Tax and our total contribution to public finances

The amount of tax paid by large companies is a matter of significant public debate and scrutiny.

Individuals and companies have legal obligations to pay tax; but those obligations do not extend to paying more than the amount legally required. Companies also have a legal obligation to act in the interests of their shareholders. Vodafone's shareholders include many of the investment funds relied upon by tens of millions of individual pensioners and savers.

At the same time, individuals and companies must meet their responsibilities to contribute to the funding of public services and infrastructure, without which societies cannot operate effectively.

Achieving a transparent and effective balance between those obligations and responsibilities is therefore integral to operating sustainably.

£11.1 billion

In 2011/12, Vodafone contributed more than £11.1 billion in cash to the public finances in our countries of operation.

Understanding tax

When considering a company's tax contributions, there are several important factors to take into account.

- In many countries and for many companies, corporation tax payments only account for a small proportion of businesses' total tax contribution to national governments. For example, corporation tax accounts for around one-tenth of total tax paid to the UK Exchequer and one-third of total taxes paid to the UK Exchequer by the UK's largest 100 companies[1]. Businesses also pay a very wide variety of additional taxes: as the Appendix demonstrates, corporation tax is only one of almost 50 different types of taxation paid by Vodafone's operating businesses every year
- Corporation tax is paid on profits, not on revenues. If a company makes little or no profit – for example, as a consequence of declining sales, competitive market conditions or a period of intense capital investment, particularly if funded through borrowing, it will generally incur lower tax charges than another similar company with higher profits. This approach is common to all countries as without it, companies enduring periods of low profitability would be faced with disproportionate tax demands and significant disincentives for investment in infrastructure. In a number of Vodafone's markets, including the UK, the cost of acquiring radio spectrum from the government, high operating costs, substantial levels of capital expenditure and sustained competitive and regulatory pressures have a significantly negative effect on the profits of our local businesses. In addition, in some markets, other taxes that are levied on revenue (together with non-taxation-based contributions such as spectrum fees) have the effect of depressing profit and so reducing corporation tax liabilities
- Taxation is local. Taxes generally fall due wherever profits are generated, and the tax liabilities that arise as a result are decided under the rules of the country that is host to the business in question. So, for example, a company operating in South Africa pays taxes to the South African government under tax rules determined by that country's government; and a company operating in Italy pays taxes under Italian rules to the Italian government. Vodafone pays all taxes due under the law in all our countries of operation: in 2011/12, these amounted to more than £3 billion. For further details, see 'Multinationals, governments and tax'
- Taxation is not the only route used by governments to raise revenue from businesses. Governments also use other mechanisms to derive revenues from business activities, including a wide range of licensing regimes, revenue or production-sharing agreements and, for communications companies, radio spectrum fees and auction proceeds. Those additional sources of government revenue are often substantial – sometimes exceeding the monies raised through taxation – and represent a critically important

contribution to public finances. It is therefore essential to take those government revenue-raising mechanisms into account when assessing the extent to which a company is playing its part in funding wider civil society

- Large companies are an important source of investment and employment. Governments seeking to stimulate investment often develop corporate taxation regimes which are intended to attract the capital necessary to deliver key policy objectives. Those measures also have the effect of stimulating job creation, in turn leading to higher government revenues from employment taxes and increased levels of consumer spending on the part of an expanded workforce. This is particularly relevant when considering multi-billion pound, multi-year programmes to build critical national infrastructure, such as the UK Government's target for universal broadband coverage by 2015. Political leaders make an active choice to incentivise corporate investment by offering capital allowances – to be offset against future corporate tax liabilities – in order to achieve a wider national benefit that would otherwise have to be funded directly by the state, invariably through public borrowing. These allowances are not 'loopholes': they reflect the public policy choices made by governments and also – wholly intentionally – have the effect of reducing tax liabilities for companies whose investment decisions support those policy choices

Tax conduct and principles

We are committed to acting with integrity in all tax matters. We always seek to operate under a policy of full transparency with the tax authorities in all countries in which we operate, disclosing all relevant facts in full, while seeking to build open and honest relationships in our day-to-day interactions with those authorities, in line with our Tax Code of Conduct, which is contained within our Tax risk management strategy.

In forming our own assessment of the taxes legally due for each of our businesses around the world, we follow the principles stated in our publicly available tax risk management strategy. We have two important objectives: to protect value for our shareholders, in line with our broader fiduciary duties; and to comply fully with all relevant legal and regulatory obligations, in line with our stakeholders' expectations.

However, tax law is often unclear and subject to a broad range of interpretations. Furthermore, the financial affairs of large multinational corporations are unavoidably complex: we typically process and submit more than 12,000 tax returns to tax authorities around the world every year. The assessment and management of tax uncertainty is therefore a significant challenge for any company of Vodafone's scale, and the key issues are subject to review by the Board and Audit and Risk Committee.

Our overarching approach is to pursue clarity and predictability on all tax matters wherever feasible. We will only enter into commercial transactions where the associated approach to taxation is justifiable under any reasonable interpretation of the underlying facts, as well as compliant in law and regulation. Our Tax teams around the world are required to operate according to a clearly defined set of behaviours, including acting with integrity and communicating openly. These are aligned with the Vodafone Group Code of Conduct and the values set out in The Vodafone Way.

In focus: Multinationals, governments and tax

Within the European Union and in many other territories, companies have a legal right to set up businesses in different countries and to trade freely across borders. All governments therefore seek to balance the need for tax revenues with the need to encourage companies to do business in and from their jurisdictions, through the development of competitive tax regimes.

Multinational companies choose from a range of locations when setting up certain centralised global operations, such as procurement or IT support. Their decisions are influenced by a wide range of factors beyond the local tax environment, including:

- the stability and predictability of the political, regulatory and social environment, including respect for the rule of law and compliance with international human rights conventions
- the availability of relevant skills within the local labour force
- labour costs, and the cost of operations
- the effectiveness of transport links
- the quality and reliability of communication networks
- the range and value of the real estate market

In an international context, various treaties and inter-governmental agreements ensure multinational companies are not subject to 'double taxation' by paying tax twice over in two different countries in relation to the same economic activity. Governments also maintain measures that restrict companies from entering into artificial arrangements to move profits from one country to another lower-tax destination. These include requiring multinational companies to apply 'transfer pricing' rules to inter-company activities to ensure that profits are allocated to countries where the relevant economic activity takes place. Vodafone does not enter into artificial arrangements – for example, by artificially diverting profits to minimise tax payments to the UK Exchequer – and will only adopt business structures that reflect genuine and substantive commercial and operational activities.

Contributing to the development of tax policy

When governments seek to develop or change tax policy, they invariably seek input from a wide range of interested stakeholders, including business advocacy groups and a large number of individual companies. Vodafone regularly engages with governments – typically through public consultation processes or in our role as a member of an industry group – to provide our perspective on how best to balance the need for government revenues from taxation against the need to ensure sustainable investment.

For example, we co-chair the tax policy committee of the European Telecommunications Network Operators' Association (ETNO) and the Groupe Speciale Mobile Association (GSMA), which represents the industry when looking at emerging issues across the EU. In this role, we have shared our insights as a multinational operator with the European Commission Taxation and Customs Union Directorate-General (TAXUD).

We contribute to tax committees of telecommunications industry organisations in Germany, which work on legal developments with tax policy and on tax administration, including the interpretation and application of tax law. In the UK, our Group Chief Financial Officer is a leading industry representative in the Government's Business Forum on Business Tax and Competitiveness, working to build a more competitive UK tax system. Vodafone also chairs the Finance Committee of the Cellular Operators Association in India and is a member of the South African Institute of Chartered Accountants (SAICA), which engages on a wide range of tax issues.

To promote research into the structure of business taxation and its economic impacts, Vodafone contributes to the funding of the Oxford University Centre for Business Taxation, based at the Said Business School. As well as providing world-class economic analysis, the Centre has produced policy papers and hosted conferences bringing together formal and informal gatherings of government, academic, business and NGO representatives to promote better understanding and quality of debate on tax matters.

In focus: India and tax

In 2007, Vodafone purchased an indirect stake in a company in India from Hutchison Telecommunications International Limited. After the acquisition was completed, the Indian tax authorities sought to raise a tax demand against Vodafone, even though the transaction took place outside India between two non-Indian entities and Vodafone was the buyer, not the seller.

The Indian tax authorities' actions led to a protracted legal dispute, which culminated in a hearing before the Indian Supreme Court. The Supreme Court examined all the facts related to the transaction before concluding unambiguously and unanimously, in January 2012, that no tax was due. The Court also highlighted that it was important for the Indian government to avoid penalising international investment in the country.

Although the country's highest court had vindicated Vodafone's position, the Indian government subsequently changed the law to introduce retrospective taxation rules. Those rules, which were back-dated to 1962, were designed to require taxes to be paid retrospectively which, as the Supreme Court had concluded, could not be levied against Vodafone under any reasonable interpretation of the evidence or the law.

All businesses depend on tax policy predictability and certainty in order to plan investments for the long term. The Indian government's decision to rewrite half a century of tax legislation with immediate retrospective effect was widely condemned worldwide, greatly damaged global business confidence in the Indian government and led to a marked reduction in the flow of investment into the country.

As a result, the Indian government commissioned an independent inquiry, led by the economist Parthasarathi Shome, to recommend a way forward. The Shome Committee concluded that retrospective tax rules should be introduced only in the 'rarest of rare' cases, and that, if applied to capital gains tax cases, the authorities should pursue the seller, not the buyer (Vodafone being the latter not the former in the case at issue).

While we maintain that no tax is due on the 2007 acquisition, we have informed the Indian government that as a committed long-term investor in India, we are willing to explore the possibility of a mutually acceptable solution. The Indian government is currently considering its options.

Over the last five years, Vodafone has become one of India's largest investors: we have spent more than £12.8 billion in building our business in the country since 2007. We are also one of the country's largest taxpayers: as we set out under our country-by-country total contribution table, in 2011/12 our direct and indirect contributions to Indian public finances exceeded £1.4 billion.

In focus: The HMRC/Vodafone Controlled Foreign Companies settlement

In 2010, Vodafone and Her Majesty's Revenue and Customs (HMRC) concluded a long-running legal dispute, focused on a specific point of UK and European tax legislation, with a full and final settlement of £1.25 billion.

The background to this settlement is highly complex. It was focused on an area of law whose application was unclear, and which successive UK governments agreed needed to be rewritten. It involved nine years of legal argument, three court cases and two independent appeals, followed by a detailed HMRC review and settlement in 2010. That settlement was then followed by a National Audit Office (NAO) inquiry in 2012, assisted by a former High Court judge, Sir Andrew Park. The NAO report concluded that the HMRC/Vodafone settlement was a good outcome for the UK taxpayer, and that if Vodafone had chosen to continue litigation instead of settling with HMRC, "there was a substantial risk that the Department [HMRC] would have received nothing."

The dispute focused on the UK tax authorities' interpretation of Controlled Foreign Companies (CFC) legislation and began when Vodafone bought the Mannesmann conglomerate in Germany in 2000. This was an all-share transaction involving no borrowings or loans from Vodafone's UK business. Importantly, there was no reduction in Vodafone's UK tax contributions as a consequence, and the dispute was not related in any way to the tax liabilities arising from our UK operations. We therefore questioned the UK tax authorities' application of the rules on both factual and legal grounds, in common with a number of other companies who had also challenged the UK's approach to CFC legislation.

Vodafone's subsidiary in Luxembourg is the main financing company for our many operations around the world. The UK tax authorities argued that, had those financing activities been established and undertaken in the UK, they would have attracted tax in the UK, and that therefore tax should be payable under UK CFC provisions. Vodafone argued that, as a matter of European law, we were freely entitled to establish activities wherever we chose, and that as a matter of fact, these were neither artificial arrangements nor did they have any impact on Vodafone's UK tax liabilities.

The underlying facts were scrutinised by the UK tax authorities and the points of law involved were examined in detail by the European Court of Justice, the UK High Court and the UK Court of Appeal, prior to the decision to reach a settlement. Subsequently, the UK Government sought to address a number of inconsistencies and flaws in UK CFC legislation, clarifying the UK's approach to this complex area of international taxation in new rules, which took effect in January 2013.

Notes:

1. See Analyses of Corporation Tax receipts and liabilities and Total tax contribution: results of The Hundred Group 2012 survey

This section is included within Ernst & Young's assurance of Vodafone's Sustainability Report.
For more details see their Assurance Statement.
June 2013

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Quality In Everything We Do

Our contribution, country by country

Vodafone plays an important role in helping to develop the economies of the countries in which we operate. We are a major investor, taxpayer, employer and purchaser of local goods and services. We also make a vital contribution to the delivery of governments' policy objectives through our substantial capital expenditure in building the next generation of digital infrastructure.

We contribute directly to public finances through a wide range of taxes as well as non-taxation revenue mechanisms such as licence and regulatory fees. We also make a significant indirect contribution through the taxes paid by our employees and the suppliers that our businesses support (many of which are effectively dependent on the fact that we do business in the country in question), as well as through taxes collected on governments' behalf, such as sales taxes and VAT.

Assessing our contribution to public finances

The following table sets out the data for five of the most relevant indicators of Vodafone's total overall contribution to the public finances and wider economies within which we operate.

Certain data is only gathered and reconciled some time after the end of the previous financial year, for example, in relation to some non-taxation-based fees paid to national governments. Therefore, to ensure the most effective comparisons between different types of contribution within the same period, all the data presented in the table below is for the 2011/12 financial year and is drawn from our audited accounts.

In the 2011/12 financial year, Vodafone's businesses around the world paid more than £3.3 billion in direct taxes to governments in our countries of operation plus more than £1.8 billion in other non-taxation-based fees and levies. Our businesses also made a total indirect tax contribution to national governments of more than £5.9 billion. Our total cumulative contribution to the public finances of our countries of operation was therefore more than £11.1 billion. We also invested more than £6 billion in the networks and services now relied upon by more than 400 million customers worldwide.

In the table below, the direct tax contributions to governments are reported on an annual actual cash paid basis for each local market as, in our view, these are among the most meaningful and transparent metrics to consider when assessing a company's tangible role in helping to fund public services. International accounting rules governing the reporting of a multinational company's profit and loss tax liabilities and charges are complex, reflecting a wide range of factors such as deferred taxation, losses, group-level taxation and various provisions related to uncertain tax positions. The cash payments or reliefs arising from those factors may be several years in the future. As a result, there can be a variance between a multinational company's statutory reported numbers over a specific time period – particularly in territories with holding companies as well as a local operating company – and the actual cash paid numbers set out below[1].

For more detailed information about our latest financial performance in 2012/13, see our Annual Report.

The columns in the table are explained below.

- **Direct government revenue contribution: taxation.** This encompasses Vodafone's total direct tax contribution in each country, including corporation tax, business rates or equivalent, employers' national insurance contributions or equivalent, municipal and city taxes, sector-specific taxes (such as 'special' taxes, 'telecoms' taxes or 'crisis' taxes), stamp duty land tax, stamp duty reserve tax, irrecoverable Value Added Tax (VAT), insurance premium tax, climate change levy, environmental taxes, customs duties, fuel excise duties, vehicle excise duty and acquisition taxes. An illustrative list of the types of taxes paid is set out in the Appendix
- **Direct government revenue contribution: non-taxation mechanisms.** This encompasses all other forms of government revenue raised in addition to a country's direct taxation regime, including telecoms licence fees, radio spectrum management fees, proceeds from revenue-sharing agreements, usage fees and proceeds from radio spectrum auctions. Examples of these payment types are listed in the Appendix
- **Indirect government revenue contribution.** This encompasses taxes collected by companies on behalf of national governments, including Pay As You Earn (PAYE) income tax, employees' National Insurance contributions, withholding taxes, sales and consumption taxes, and VAT. These indirect contributions to government revenue would not be collected (or generated to the same extent) if the company did not employ people and offer services or products to the customers responsible for paying the tax in question, or procure goods and services from its suppliers on which such taxes are due
- **Capital investment.** Our significant investments in building the networks and services relied upon by more than 400 million Vodafone customers around the world are often taken into account by local tax authorities when determining corporate tax liabilities
- **Direct employment.** Vodafone is an important source of employment and skills transfer worldwide. We provide incomes, benefits and the potential for a high-technology sector career path for 91,272 people in more than 30 countries as of end March 2013 (2011/12: 86,373). In addition, we have contractual relationships with many thousands of suppliers and partner companies around the world, each of which relies to a greater or less extent on revenues from Vodafone to pay their employees' wages

Notes:

1. For example, see CBI – Tax and British Business: Making the Case and CBI – UK Corporation Tax system: 12 misunderstood concepts

This data is intended to provide a broader insight into Vodafone's significant economic contribution to the societies in which we operate. We have no view on the merits of direct versus indirect taxation, nor on the distinction between the revenues that flow to governments from taxation versus those obtained through other means, such as spectrum fees. Governments – not companies – determine the rules.

The figures set out in the table below will vary widely from country to country and from year to year as a result of local differences between, and annual movements in, factors such as levels of profit and capital investment. For example, next year's table will reflect our considerable recent investments in radio spectrum during the 2012/13 financial year, particularly auction payments of almost £1,200 million to the Netherlands government and more than £800 million to the UK Government. There are also wide variations in local taxation regimes and other government revenue-raising mechanisms, many of which change from year to year.

Total Economic Contribution – country by country

FY2011/12	1A. Direct revenue contribution: taxation	1B. Direct revenue contribution: other non-tax	2. Indirect revenue contribution	3. Capital investment	4. Direct employment
	£m	£m	£m	£m	
N&CE region					
Czech Republic	43	8	74	85	2,974
Germany	160	0	892	1,044	12,115
Hungary	33	0	45	55	1,543
Ireland	22	8	84	117	1,122
Netherlands	43	0	217	243	3,034
Romania	64	13	92	80	3,515
Turkey	299	19	446	266	3,312
UK	338	21	523	767	8,151
Total	**1,002**	**69**	**2,373**	**2,657**	**35,766**
SE region					
Albania	6	1	12	22	438
Greece	25	6	217	78	2,225
Italy	668	1,069	1,333	653	5,838
Malta	5	2	6	9	312
Portugal	71	91	149	151	1,505
Spain	225	71	334	429	4,379
Total	**1,000**	**1,240**	**2,051**	**1,342**	**14,697**

Tax and our total contribution to public finances

FY2011/12	1A. Direct revenue contribution: taxation	1B. Direct revenue contribution: other non-tax	2. Indirect revenue contribution	3. Capital investment	4. Direct employment
	£m	£m	£m	£m	
AMAP region					
DR Congo	54	5	3	24	585
Egypt	100	57	170	209	4,384
Ghana	6	2	46	57	1,392
India	257	414	802	815	11,234
Kenya	98	29	92	71	2,701
Lesotho	6	2	2	7	131
Mozambique	1	0	3	45	236
New Zealand	57	1	57	106	1,922
Qatar	0	1	0	69	378
South Africa	374	18	291	603	5,147
Tanzania	16	1	31	43	477
Total	**969**	**530**	**1,497**	**2,049**	**28,587**
Non-OpCo[1]	400	0	10	13	494
Global total	**3,371**	**1,839**	**5,931**	**6,061**	**79,544**[2]

Notes:

Contributions made directly by the Group's joint ventures and associate interests are included in the table above for countries where Vodafone is the largest shareholder in the local entities in question. Contributions are not included for the US and Australia and Fiji, where Vodafone is not the largest shareholder in the relevant local entities. Contributions from our wholly owned US holding companies relating to Vodafone's 45% interest in Verizon Wireless are included in the 'Non-OpCo' line.

1. 'Non-OpCo' includes (i) subsidiaries in countries with no Vodafone operating companies such as Luxembourg (location of the Group's global procurement, financing and roaming operations) and (ii) holding company entities in the US relating to the Group's 45% interest in Verizon Wireless.
2. The global total direct employment number does not include some roles in global functions and some joint venture/non-controlled assets.

The source data is predominantly drawn from information included within the publicly available Vodafone Group Annual Report & Accounts, the public accounts of the Group's listed operating company subsidiaries and the accounts of various non-listed Group operating company subsidiaries. The Vodafone Group public accounts are certified by the Group's external auditors Deloitte, and the public accounts of the Group's listed operating company subsidiaries are certified by those companies' external auditors. Additional data is subject to assurance by Ernst & Young, in line with the approach taken for other metrics disclosed in the Vodafone Group Sustainability Report.

Key Vodafone Group financials and statistics at global level

	2010/11	2011/12	**2012/13**
Revenue (£m)	45,884	46,417	**44,445**
Adjusted operating profit (£m)	11,818	11,532	**11,960**
Free cash flow (£m)	7,049	6,105	**5,608**
Market capitalisation (as at 31 March) (£m)	91,034	85,490	**91,300**
Group customers (million)	370.9	404.7	**403.9**

Appendix: taxation types

The table below provides an illustrative overview of the types of taxation paid by Vodafone operating companies around the world every year.

Direct taxation

Advertisement tax
Air passenger duty
Airtime excise tax
Business rates
Capital gains tax
Climate change levy
Commission levy
Communications services tax
Construction tax
Corporation tax
Customs duty
Donations tax
Economic activity tax
Education tax
Employers' national insurance contributions
Environment tax
Excise duty
Expatriate tax
Fuel duty
Garbage tax
ICA/turnover tax
Import duty
Insurance premium tax
Interconnect tax
International inbound call termination surtax
Irrecoverable VAT
Judicial tax
Mobile telecoms services VAT
Mobile telecoms VAT (higher rate)
Municipal and city rates
Municipal tax on immovable property
Municipal waste tax
National health insurance levy
Numbering tax
PAYE settlements
Site rental tax
Social security tax
Special communications tax
Special consumption tax
Sprint payments
Stamp duty land tax
Stamp duty reserve tax
Tax on public domain/fixed lines
Technology tax
Universal service tax
Vehicle excise duty
Withholding tax
Workers' compensation insurance levy

Non-taxation-based fees

Chamber of commerce fees
IMEI number registration fees
Licence renewal fees
National Copyright Collecting (SIAE) fees
Network usage fees
Proceeds from revenue-sharing agreements
Radio link fees
Spectrum auction receipts
Spectrum management fees
Telecoms levy
Telecoms licence fees
Usage fees
Wireless connection fees
Wireless usage fees

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