions
- Reconciling adjustments to differences in otherwise comparable transactions or economic factors
- Following the Code of Conduct

3. Code of conduct

In seeking to interpret the OECD guidelines in line with the “more likely than not” principle of the code of conduct and our defined appetite for risk we will base our assessment on:

- i) a balanced position for all members of the Group (no entity will be favoured based on either the likelihood of challenge or tax benefit).
- ii) a combination of the legal position and the likely outcome from a full and robust disclosure to both relevant tax authorities whether under mutual agreement procedures or otherwise.
- iii) the facts and principles if assessed independently, for example by independent courts, not on the likelihood of tax authorities to expect taxpayers to “negotiate” the settlement of transfer pricing disputes.