



## **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 the tax 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 are monitored and reviewed by appropriate governance bodies. Any breach will be treated as a serious disciplinary offence and may be subject to disciplinary action.

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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. 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
- Thoroughly documenting the facts
- Establishing good working relationships with tax authorities, and
- Implementing strong compliance procedures to ensure accurate and complete tax returns

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

- The impact on corporate reputation/brand
- The impact on relationships with governments and other external stakeholders
- 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

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 and courts. This principle can be applied to different types of decisions.

Further definition of the components for interpreting and assessing risk are set out in Appendix B (Risk scale and decision making limits).

### 1.2 Tax function commitments

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

We will:

- Ensure the business understands our tax risk management policy and principles, including our appetite for risk.
- 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.

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. All employees within the Global Tax community should familiarise themselves with the Tax Code of Conduct.

## 2. Controls and deliverables required for compliance

Each local market and group entity will ensure processes are in place to comply with the following requirements:

### 2.1 Tax decision-making

#### Tax function involvement in transactions

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

- Significant changes to existing business activities including reorganisations, new products, services and promotions
- Business or share acquisitions and disposals
- Changes in corporate structure
- Transactions involving multiple jurisdictions, including cross-border financing arrangements
- Significant business transactions
- Intra-group trading arrangements
- Significant new processes or systems 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 of any arrangements being put in place to ensure they 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 income statement impacts). The framework and thresholds for making these assessments are illustrated in Appendix B (Risk scale and 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.

The risk assessment must include:

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

#### Level of authorisation

Authority to make tax decisions is split into three categories: Low, Medium and High Risk Areas. 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 Risk Area plus second opinion is required either from external advisers or Group Tax. All risks falling within this area should be notified to Group Tax (*i.e.* the Group Tax Director and/or Deputy Group Tax Director) for information
- **High Risk Area (Red):** Medium Risk Area control applies plus specific approval by Group Tax (*i.e.* the Group Tax Director). 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 compliance 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. \_VOIS) 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 regulations and disclosure requirements local markets, including the compliance functions of Vodafone Business, UK Group and holding companies must:

- Submit all returns, and other local tax filings, including country by country reporting notifications and submissions, where relevant, by their due dates in line with local tax law
- Ensure all tax payments are made by their due dates and in line with local tax law
- Be able to support any material positions taken through documentation and legal interpretation, with clear documentation of the facts and circumstances recorded at the time of any transaction
- 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 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
- Establish and execute appropriate administrative safeguards with regard to back up procedures and electronic signatures

All local markets will be required to provide a certification to the Group Tax Director, on an annual basis, that the local tax team, has complied with this policy, and specifically that all local filing obligations and payment requirements have been met.

## 2.3 Tax authority and government relationships

The Tax Code of Conduct requires Vodafone to develop and foster good relationships with tax authorities, governments and other related third parties and to undertake all such dealings in a professional, courteous and timely manner. In accordance with this both local market and Group Tax functions should:

- 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



- Engage with tax policy officials, including responding to any tax authority formal consultation process where it is expected that the matter under consultation will have a material impact on Vodafone
- Participate in discussions and the development of proposals with any industry-specific tax groups, regional and international organisations where possible and appropriate (local markets to share concerns regarding policy developments and 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 develop and foster this principle and share with the Vodafone tax community their local best practices.

## 2.4 Tax controversy

In addition to the requirements set out in the Vodafone Global Policy Delegations of Authority, the local market must notify Group Tax (*i.e.* Head of International Tax Controversy) within two working days if any the following new risks/events arise (irrespective of the likelihood or impact of the matter):

- Initiation of a tax audit, investigation or inspection
- A non-routine tax assessment or draft audit findings
- A Court decision / Revenue Authority ruling to which Vodafone is a party or which will have a direct impact on a Vodafone tax position
- A tax authority's intention to progress the audit to another dispute mechanism

## 2.5 Audit and enquiry management

Audits and tax authority enquiries will in most circumstances be handled by the local tax team, however, advice should be sought from Group Tax in circumstances where:

- The overall liability at stake including tax and penalties is material
- The audit involves international concepts and/or consistency is relevant to the Group
- There is a significant risk of litigation
- There will be reliance on expertise or information from other parts of the Group
- There is a risk of reputational damage

## 2.6 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 and any subsequent advice received
  - Legislation updates
  - Recent case law updates
  - Tax authority statements / practices
  - International (e.g. 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, including Mandatory Binding 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
  - Long term impact – for how long can we afford uncertainty
  - Cash flow implications (above and below line)
  - Losses, deduction capacity

## 2.7 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 Tax Director, regional governance teams and the local FD subject to a risk assessment with Group Tax.

## 2.8 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 Vodafone Group Plc Audit and Risk Committee 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 submissions.

### Local markets must:

- Calculate all tax charges in accordance with the group accounting policy which is set out in Appendix C – Group accounting policy manual extract
- Provide timely, complete and accurate tax submissions and tax risk and provision documentation 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.
- Ensure compliance with local market controls over the preparation of the tax submissions.

### 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 tax risk and provision reviews following reporting team guidelines
- Undertake review and update of group level transfer pricing provisions in line with the transfer pricing strategy (included at Appendix D – Transfer Pricing Strategy)



- 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 total 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 Supporting documents

#### Related implementation and procedure documents

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



## Appendix A – Tax Code of Conduct

### 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 is committed to acting with integrity, honesty and transparency in the creation and execution of our tax strategy, policies and practices. 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.

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. Vodafone will only enter into transactions which would be fully justifiable should they become public.

### Responsibilities and Professional Conduct

Tax professionals will aim to:

- Effectively manage risk by application of the components of the tax risk management 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
- 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
- Engage with 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

### 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. Vodafone will not enter into arrangements which are artificial in nature or not linked to genuine business requirements.

Vodafone will claim tax reliefs and incentives made available to all taxpayers and which are enacted in legislation by governments, where these are aligned to the commercial objectives of the Group. Where alternative routes exist to achieve the same commercial results the most tax efficient approach in compliance with all relevant laws should be recommended.





## **Tax Certainty**

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, the filing positions should be subject to robust risk assessment and supported by full disclosure.

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.

## **Policy on Transparency and 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.

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.

## **Other Policies and Procedures**

On all projects the required approvals and procedures detailed in the Group's policies 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.

## **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 Group Tax Director or the Deputy Group Tax 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.