

Total Tax Contribution

Tax Transparency Framework

A review of the tax communications of the UK's largest listed companies



Tax Transparency Framework

1 Tax strategy and risk management should include:

- a clear discussion of the company's tax strategy and objectives;
- full details of how the company's tax strategy and function is managed and who in the organisation has responsibility for governance and oversight; and
- clear disclosure of the material tax risks faced by the company.

2 Tax numbers and performance should include:

- a clear explanation as to why the current tax charge is not equivalent to the accounting profit at the statutory rate of tax;
- a transparent reconciliation of the company's cash tax payments to the tax charge included in the income statement; and
- disclosure of forward looking measures for tax, including forecast accounting and cash tax rate.

3 Total Tax Contribution and the wider impact of taxes should include:

- detail as to how tax impacts the wider business strategy and results of the company;
- disclosure of the impact of tax on shareholder value; and
- clear communication of the economic contribution of all taxes paid by the company.

What is the issue?

The PricewaterhouseCoopers Tax Transparency Framework was developed in discussions with different stakeholder groups with an interest in tax. We suggest that companies may wish to consider providing information on their tax affairs across nine criteria which are grouped into three areas. We view tax communications as a developing area and invite views and input on our suggested framework to assist its future development. We do not advocate a change to financial accounting standards but hope to stimulate discussion on a subject which is rapidly rising up investor and boardroom agendas.

This publication at a glance

- A wide range of stakeholders are looking for more and clearer information on tax – their view is tax can no longer hide behind technical complexity.
- Companies are responding to this by publishing more information on tax, beyond that required by accounting standards.
- Stakeholders told us they wanted high quality tax information in three broad areas, tax strategy and risk management, tax numbers and performance and Total Tax Contribution and the wider impact of taxes.
- From our discussions with different stakeholders and users of financial reports, we summarised the information they are looking for in a simple Tax Transparency Framework and published a discussion paper earlier this year.
- We reviewed the 350 largest listed companies in the UK against our framework as part of the Tax Reporting award for the 2007 Building Public Trust Awards (BPTAs).
- We found a relatively small number of companies that provide high quality information on their tax strategy and risk management.
- Most companies provided good numerical tax information with the leaders in tax communications providing greater clarity and additional useful information such as estimates of future accounting and cash tax rates.
- A number of companies, particularly in certain industry sectors, considered the wider impact of taxes and provided excellent information on their Total Tax Contribution and the wider impact of taxes.
- We found a noticeable improvement in the quantity and quality of the tax information provided by the companies reviewed compared to a year ago. We expect the rate of change to increase. We have included good practice extracts in each of our key reporting areas.

Our conclusion and summary

- Overall, this is still an emerging and developing area. We anticipate more innovation in tax communications as more companies conclude there is a business benefit of providing better information to their stakeholders.

November 2007

Dear reader

I do hope you will find this publication useful in summarising how the largest UK listed companies are communicating about tax in their published information. This is in response to the increasing demands from their stakeholders for them to say more in this area.

Earlier this year we published a discussion paper suggesting a Tax Transparency Framework for companies to use as a basis for their tax communications. Our aim in this publication is to provide an easy to read summary of what we found on reviewing the tax communications of the largest UK listed companies against this framework.

We were struck by the marked increase and improvement in the quality and volume of useful tax information provided this year compared with what we found a year ago. This clearly is a developing and dynamic area, as companies explore what additional information best meets their business and stakeholder needs in adding value through better communications. It has been useful to repeat our first review and we are now able to see trends emerging.

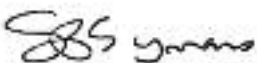
Though we focused our attention on large UK listed companies, we believe the framework can apply to the tax communications of all companies whether or not listed and wherever based. We also suggest that the benefits of providing better information on tax can more than outweigh any potential drawbacks.

I would like to take the opportunity to congratulate Vodafone plc on winning the 2007 Building Public Trust Award for Tax Reporting, and also acknowledge Anglo American plc and Diageo plc as highly recommended runners up.

I do hope you will find this review helpful in assessing your own tax disclosures and communication.

Please do get in touch with me, or any of the team, if you would like to discuss this developing area further.

Yours sincerely



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1 Executive summary

Review of tax communications

- We performed a high level review to find out the number of references to tax in the communications of the largest 350 listed companies in the UK. We looked at their annual report, their corporate responsibility report and any other relevant documents.
- We chose the 60 companies saying the most about tax from our initial sift to review in greater detail against our Tax Transparency Framework.
- There was a general improvement in the quality and quantity of disclosures compared to last year's review. However, there is still a gap between the best companies and the rest.
- Tax communications remains an emerging area. Only a very small number of companies are addressing all three areas of the Tax Transparency Framework.
- The final stages of our work involved producing a short list for the judging panel for the Building Public Trust Awards.

Tax strategy and risk management

- Overall we saw a definite improvement in the number of companies providing useful information in this area, and in the amount of detail that is being disclosed.
- The quality of the information provided by those companies leading in this area has improved, resulting in an increasing gap between the best companies and the rest.
- We saw a marked increase, admittedly from a low base, in the number of companies discussing their tax strategy and attitude to tax planning.
- We found only a minority of companies set out who was responsible for tax strategy and the governance of tax.
- We noted an improvement in the level of detail supplied by companies in relation to major risks, the companies' measurement and view on the likely outcome and the impact on the financial statements.

Tax numbers and performance

- Overall this was the area of least movement from what we saw in our review last year.
- Almost all of the companies reviewed gave a satisfactory explanation as to why their tax charge is not equivalent to the accounting profit at the statutory rate of tax.
- However much of this reporting remains somewhat opaque, as tax technical descriptions continued to be used.
- Very few companies are acknowledging the importance of cash tax as a measurement of performance in tax.
- Only a handful of companies offer any forward looking statements on tax performance.

Total Tax Contribution and the wider impact of tax

- Overall, the leaders in this area further improved, widening the gap with many of the rest.
- We found more companies this year discussing tax in a wider context of their business strategy and results. This tended to be concentrated in certain industry sectors.
- Very few companies linked tax to shareholder value, similar to our findings last year.
- Almost one third of companies referred in some way to their economic contribution through paying taxes, often in their corporate responsibility report.
- Some companies used the PricewaterhouseCoopers Total Tax Contribution framework as a way of expressing this.

Looking forward

- Our review has shown that a few companies are leading and that many companies have some way to go.
- We intend to carry out a similar review in a year's time and anticipate further development. We again expect to see much of the discussion in companies' corporate responsibility reports, as well as in their annual reports and financial statements.
- In addition to the broader push from stakeholders for more tax information, the introduction of new US reporting requirements on uncertain tax positions is likely to have an impact on tax reporting.
- Our review focused on the tax communications of the largest UK listed companies. However, we believe the principles of our Tax Transparency Framework apply to all companies.
- Tax reporting is an evolving area. We believe the benefits of greater transparency outweigh the potential downside and there is scope for companies to lead the way and help define best practice. We welcome comments and further contributions to the development of the Tax Transparency Framework.

2 Review of tax communications

In May 2007 we published a discussion paper setting out what we believe is a helpful framework for the tax information that should be set out in published company documents¹. In developing the framework we met with companies and stakeholders to discuss their views. A summary of these discussions against each area of our framework are included in sections 3–6.

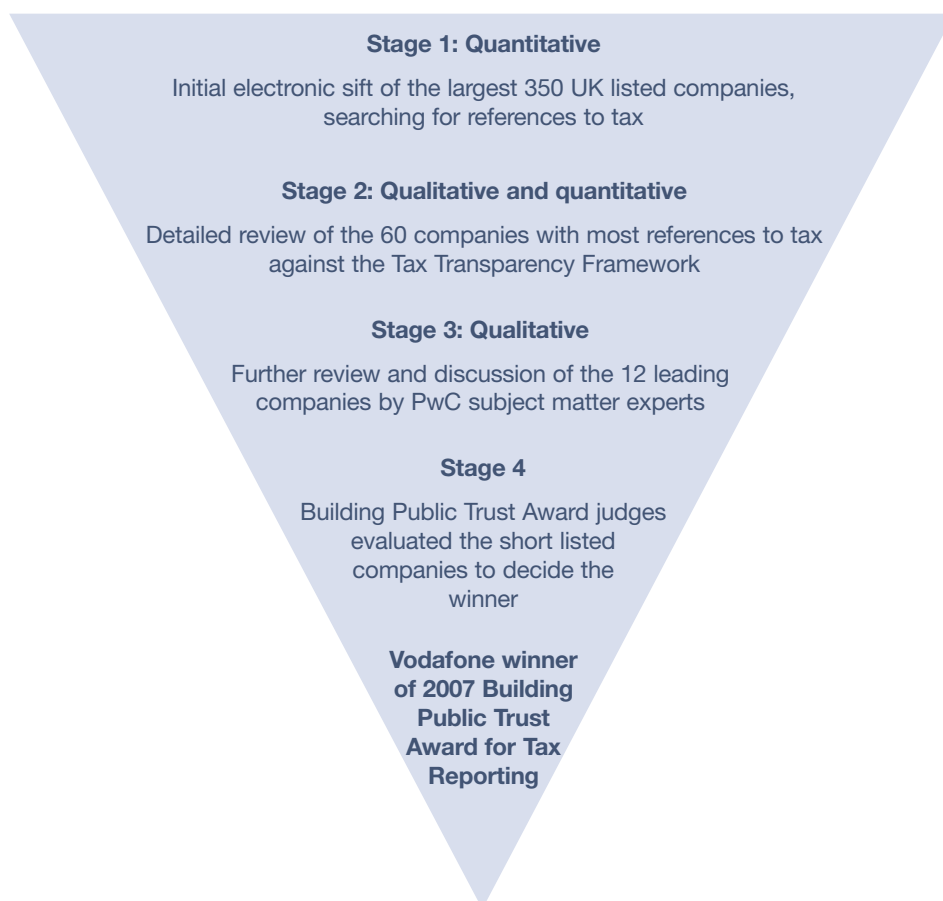
Over recent years there has been a great deal of change in the tax environment and a diverse range of stakeholders have become increasingly interested in tax in the corporate sector. We believe that increased transparency on tax serves both companies' and their stakeholders' needs.

Between June and August 2007 we used the Tax Transparency Framework to carry out a review of the tax communications of the 350 largest listed companies in the UK. The review was part of the judging process for the PricewaterhouseCoopers 2007 Building Public Trust Award for Tax Reporting (for more information on the Building Public Trust Awards see Appendix II).

Our review was carried out in stages (see diagram) and further information on what we did and what we found out are summarised below. As we carried out a similar exercise a year ago for the 2006 Building Public Trust inaugural award for Tax Reporting, we have been able to begin identifying trends and developments in this area.

Further details of our findings, including examples of good practice in each of the nine criteria of our Tax Transparency Framework are in sections 3–6.

Outline of our process



¹ For full discussion of the framework see: *Tax Transparency Framework*. A suggested framework for communicating your Total Tax Contribution May 2007.

Our review looked at companies' communications which would be widely available to stakeholders at that time. We looked at annual reports for years ending between 1 April 2006 and 31 March 2007 and the most recent corporate responsibility reports available on the companies' websites. Additionally, we briefly reviewed the group's corporate website to identify any other reports which would be relevant (such as corporate governance documents and any codes of conduct). We looked at the 350 largest companies listed in the UK at 31 December 2006 (referred to throughout this report as the FTSE350). From this we excluded investment trusts and a small number of companies that did not report in the period due to takeovers or new listings. This left 311 companies to be reviewed.

Stage 1 – Initial sift

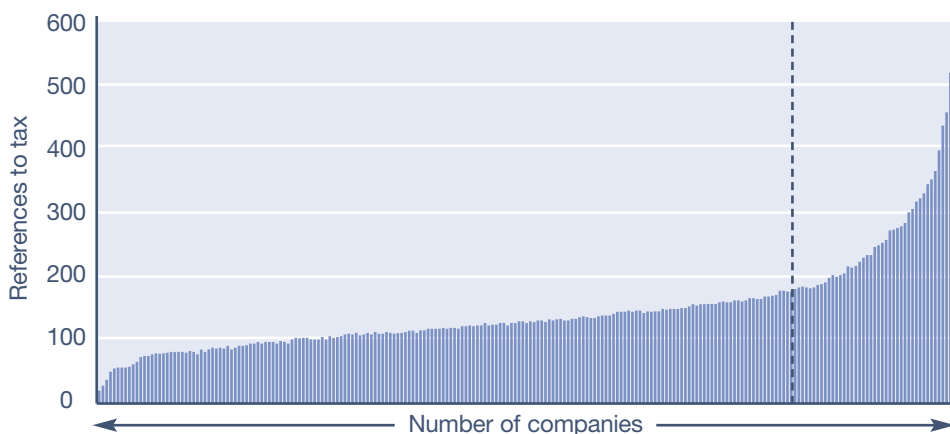
Process

The first stage of our review involved an electronic search of the documents found for each company. The purpose of this first sift was to identify those companies which are saying most about tax. This sift involved searching the documents for the word 'tax', but excluded common phrases such as 'profit before tax', 'profit after tax' and similar wording. The result of this search is termed 'total references to tax'.

Although simple, this first stage phase of work was successful in reducing the number of companies for more detailed review. It identified 60 companies which included all those which we expected to see based on our knowledge and experience in this area. We also carried out a random sample check of the tax communications of companies outside these 60, but did not identify any further companies which should have been included in the next stage.

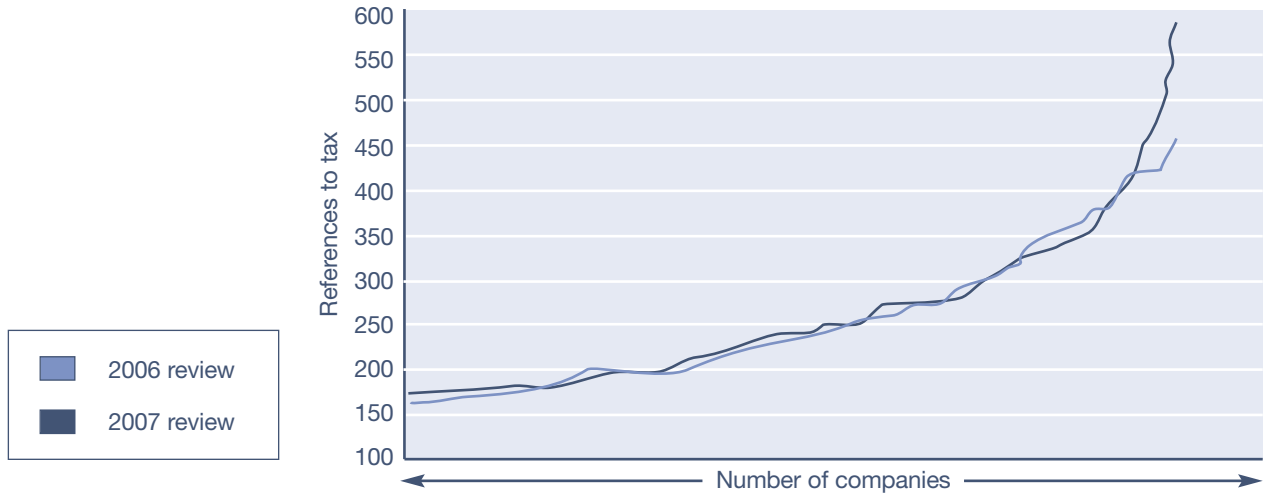
Results

Total references to tax in the FTSE350



This chart shows the number of references to tax from our initial electronic search of relevant company documents. There is a steep increase from a tipping point of approximately 180 references to tax up to the highest number of close to 600 references. Companies above this threshold of approximately 180 references were generally those who provided more information about tax than the minimum required by the accounting standards. The 60 companies saying most about tax were reviewed in more detail in stage 2.

60 companies with highest number of references to tax

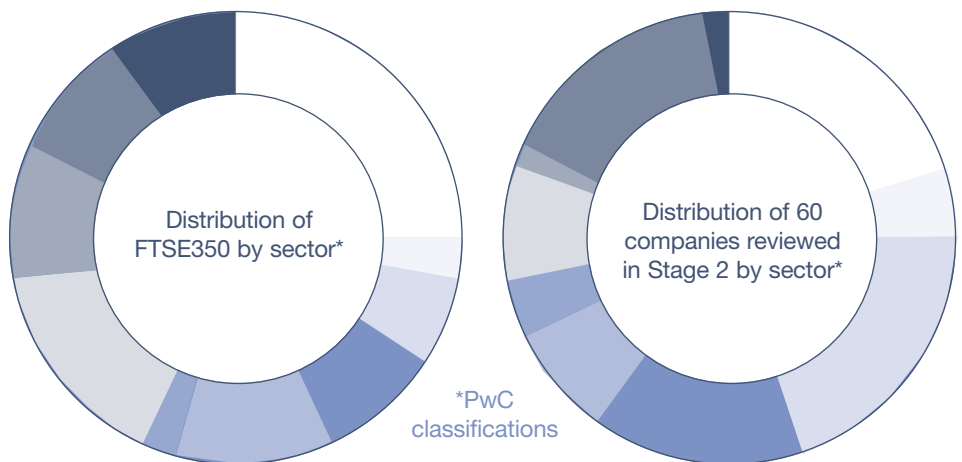


This chart shows the 60 companies with highest number of references to tax in 2007, compared with our similar review in 2006. As can be seen, there is a significant increase for those companies already mentioning tax most often. The number of references to tax for the majority of companies has remained fairly constant. However, these companies saying most have stretched further away.

Results by sector

The majority of companies in the 60 companies identified for further review were from the FTSE100. This is in line with last year's findings and our expectations. Companies within the FTSE100 are likely to be saying more in their reports about tax; potentially this is an indicator of greater complexity in the affairs of larger multinationals.

The charts show the breakdown of the 60 companies by industry sector, compared to a breakdown of the FTSE350.



It is interesting to note that certain industry sectors, such as extractive industries, consumer products, pharmaceuticals and chemicals, and technology and media have better representation in the 60 companies reviewed in stage 2 than their representation in the FTSE350 would suggest. This may indicate that these industries have more to say about tax in their reporting. Conversely other sectors such as travel and leisure, support services, and property and retail have significantly lower representation in the 60 companies than their representation in the FTSE350.

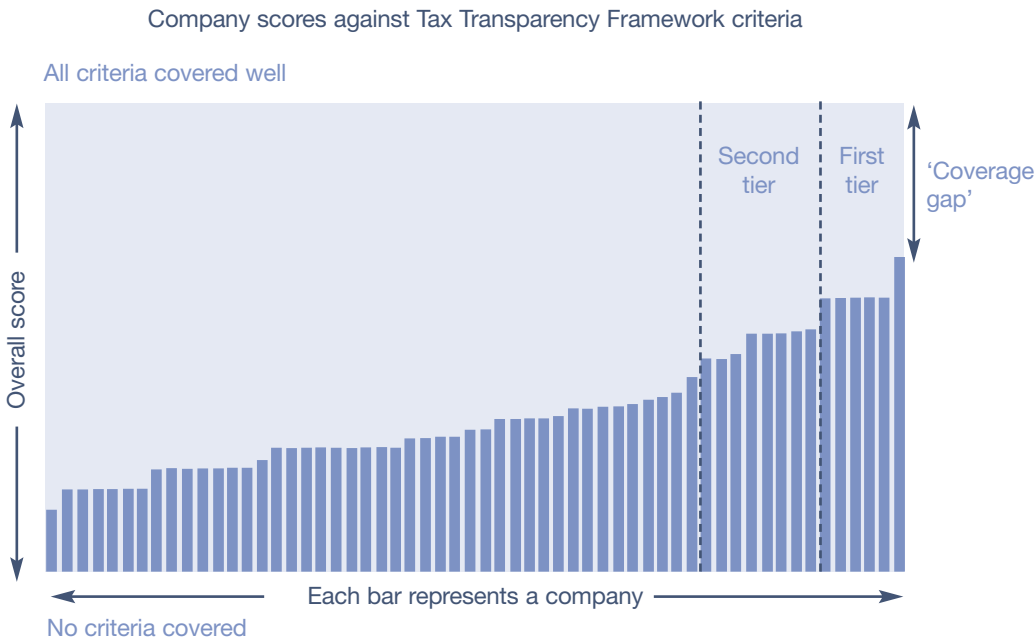
Stage 2 – Detailed review

Process

In stage 2 of our work the 60 companies with the most references to tax were reviewed in detail against our Tax Transparency Framework. The framework includes nine criteria grouped into three areas. We looked at what criteria each company was covering, and what they were saying. The results of this stage of our review were a score for each company against the framework.

Results

The chart shows the distribution of scores of the sixty companies we reviewed in stage 2.



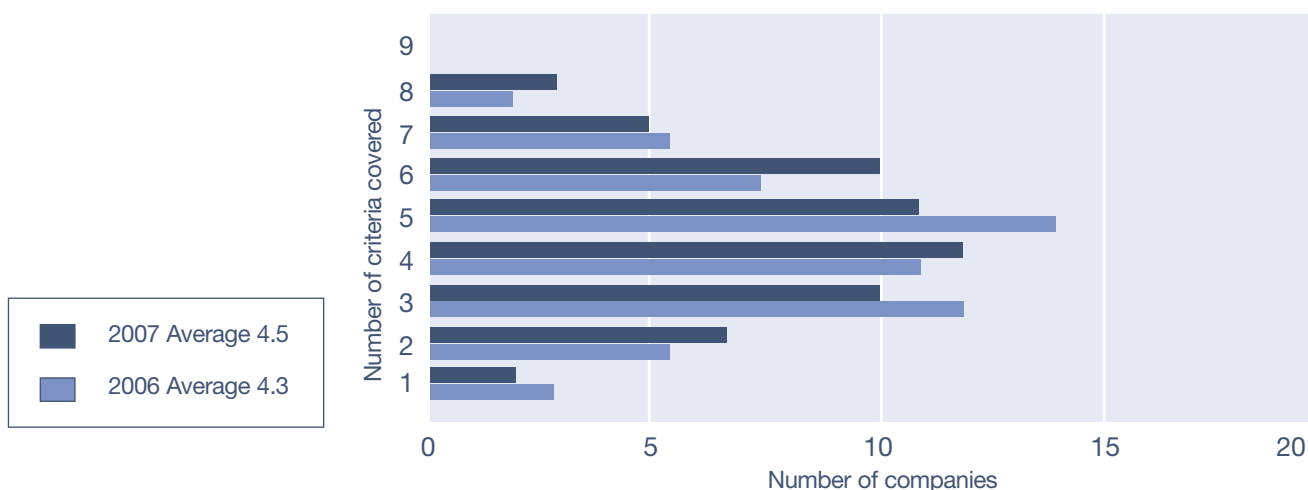
The distribution of scores shows that there is a very marked difference between the majority of these companies, even in this group, and the leaders, and that there is room for further development. The company at the top of this chart achieved two-thirds of the total score available.

The companies in the first tier tend to have a coordinated approach to their tax communications. There may be a particular driver for communicating in one area of the framework but this seems to increase the awareness of the value of good tax reporting generally. These companies generally cover all three areas of the framework well, with the leaders excelling in particular areas.

There is also a second tier of companies that stand out from the majority in certain areas. They often deal well with a particular area of the framework, but lack the synchronised approach of the companies in the first tier.

The next chart shows how many of the nine criteria of our Tax Transparency Framework are covered by each company. As can be seen there has been an increase in coverage compared to our 2006 review. The average is 4.5 criteria, with a range of one to eight. No company covered all nine criteria.

The number of criteria covered by companies reviewed in stage 2
– 2007 compared to 2006



Stage 3 – Further review and discussion

Process

Stage 3 was entirely a qualitative review and involved a round table discussion by a group of PwC partners with expertise in tax, corporate reporting and corporate responsibility. The group looked at all the leading companies from stage 2, plus a number of other companies from the 60 companies reviewed in detail.

Results

The discussions in stage 3 identified a short list of companies to be reviewed by the independent panel of judges for the Building Public Trust Awards.

Stage 4 – Building Public Trust Award judging panel

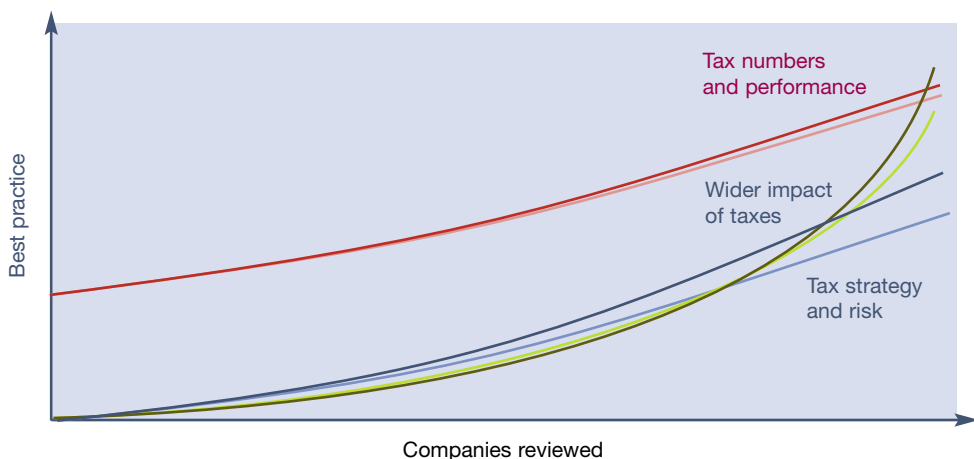
Process

Finally the shortlist of companies was presented to an external panel of judges for the 2007 Building Public Trust Award for Tax Reporting. Details of the panel are in Appendix II.

Results

Our congratulations go to the winner, Vodafone Plc, and the highly commended runners-up Anglo American plc and Diageo plc.

Our assessment of the quality of tax communications against the Tax Transparency Framework



Tax numbers and performance	Tax strategy and risk	Wider impact of taxes
■ 2006	■ 2006	■ 2006
■ 2007	■ 2007	■ 2007

The graph shows the results of stage 2 of our review broken down into the three areas of our framework. The distribution is similar to last years in that, overall, companies do best in the area of tax numbers and performance, followed by the wider impact of taxes, with the weakest area of disclosure being the area of tax strategy and risk.

There is however an improvement in all areas compared with last year. The biggest improvement was found in the area of tax strategy and risk with a number of companies addressing this area for the first time this year. Also of note is the improvement among the leaders in the area of the wider impact of taxes.

We suggest these improvements are noteworthy and will develop further over time. Our review has shown that, overall, tax reporting remains an emerging area. Whilst there are many good examples, only a very small group of companies are addressing all three areas suggested in our framework.

3 Tax strategy and risk management

Tax Transparency Framework criteria:

- A clear discussion of the company's tax strategy and objectives.
- Full details of how the company's tax strategy and function is managed and who in the organisation has responsibility for governance and oversight.
- Clear disclosure of the material tax risks faced by the company.

Key observations:

- Almost one in five companies disclose details of what their tax strategy is; a significant improvement on last year.
- Approximately one in four companies disclose who is responsible for governance of tax function, which is on a par with last year.
- Four in ten companies disclose details on specific tax risks, an increase on last year's findings.

What stakeholders want

Stakeholders want to understand what a company's tax strategy is and how that strategy is managed by the board and executive management. Understanding the company's tax strategy and objectives is a key first step to understanding how a company approaches tax, its attitude to tax planning and tax compliance and the way it balances the pressures of minimising taxes to enhance shareholder returns whilst managing reputational risk.

A number of stakeholders were clear in their view that without the framework of a tax strategy putting the company's approach to tax into perspective, the other information on tax loses a significant portion of its value.

Our discussions with companies suggest that not all companies have a written tax strategy in place. Some companies have a strategy but do not communicate the details in their external corporate communications.

Once the strategy is set, the next step is to understand the corporate governance procedures which have been put in place to ensure the strategy is implemented in accordance with the agreed policy. Stakeholders are very keen to see that strategy is monitored and evaluated, so as to be confident that what goes on in practice is consistent with the strategy.

Stakeholders also want a clear explanation of the tax risks that a company faces. They want to know where material tax exposures lie, whether tax provisions are adequate, and, perhaps more importantly, will more cash tax be payable in the future.

1 Clear discussion of the company's tax strategy and objectives

Stakeholders are very interested in understanding a company's overall strategy and tax strategy is no different. The coherent disclosure of a tax strategy is considered to be vital; without which, it is difficult to put the other disclosures about tax into context. Investors and others who value companies want to see a clear explanation of what the strategy is, how that strategy was devised and the potential impact of following the strategy.

A clear strategy is the basis on which all other elements of tax reporting are built.

We saw a marked increase in the number of companies providing details of their tax strategy and attitude to tax planning. A number of companies mentioned tax strategy for the first time this year. However, a willingness to discuss tax strategy was still only seen in the minority of companies reviewed.

The quality of the disclosures has improved from those companies already disclosing their procedures and issues last year, resulting in an increased gap between the best companies and the majority.

More companies are discussing their tax strategy in their corporate responsibility reports than in their financial statements. Interestingly, this appears to indicate that companies see tax as part of the developing corporate responsibility and sustainability agenda. This appears particularly true of companies in the extractive industries who are under pressure to demonstrate where and how they add economic value and that they put an adequate return back into the communities where they operate.

A number of extracts are set out below, illustrating how companies give information on their tax strategies and objectives and their attitude to tax risk and planning.

We have been successful in minimising the cash tax cost of the Group. However, as countries around the world increase their focus on taxation as a means of raising revenue for their local economies, the tax cash cost of multinational corporations is likely to increase over time. We will continue to plan the Group's tax affairs efficiently to minimise the tax cash cost but a gradual increase is likely.

We manage the Group's tax affairs and provisions for uncertain tax positions in accordance with the Group's best estimate of the likely outcome of a challenge by the authorities.

The logo for Tomkins, featuring the word "Tomkins" in a bold, blue, sans-serif font. The letter "o" is stylized with a yellow and blue gradient.

Source: Tomkins Annual Report, 31 December 2006



Vodafone paid £2.5 billion in taxes across the countries in which it operates in the 2007 financial year. We believe it is important to state clearly and precisely our views on tax in the context of corporate responsibility.

We operate within a clearly defined Group Tax Code of Conduct. This sets out the principles, responsibilities, conduct and approach to working relationships of all tax professionals working in (and with) Vodafone.

We believe our obligation is to pay the amount of tax legally due and to observe all applicable rules and regulations in all of the territories in which we operate. At the same time, we have an obligation to maximise shareholder value and to manage financial and reputational risk. This includes minimising and controlling our tax costs. We accept that some may not share this view and believe that transparency regarding our position is the best policy.

Vodafone's Group Tax Code of Conduct requires its employees and advisors to act with integrity and maintain the highest ethical standards in all of its tax activities. Vodafone does not condone tax evasion (using illegal means to reduce taxes payable) in any circumstances.

We are committed to transparent and accessible communication to enable others to understand our tax strategy and the economic impact of taxation on our business. Vodafone was highly commended by the 2006 Building Public Trust Awards for its tax reporting in its Group Annual Report for the year ended 31 March 2006.

We aim to build open and honest relationships in our day-to-day interaction with tax authorities. In the UK, for example, Vodafone is participating in an initiative launched by Her Majesty's Revenue & Customs to build relationships with big companies both at an operational and strategic level. Nonetheless we recognise that there may be some areas that are not free from doubt or where differing legal interpretations may be possible. Consequently, situations arise from time to time where tax authorities may not share our views and may question our interpretations.

Source: Vodafone Group plc, Corporate Responsibility Report, 31 March 2007



With responsibilities to many groups of stakeholders including investors and governments, we strive to organise our tax affairs efficiently within the law. As part of this effort, we consider options available to us for the location of Diageo's profits and hence tax liabilities. Such decisions are always based on a combination of commercial strategy, cost and levels of taxation. However, our approach includes a strong preference for locating tax liabilities in territories where Diageo also has significant commercial operations.

Transactions between Diageo subsidiaries in different countries are carried out according to the OECD Model Tax Convention. This states that any goods or services transferred between the two subsidiaries should be priced on an arm's length basis as if they were unrelated companies. Consequently, the tax administrations in the two countries receive a fair allocation of tax from the profits involved in the transaction and the same profit is not taxed twice.

Source: Diageo Corporate Citizenship Report, 2006

2 Disclosure of how the company's tax strategy and function is managed and who in the organisation has responsibility for governance and oversight

A clearly defined tax strategy is required to provide a framework and context for the rest of the tax reporting. This strategy then has to be put into context by the governance and management processes providing oversight of that strategy.

Tax is often one of the most material figures in a company's income statement. Yet, if one were to read the financial statements of many of the UK's largest listed companies, it is often difficult to determine to what extent the board is involved in setting the company's tax strategy or how, in many cases, tax comes within the scope of the wider risk management policy. Experience suggests that, in reality, tax receives much more attention from the boards of these companies than is apparent from reading external corporate communications.

Despite the size of the numbers associated with tax, few details are typically disclosed on the risk management processes surrounding tax. It seems reasonable for investors to seek assurance that risks in this area, just as in any other, are being appropriately identified, assessed and managed.

We found that only a minority of companies set out who was responsible for tax strategy and that there was no significant improvement over last year in the number of companies who explained how tax is managed. Some companies have begun to point to tax as a specific responsibility within the remit of the CFO, which is helpful in reassuring stakeholders that responsibility in this area was clearly assigned, rather than being inferred or implied.

The following extracts provide good examples of disclosures in this area.

Tax compliance and planning
The Group has a tax strategy which has been reviewed and endorsed by the Board of Directors of Anglo American. Central to this strategy is that the Group's "Good Citizenship" business principles are followed in pursuing our tax planning and in dealing with tax authorities globally, and that the tax strategy is aligned with the Group's long-term business strategy.



Source: Anglo American Report to Society, 2006



The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risk.

- tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Executive Committee, Group Finance Director and the Board Risk Committee;
- the tax charge is also reviewed by the Board Audit Committee.
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;
- the Group takes appropriate advice from reputable professional firms;
- the Group employs high-quality tax professionals and provides ongoing technical training;
- the tax professionals understand and work closely with the different areas of the business;
- the Group uses effective, well-documented and controlled processes to ensure compliance with tax disclosure and filing obligations.
- where disputes arise with tax authorities with regard to the interpretation and application of tax law, the Group is committed to addressing the matter promptly and resolving the matter with the tax authority in an open and constructive manner.

Source: Barclays Annual Report, 31 December 2006



Financial strategy

The financial strategy includes assessment of the major financial risks related to interest rate exposure, foreign currency exposure, debt maturity and liquidity. There is a comprehensive global insurance programme using the external insurance market and some limited use of an internal captive insurance company. Group Treasury manages hedging activities, relating to financial risks, with external cover for net currency transaction exposures. The Group Tax function manages tax compliance and tax risks associated with the Group's activities. The Audit Committee oversees the financial strategy as well as the tax strategy and considers the associated risks and risk management techniques being used by the Group.

Source: Tomkins Annual Report, 31 December 2006

3 Clear disclosure of the material tax risks faced by the company

All companies face tax risks to a greater or lesser extent and stakeholders are keen to see information on the quantum of the risk along with the likelihood of the risk crystallising. Tax can give rise to material exposures and investors and others have an interest in information on the significant tax risks that a company faces.

Material tax risks can often arise from differences with the tax authorities and companies need to balance providing information to stakeholders with the concern of providing a detailed road map on their assessment of the risk to the tax authorities. We do not suggest that disclosure should include commercially sensitive information but rather that the issues and risks are laid out. There were a number of good disclosure examples where there were ongoing discussions with the tax authorities with details provided on areas where the tax treatment of a particular transaction was being discussed.

We found an increasing number of companies disclosing information in relation to major risks, the companies' measurement and view on the likely outcome, and the impact on the financial statements.

Although many companies have significant tax risks, there is a considerable variation in the quality of disclosure around these issues. A number of companies disclose very basic information about general issues, with few details on the likely outcome of specific issues to help the user of the accounts.

The best companies give comprehensive detail, including summarising the specific issues, a potential timescale, likely outcomes with a careful quantification of the risk. This enables investors and analysts to better understand the future position and likely potential cash tax impact.

Below are some examples of the kind of detail that companies are disclosing around their material tax risks.

Extracts

<p>(b) KAZAKHSTAN TAXATION CONTINGENCIES</p> <p>(i) Interest uncertainties in interpreting tax legislation</p> <p>The Group is subject to uncertainties relating to the determination of its tax liabilities. The tax system and tax legislation in Kazakhstan have been in force for only a relatively short time and are subject to frequent changes and varying interpretations. Management's interpretations of such legislation or applying it to business transactions of the Group may be challenged by the relevant tax authorities and, as a result, the Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may in particular relate to the valuation of the taxable base for excess profits tax purposes and the application of transfer pricing policies.</p> <p>In relation to excess profits tax, the tax law gives no explicit guidance on how the tax base should be determined for individual subcontractors relevant to certain members of the Group. Prior to 2002 it was not clear from the contracts themselves as to how profitability should be allocated to the Group's mining operations. In the event of a successful challenge by the tax authorities, the Group may be liable for additional payments of excess profits tax. Depending on the interpretation adopted and the amounts, if any, that are involved, this could have a significant adverse impact on the Group's financial position and on its profits for a reporting period. Under such circumstances, there would also be a consequential significant adverse impact on subsequent periods due to the cumulative nature of the excess profits tax calculations.</p> <p>(ii) Status of tax audits</p> <p>During 2006, Kazakhmys LLC was subject to a tax audit for the periods 2003 to 2006 and received a tax assessment for approximately \$11.8 million including penalties and interest. Kazakhmys LLC has appealed against certain elements of the assessment and is currently engaged in discussions with the tax authorities. The Group has recorded in its financial statements all potential tax liabilities relating to this audit.</p> <p>Kazakhmys LLC is also undergoing a transfer pricing audit for the periods 2000 to 2006 which is expected to be completed by the end of March 2007. The primary focus of the tax authorities' review is evaluating the transfer pricing policies applied for sales of copper cathodes and other products.</p> <p>(iii) Period for additional tax assessments</p> <p>The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of the excess profits tax they are able to raise additional tax assessments for five years after the expiration of the term of the relevant tax contract.</p> <p>(iv) Possible additional tax liabilities</p> <p>The Directors believe that the Group is in substantial compliance with tax legislation and any contractual terms entered into that relate to tax which affects its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant Government authorities may take a differing position with regard to the interpretation of contractual provisions or tax legislation.</p> <p>The resulting effect of this matter is that significant additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.</p>	
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Source: Kazakhmys Annual Report, 31 December 2006



Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include one-off restructuring benefits, the resolution of open issues, future planning opportunities, corporate acquisitions and disposals, changes in tax legislation and rates, and the use of brought forward tax losses.

In particular, the Group's subsidiary Vodafone 2 is responding to an enquiry by HM Revenue & Customs ("HMRC") with regard to the UK tax treatment of one of its Luxembourg holding companies under the controlled foreign companies ("CFC") rules. Further details in relation to this enquiry are included in note 31 "Contingent liabilities". At 31 March 2007, the Group holds provisions of £1,718 million tax and £402 million interest in respect of the potential UK tax liability that may arise from this enquiry (2006: £1,822 million tax and £276 million interest). In September 2006, ruling in the case of Cadbury Schweppes, the European Court of Justice provided guidance as to the allowable application of the UK CFC rules. Considering the facts of the Vodafone 2 case and the ECJ ruling in Cadbury Schweppes, management considers these amounts are sufficient to settle any assessments that may result from the enquiry. However, the amount ultimately paid may differ materially from the amount accrued and could therefore affect the overall profitability and cash flows of the Group in future periods.

In addition to the losses described above, the Group has potential tax losses of €34,292 million (2006: €35,250 million) in respect of a write down in the value of investments in Germany. These losses have to date been denied by the German tax authorities. Vodafone is continuing discussions with them regarding the availability of the losses. However, the outcome of these discussions and the timing of the resolution are not yet known. The Group has not recognised the availability of the losses, nor the income statement benefit arising from them, due to this uncertainty. If upon resolution a benefit is recognised, it may impact both the amount of current income taxes provided since the date of initial deduction and the amount of the benefit from tax losses the Group will recognise. The recognition of these benefits could affect the overall profitability of the Group in future periods.

Source: Vodafone Annual Report, 31 March 2007



Taxation

Where tax exposures can be quantified, a provision is made based on best estimates and management's judgement. Details of the movements in relation to material tax exposures are discussed below.

AstraZeneca faces a number of transfer pricing audits in jurisdictions around the world. The issues under audit are often complex and can require many years to resolve. AstraZeneca's tax compliance requires management to make estimates and judgements with respect to the ultimate outcome of a tax audit, and actual results could vary from these estimates. The total net accrual included in the Financial Statements to cover the worldwide exposure to transfer pricing audits is \$650m, an increase of \$452m due to a number of new audits, revisions of estimates relating to existing audits, offset by a number of negotiated settlements. For certain of the audits, AstraZeneca estimates the potential for additional losses above and beyond the amount provided to be up to \$443m; however, management believes that it is unlikely that those additional losses will arise. Of the remaining tax exposures, the Company does not expect material additional losses. It is not possible to estimate the timing of tax cash flows in relation to these exposures, included in the provisions are an amount of \$285m, interest is accrued as a tax expense.

Source: Astra Zeneca Annual Report, 31 December 2006

4 Tax numbers and performance

Tax Transparency Framework criteria:

- A clear explanation as to why the current tax charge is not equivalent to the accounting profit at the statutory rate of tax.
- A transparent reconciliation of the company's cash tax payments to the tax charge included in the income statement.
- Disclosure of forward looking measures for tax, including forecast accounting and cash tax rate.

Key observations:

- More than nine out of ten companies gave a good explanation of why the tax charge was not the accounting profit at the statutory rate of tax. However, the terminology used was not always clear and easy to follow.
- Less than one in ten companies gave any reconciliation of the company's cash tax payments to the accounting tax charge.
- Approximately one in five companies discloses forecast tax rates.

What stakeholders want

The second area stakeholders are interested in is clear and understandable numerical information explaining why the actual accounting tax rate (now and in the future) is not equivalent to the statutory rate of corporate income tax. Primarily there should be a clear, detailed explanation why the tax charge is not at the statutory rate of corporate income tax.

Additionally many stakeholders, including investors and the corporate responsibility community, are keen to understand the cash impact of tax. Cash tax is unaffected by the impact of accounting adjustments and deferred tax.

From an investor's perspective, there is a desire for clear explanations as to the differences between the accounting tax charge and the level of cash tax payments. Investors are often more interested in the cash tax payments as the cash figures will feed more readily into any present value modelling analysis. This also drives a demand for disclosure of forward looking information on what the future effective cash tax rate is estimated to be, and so the cash tax payable in future. In general, there is a desire for disclosure to become less opaque.

4 A clear explanation as to why the current tax charge is not equivalent to the accounting profit at the statutory rate of tax

Stakeholders are looking for tax notes and disclosures that are easy to follow, without technical complexity or ambiguity. Ideally, it should be clear to a non-tax specialist why a company is not paying tax at the statutory tax rate of the parent company of the group.

The reconciliation of the actual tax charge to the charge on profits at the statutory rate has long been included in the tax note to the financial statements as an accounting standard requirement. This is a good medium for passing on detailed information on the key tax issues affecting the company's tax rate, but care should be taken in order to explain rather than confuse.

Most companies (more than nine out of ten) reviewed gave a satisfactory explanation as to why their tax charge is not simply the statutory rate of corporate income tax (currently 30% in the UK) as applied to the accounting profit in the income statement. However, many companies use ambiguous terminology which often does not enlighten the reader. Terms such as 'other', 'non-deductible expenses' and 'non-chargeable items' were common and arguably do not aid understanding.

Additionally much of tax reporting remains somewhat opaque, with the use of complex tax technical descriptions where perhaps, simpler, clearer language could be used.

The following extracts set out the tax reconciliation in a clear and helpful way.

Unilever reconciles their effective tax rate to their blended statutory rate in the countries in which they operate.



Europe is considered to be Unilever's domestic tax base. The reconciliation between the computed weighted average rate of income tax expense, which is generally applicable to Unilever's European companies, and the actual rate of taxation charged is as follows:

	%	%	%
	2006	2005	2004
Reconciliation of effective tax rate			
Computed rate of tax ^(a)	30	31	32
Differences due to:			
Other rules applicable to non-European countries	1	-	1
Front-end tax credits	(7)	(5)	(5)
Withholding tax on dividends	1	2	2
Adjustments to previous years	(6)	(2)	(1)
Expenses not deductible for tax purposes	2	2	-
Utilisation of previously unrecognised tax losses	-	(1)	-
Other	1	(1)	1
Effective tax rate	24	26	21

(a) The computed tax rate used is the average of the standard rate of tax applicable in the European countries in which Unilever operates, weighted by the amount of profit before taxation generated in each of those countries.

Source: Unilever Annual Report, 31 December 2006

Anglo American uses sub headings to guide the reader and make their tax reconciliation more understandable.



3) Factors affecting tax charge for the year
 The effective tax rate for the year of 27.6% (2005: 24.5%) is lower than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

2006	2005**	
Profit on ordinary activities before tax	9,562	9,208
Tax on profit on ordinary activities calculated at United Kingdom corporation tax rate of 30%	2,869	2,762
Tax effect of share of net income from associates	(206)	(187)
Tax effects of:		
Expenses not deductible for tax purposes		
Operating special items and remeasurements	104	110
Exploration expenditure	13	21
Other non-deductible expenses	73	92
Non-taxable income		
Profits and losses on disposals and remeasurements	(317)	(9)
Other non-taxable income	(66)	(113)
Temporary difference adjustments		
Changes in tax rates	—	(187)
Movements in tax losses	(80)	(30)
Other temporary differences	(13)	(23)
Other adjustments		
South African secondary tax on companies	228	160
Effect of differences between local and UK rates	53	(108)
Other adjustments	(24)	(3)
Tax charge for the year	2,640	2,275

** The 2005 comparative numbers have been restated to align with current year presentation.

Source: Anglo American Annual Report, 31 December 2006

BHP Billiton provides good detail on the drivers of their tax charge.

	2006		2005	
	%	\$MM	%	\$MM
Factors affecting tax charge for the period				
The tax expense is different than the standard rate of corporation tax (30%)				
The differences are explained below:				
Profit before tax		7,789		8,340
Tax on profit at standard rate of 30%	30.0	2,337	30.0	2,502
Investment and development allowances	(7.9)	(219)	(11.7)	(250)
Amounts levied/under provided in prior years	10.3	140	0.3	75
Recognition of prior year tax losses	(1.0)	(27)	(1.4)	(36)
Non-deductible exploration, amortisation and operation expenditure	0.4	58	(0.5)	(42)
Tax rate differential on foreign income	1.8	252	0.9	78
Foreign tax on realised and unrealised earnings from investments	0.5	72	0.5	(4)
Non-tax effected operating losses and capital gains	—	5	(1.4)	(12)
Foreign exchange gains and other translation adjustments	(0.0)	(3)	(1.0)	(87)
Tax rate changes	—	4	(0.1)	(8)
Adjustments to income tax expense relating to jointly controlled entities	(4.9)	(666)	(4.1)	(365)
Other	0.1	15	—	(4)
Income tax expense	22.6	1,760	21.0	1,818
Payroll related taxation (net of income tax benefits)	3.0	425	4.9	431
Total taxation expense	25.6	2,185	25.9	2,249



Source: BHP Billiton Annual Report, 30 June 2006

5 A transparent reconciliation of the company's cash tax payments to the tax charge included in the income statement

Many stakeholders are keen to see a link between the accounting tax charge and the cash tax payments a company actually makes.

For example, investors and analysts ideally wish to have an estimate of the future cash tax rate to put into their valuation models. The impact cash tax can have on value means investors are very interested in the drivers of the cash tax rate and further detail is welcomed.

There is often a misunderstanding of the relationship between the accounting tax charge and cash tax. Often the cash tax paid is lower than the accounting charge in the year due to the impact of deferred tax or losses brought forward. This complication may lead to stakeholders making inaccurate assumptions about the level of tax payments a company will make in the future. Discussion of how and why the cash tax payments differ from the accounting charge removes any risk of misinterpretation.

In this area, there was a positive trend with more companies acknowledging the importance of cash tax as a measurement of performance in tax. However, it is still only a small minority of companies (less than one in ten) that provide a direct reconciliation between the cash tax payments made and the income statement tax charge.

Some useful examples of how the cash tax is disclosed are included below.

This example illustrates a simple way to graphically compare the accounting tax charge to the cash tax cost. The company has a reduced tax charge due to a release of provisions in the year.

Tomkins



During the year, there was a release of provisions for uncertain tax positions of £50.6 million. This followed the successful resolution of outstanding tax issues in the US, the change in certain tax laws and the change of views on the likely outcome of challenges by the various tax authorities.

Source: Tomkins Annual Report, 31 December 2006

This extract demonstrates a clear reconciliation between EBITDA and free cash flow, including the impact of taxation.



Source: Kazakhmys Annual Report, 31 December 2006

This narrative describes how the impact on ungeared free cash flow (UFCF) differs between the income statement tax charge and the actual cash tax paid.

In 2006, UFCF was €4.2 billion (2005: €4.0 billion). The reconciliation of UFCF to the GAAP measures net profit and cash flow from operating activities is shown on page 26. The tax charge used in determining UFCF can be either the income statement tax charge or the actual cash taxes paid. Our consistently applied definition uses the income statement tax charge in order to eliminate the impact of volatility due to the variable timing of payments around the year end. For 2006 the income statement tax charge on this basis is materially impacted by the tax effect of non-cash charges for the provision for preference shares and certain other non-cash items. UFCF based on actual cash tax paid would be €4.5 billion (2005: €3.7 billion).



Source: Unilever Annual Report, 31 December 2006

6 Disclosure of forward looking measures for tax, including forecast accounting and cash tax rate

Stakeholders are clear they want as much forward looking information from companies as possible, and tax is no different.

There is a demand for disclosure of the forward looking measures used by a company to manage tax and a demand for information on what the future effective cash tax rate is expected to be. Similar to the link between the accounting tax charge and the cash tax payments, stakeholders, particularly the analysts and investment community, want to see forward looking statements on cash tax.

It is clear from discussions with companies that a number of them have a range of management measures for tax. It is also clear that few publish these measures.

From this year's review we found that only a minority of companies include forward looking statements. However, there were more disclosures than last year of estimates of the future tax rate. These range from a range of potential tax rates with no fixed time scale to more specific estimates of the coming year's rate.

Here are some interesting examples of how this can be approached.

REXAM

The rate would have been around 31% excluding these adjustments, reflecting the mix of territories in which Rexam operates, partially offset by the availability of tax incentives in certain jurisdictions. In 2007 and beyond the tax charge is expected more closely to reflect the underlying position.

Cash tax payments in the year were £58m compared with £47m last year. Payments in 2005 had been reduced by repayments received, following settlement of prior year tax assessments, and by the utilisation of tax losses. It is expected that the cash tax paid in future years will continue to be between 70% and 80% of the underlying income statement tax charge.

Source: Rexam Annual Report, 31 December 2006

PEARSON

For 2007, we expect our effective tax rate on adjusted earnings per share to be in the 28-30% range. Our tax position benefits from deductions relating to amortisation of goodwill arising on acquisitions, and from 2007 we will reflect these deductions in adjusted earnings per share. The amount of tax paid (£59m in 2006) is not affected.

The Group's reported statutory tax rate for 2007 is expected to be significantly higher than normal, as a result of the tax on the disposal of Government Solutions; taxable profit will be higher than the statutory profit expected to be reported, although actual cash tax on the transaction will be substantially reduced by the losses brought forward, recognised in 2006.

Source: Pearson Annual Report, 31 December 2006

DMGT

Taxation

The tax charge of £60 million represents 19.3% of profit before tax and 14.2% of profit before amortisation and impairment. The adjusted tax on adjusted profits* amounted to £62 million and the resulting rate is 23.9%, up from 22.1% last year due to a higher proportion of profits coming from the United States, albeit partly offset by the accounting benefit of the last of the Group's unrecognised US tax losses. This is still well below the UK corporate tax rate, where the Group currently makes most of its profit. The Group's effective tax rate in the UK is higher than this due to expenditure disallowed for tax purposes. The Group is still benefiting in the amount of tax paid from carried forward losses in the US, but this will reduce over the next two years as US Federal tax becomes payable. Over the next few years the adjusted tax rate is expected to increase from 24% to around 30%.

*Adjusted profit: before exceptional items and amortisation and impairment of intangible assets.

Source: Daily Mail and General Trust Annual Report, 1 October 2006

5 Total Tax Contribution and the wider impact of tax

Tax Transparency Framework criteria:

- Detail as to how tax impacts the wider business strategy and results of the company.
- Disclosure of the impact of tax on shareholder value.
- Clear communication of the economic contribution of all taxes paid by the company.

Key observations:

- One in seven companies discuss explicitly how tax impacts their wider business strategy.
- Consistent with last year, less than one in ten companies referred to tax in the context of shareholder value.
- Almost a third of companies referred in some way to their wider economic contribution.

What stakeholders want

Tax has moved up the boardroom agenda in recent years and stakeholders want to understand the impact of a company's taxes on its business and on the community. They want to know how tax impacts the business strategy of the organisation, how tax impacts shareholder value and the impact of taxes paid by companies as part of their economic contribution to the communities in which they operate.

In certain industries tax can have a material impact on the overall business strategy of a company. For example, the company's business may depend partly on the tax treatment of its products, as in the financial services industry, or the post tax return on business activities is materially affected by additional taxes in certain jurisdictions, as in the extractive industries sector. Stakeholders are looking for disclosure of these factors as an aid to better understanding of the company's business.

Leading on from this, tax paid is often a material amount and can have a significant effect on shareholder value and returns. Information on the impact of tax on shareholder value can be very useful.

There is also a desire for more information on the economic contribution of the taxes paid by a company in the countries where it operates. The need here is for information on the major taxes paid by the company, rather than on the corporate tax charge in the financial statements, and we have seen this generally included in corporate responsibility reporting. PricewaterhouseCoopers' Total Tax Contribution provides a useful framework for this reporting (see Appendix III).

7 Detail as to how tax impacts the wider business strategy and results of the company

In certain industries, tax can have a material impact on the overall business strategy of a company. Disclosure of information regarding this impact can help investors and others gain a deeper understanding of the environment in which a company does business. We would encourage companies to be more transparent about the potential impact on their business of changes in fiscal policy and to disclose details of their own activism in this area.

For example, property companies which have elected into the UK real estate investment trust (REIT) regime have seen a significant change in the impact tax has on the business (in that the shareholders, not the REIT, bear the tax on investment property returns). We expected to and did see considerable discussion of the change in the reporting by converting companies. This was generally handled well and shows that tax can be dealt with in a transparent manner. We have included some examples in the extracts below.

Overall, however, only one in seven companies set out in a clear way how tax impacts their wider business strategy. Certain industries where government fiscal policy can have a particular impact, such as the extractive industries, alcoholic beverages and tobacco, are most represented.

However, all companies feel the impact of tax policy in some way on their operations or their products, and as governments around the world seek to increase tax revenues raised, and change the shape of tax system, this impact is likely to intensify.

Here are some examples of how companies are disclosing the impact of tax on their business.



Ready to Reap the REIT Dividend

WHAT ARE REITs?
REITs are Real Estate Investment Trusts – they are companies that have elected to adopt a tax status which is now open to eligible UK companies. Slough Estates plc (now trading as SEGRO) became a REIT on the earliest possible date, 1 January 2007.

WHY ARE REITs A GOOD THING?
REIT status offers exemption from UK corporation tax on profits and gains from an eligible UK portfolio, and also, therefore, a greater flexibility to undertake asset disposals, since tax on capital gains is no longer an issue. Development gains on investment properties are also exempt from corporation tax on capital gains, subject to certain conditions.

REITs are required to distribute to their shareholders at least 90 per cent of the profits from the part of the business that is within the REIT "ringfence".

Further information is available at www.REITA.org

SEGRO
SLOUGH ESTATES GROUP

Source: SEGRO Annual Report, 31 December 2006



Why REIT status works for SEGRO

SEGRO is well suited to REIT status due to its strong focus on a single asset class – Flexible Business Space on a pan-European platform.

With a conversion charge of €82 million, REIT status has allowed us to release some €476 million of provisions for deferred tax, which is no longer payable, and exempts us from tax on the eligible UK income. We expect to save a significant annual sum from this tax exemption alone.

SEGRO's growth plans are development led and the structure of UK REITs complements and facilitates the execution of SEGRO's major development programme, because development gains will generally be tax free.

SEGRO's pan-European focus is a key differentiator as the Group pursues superior returns for its shareholders. The UK REIT structure, combined with the tax rules in most other European jurisdictions, facilitates the creation of a tax efficient international structure.

The Board has announced a new REITs dividend policy with a high income pay-out ratio, to take effect on dividends paid in relation to 2007 performance and beyond.

Source: SEGRO Annual Report, 31 December 2006



REITs

In January it was a pleasure to celebrate the start of REIT trading in the UK with the property industry in my other role as Chairman of the London Stock Exchange. British Land is a flagship of the new regime and focused on making the most of this reform. Quoted REIT vehicles are a vital and growing part of international capital markets.

As a REIT, British Land is unchanged in all structural senses from before, but now has the benefit of being substantially tax free as to both income and capital gains.

Our dividends are going up and will take a slightly different form as explained in the Financial Performance section of the following Review. We also submit to a light touch regulatory regime, underpinning our property focus and secure capital structure.

However, in strategic terms, REITs are also an important development. UK property companies previously operated under a disadvantageous tax regime relative to most other real estate participants, which limited the size of the quoted sector and its delivery of shareholder value. With a level playing field now granted, REITs can further improve returns from active, tax efficient portfolio management. And with the benefits of liquidity, governance, management talent and gearing, I expect UK REITs to take market share from less liquid private and institutional property vehicles over the medium term.

There will be property cycles, but overall we are confident that British Land will be more valuable to shareholders in REIT format than otherwise.

Source: The British Land Company Annual Report, 31 March 2007



Spirits, wine and beer are also regulated in distribution. In many countries, alcohol may only be sold through licensed outlets, both on- and off-premise, varying from government or state operated monopoly outlets (for example, Canada, Norway, and certain US states), to the common system of licensed on-premise outlets (for example, licensed bars and restaurants) which prevails in much of the western world (for example, most US states and the European Union). In about one-third of the states in the United States, price changes must be filed or published 30 days to three months, depending on the state, before they become effective.

Labeling of beverage alcohol products is also regulated in many markets, varying from health warning labels to importer identification, alcohol strength and other consumer information. Specific warning statements related to the risks of drinking beverage alcohol products are required to be included on all beverage alcohol products sold in the United States. Following the end of the voluntary restrictions on television advertising of spirits in the United States, Diageo and other spirits companies have been advertising products on the air on local cable television stations. Expressions of political concern signify the uncertain future of beverage alcohol products advertising on network television in the United States. Further requirements for warning statements and any prohibitions on advertising and marketing could have an adverse impact on sales of the group.

Regulatory decisions and changes in the legal and regulatory environment could increase Diageo's costs and liabilities or impact its business activities.

Source: Diageo Annual Report, 30 June 2006

8 Disclosure of the impact of tax on shareholder value

Tax can have a material impact on shareholder value and stakeholders, particularly investors, want to see this represented in a simple manner. However, our review found only limited information being disclosed in this area. Only one in ten companies referred to tax in the context of shareholder value, the same as last year.

The impact tax can have on a business is often veiled by the complexity of the legislation or the explanations, but a clear statement of the influence tax can have on value can highlight the beneficial effect of a clearly defined strategy.

In our discussions with external stakeholders, setting aside tax as a specific issue, their key measure of a company's reporting strategy is a logical and consistent approach to the message. Linkage of tax to shareholder value, the key measure in the eyes of many investors, can only enhance the overall standard of a company's tax reporting.

Below are some examples of how companies have discussed the impact of tax on shareholder value.

This extract demonstrates how the company's tax structure is a central aspect in creating shareholder value.

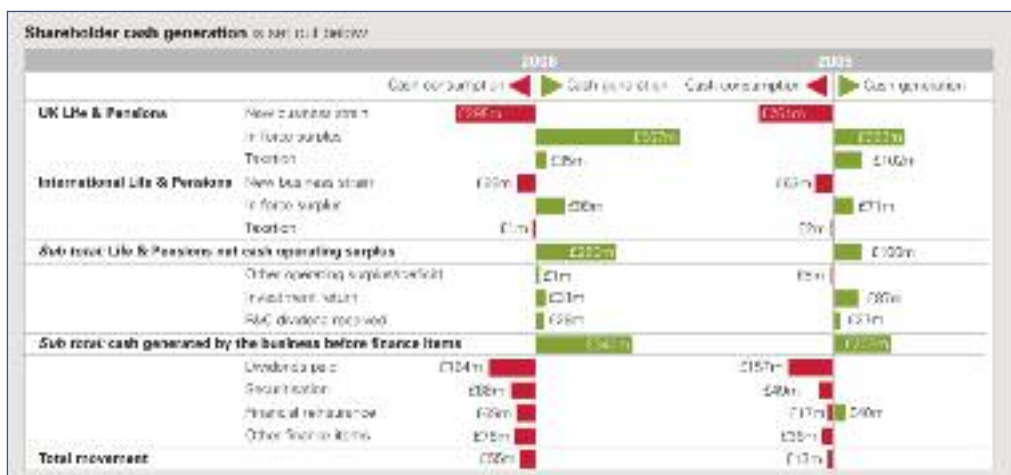
As a leader in its international markets, SEGRO seeks to achieve superior total returns for its shareholders by:

- providing a high standard of customer service and actively managing existing assets
- achieving growth by driving a major development programme
- capitalising on the higher returns and lower borrowing costs available across Continental Europe
- operating an efficient international tax structure
- actively recycling capital by selling mature assets and reinvesting the proceeds in new acquisitions and development opportunities

SEGRO
SLOUGH ESTATES GROUP

Source: SEGRO Annual Report, 31 December 2006

This simple diagram shows the impact on embedded value per share (reduction or increase) of various items, including tax.



Source: Friends Provident Annual Report, 31 December 2006

9 Clear communication of the economic contribution of all taxes paid by the company

The increasing focus on corporate responsibility is encompassing tax payments and there is a growing demand from some stakeholders for more information about what companies pay. Campaign groups and non-governmental organisations are looking for companies to pay a fair amount in tax, in return for a licence to operate from society.

We believe there should be better understanding and transparency of the impact of tax on business and its stakeholders. Companies pay and collect many other business taxes beyond corporate income tax. However, there is a lack of transparency about these taxes. In many cases, the only information in the public domain is that disclosed in a company's financial statements within its annual report, which is often limited to corporate income taxes and employee related social security contributions.

We saw a significant increase in the number of companies recognising and disclosing their wider economic impact in all taxes. Almost a third now say something, an increase over last year. Some companies use the PricewaterhouseCoopers Total Tax Contribution Framework as a way of expressing their contribution, covering both taxes borne and taxes collected (for further information see Appendix III). Although there remains a range in terms of quality of disclosures this is undoubtedly a rapidly developing area.

There are certain industries where reporting on the wider impact of taxes is significantly more advanced. The UK Government's Extractive Industries Transparency Initiative (EITI) is a voluntary agreement within the extractive industries sectors, to encourage disclosures including the economic impact of their operations. This economic impact includes the taxes (in all forms) paid by the company in the country (or geographic area) in question. The corporate supporters of EITI have broadly agreed to disclose the quantum of the taxes they pay where those taxes make an economic contribution. The current level of compliance by the adherents to the EITI to the issued guidelines varies, with not all yet fully meeting the requirements. However, the additional information, even if it does not meet the full EITI standard, has been welcomed.

There is clearly a link with tax payments to the wider development of the sustainability agenda and pressure on companies to recognise their responsibility to the communities in which they operate. We believe this pressure will result in an increase in the rate of change in this area.

Here are several examples of how companies are disclosing their Total Tax Contribution and their wider economic impact.

Distributing benefits

Sustainable societies need strong foundations – built on law and order, health, housing and education, infrastructure, communications and a well-protected biophysical environment. All of this takes money, which is usually derived from companies and individuals in the form of taxes and is, ideally, redistributed for the benefit of the whole society.

The taxes we pay as a company and those we collect from employees on behalf of government are, therefore, important contributions to the creation of wealth and wellbeing in the countries in which we operate. We fully endorse the principle of transparency in our business dealings and we are signatories to the EITI. This UK-sponsored initiative encourages the reporting of taxes and monies paid by companies active in

the extractive industries and by countries receiving revenues from the extractive industries.

Over \$3,119 million was paid directly to governments in taxes as a result of our operations in 2006 (\$2,063 million in 2005) – the increase is a result of both increased revenues and improved reporting. Total tax payments include company taxes, employer taxes, royalties, transaction and other taxes, with the broad aggregates, split on a regional basis, as shown in the table.

In addition, we indirectly contributed some \$1,336 million in value-added tax (VAT) and employee taxes,

which we collected on behalf of governments and paid over to them. We believe that this wider tax footprint is a valid reflection of the tax contribution that results from our activities. In many developing countries this is a particular concern as, in the absence of our operations, there would be few alternative sources of income and therefore of tax revenues.



Taxes paid directly to governments by country* \$ million			
	Borne	Collected	Total
South Africa	1,034	551	1,585
Chile	1,032	10	1,042
United Kingdom	235	325	560
Australia	234	57	291
Austria	48	90	138
Brazil	85	48	133
Russia	83	20	103
France	44	39	83
Venezuela	77	1	78
Canada	5	56	61
Poland	46	14	60
Others	196	125	321
Total	3,119	1,336	4,455

* Unaudited amounts of taxes payable directly to governments as a result of our operations (borne) and amounts collected and remitted to governments, such as employee taxes and net value-added tax (collected).

Source: Anglo American Report to Society, 2006



Taxes paid directly to governments by category and region					£ million
	Africa	Europe	N&S America	Australia/Asia	Total
Profits	948	178	1,140	91	2,357
Transactions	28	35	13	0	76
Labour	30	172	24	39	265
Royalties and environmental	55	136	32	89	312
Other	23	61	10	15	109
Total taxes borne	1,084	582	1,219	234	3,119
Taxes collected and remitted	562	596	121	57	1,336
Total taxes	1,646	1,178	1,340	291	4,455

Source: Anglo American Report to Society, 2006

DIAGEO



Engaging with government

The largest slice of the added value we generate goes to governments through taxation. This year, tax accounted for 44% of the total, amounting to £2.9 billion. In some countries, the tax Diageo pays represents a significant proportion of the government's income.

In addition to this direct contribution to the public purses of countries around the world, there are other taxes including those paid by our businesses, such as local and property taxes; sales taxes such as VAT paid by our consumers; income taxes levied on our employees and investors; and the various corporate taxes paid by our suppliers and customers as a result of the business we generate in these companies. In aggregate, these direct and indirect contributions, which we have not quantified, represent the total tax footprint of our business.

Source: Diageo Corporate Citizenship Report, 2006

During the year, the Group participated in the Total Tax Contribution Survey conducted by PricewaterhouseCoopers of FTSE 250 companies (this followed the earlier survey that PricewaterhouseCoopers undertook of the FTSE 100 companies). This survey highlighted that total tax paid by the Group in the year 2005/06 was £13.2m with a further £8.1m collected from third parties. Of the total collected, corporation tax at £6.74m represented 51%, with the residue falling principally to Stamp Duty Land Tax (39% of total), business rates (4%) and employers NIC (6%).

As may be seen, whilst the Group's total tax burden will be reduced substantially through its REIT conversion, there nevertheless remains a substantial tax contribution. Indeed, with the increased levels of portfolio activity that are likely in an environment that is not fettered with capital gains liabilities, it is likely that total tax contribution will increase in time, back towards pre-REIT levels.



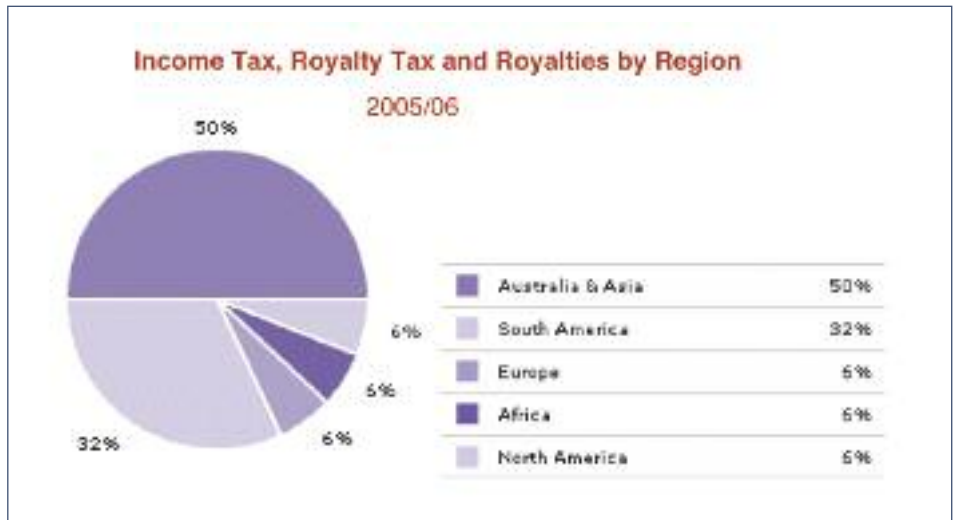
Source: Workspace Group Annual Report, 31 March 2007

Economic Value Generated and Distributed, US\$ million (Year ending 30 June 2006)

	Economic value generated		Economic value distributed				Economic value retained (Economic value generated less economic value distributed)	
	Revenue (1)	Operating costs (1) (2)	Employee wages and benefits	Payments to providers of capital	Payments to government	Community investments		
	Net sales revenue plus other income	Payments to suppliers, contractors etc	Excludes: an expense and credits to the employee workforce and no future commitment	Dividends to all shareholders	Interest payments made to providers of loans (3)	Gifts loans and royalties	Voluntary contributions and investment of funds in the broader community, excluding donations	
Africa	8,898	2,006	484	180	72	307	16.2	1,809
Australia and Asia	16,812	7,600	1,009	1,169	120	2,904	26.2	2,328
Europe	6,308	2,421	181	8.0	49	350	1.5	2,818
North America	1,804	1,091	95	0	269	258	13.2	-754
South America	2,458	3,740	354	-1	131	1,700	24.3	2,963
Total	28,898	17,908	2,140	1,358	480	2,341	81.4	12,807



Source: BHP Billiton Sustainability Report, 2006



Source: BHP Billiton Sustainability Report, 2006

6 Looking forward

Improved tax communications will continue to be an area of increasing focus. There has been a definite improvement in both the amount and quality of tax information reported over the two years that tax has been included in the Building Public Tax Awards. We expect this to be the future direction of travel.

Our review showed a few companies are leading but many have some way to go. Some key communication challenges for companies are:

- Do you have a tax strategy and, if so, are you communicating it to shareholders and other stakeholders?
- What is the best way to communicate your major tax risks, who manages them and how?
- Is the tax reconciliation clear and understandable, or is it rather technical and opaque?
- Have you disclosed forward looking management measures for tax? How will this affect cash tax?
- How does the tax system impact the company's business results? Are you engaged with government on any potential changes to fiscal policy which may have a significant impact?
- Do you know the total amount of taxes that you pay and collect? What is your Total Tax Contribution?
- Have you thought about the potential reputational and business benefits from communicating more information on tax to your stakeholders?

We intend to carry out a similar review in a year's time and anticipate further development. As with this year we expect a significant part of the discussions to take place in companies corporate responsibility reports, as well as in their annual reports and financial statements. This reflects the growing recognition of the link between tax and corporate responsibility and the need for all stakeholders to have a good understanding of tax strategy in order to put the amount of tax payments into context. We also expect companies to increasingly discuss tax in their stakeholder engagement and informal communications, as well as in their formal company documents.

In addition to the broader push for more tax information, the introduction of new US reporting requirements (for periods beginning after 15 December 2006) requiring additional disclosure and specific recognition and measurement of uncertain tax benefits is likely to have a significant impact on tax reporting, with analysts using new measurement metrics to determine exposure to tax risk. While this will have the greatest impact on groups that report in the US, the consideration and presentation of major tax risks can only increase the likelihood that companies will say more about their strategy, risk management and wider tax impacts.

The resulting focus on tax risk management should increase the standard of communication in this area, as groups are going to be under pressure to match the standards of reporting by the best in class.

As risk processes come under more scrutiny, stakeholders will demand, and are likely to see, more information about the group's tax aims and how these fit with the wider business strategy.

Our review has focused on the tax communications of the largest UK listed companies. However, we believe that the principles of our Tax Transparency Framework apply to all companies, wherever based, or whatever size and whether listed or not.

Tax reporting is an evolving area and one where increased disclosure and transparency is not without its own costs and risks. But we believe that the potential gains to companies from improving their tax reporting really do outweigh the possible downsides. It has to be acknowledged that there is a risk that stakeholder pressure will lead to new requirements being imposed; surely it is better for companies to anticipate and meet this demand?

We believe there is real scope for companies to lead the way and help define best practice and would welcome further contributions to the development of the Tax Transparency Framework.

Appendix I

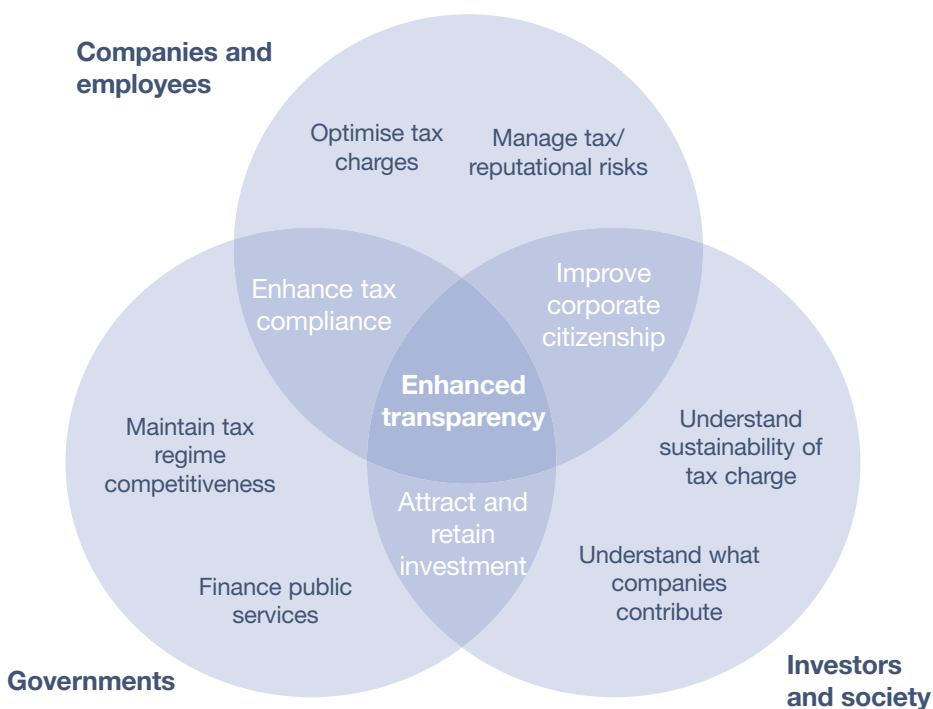
Stakeholders and tax communications

Over the past few years, there has been a great deal of change in the tax environment. Tax has become vastly more complicated and specialised, as globalisation has impacted local tax regimes and governments have become more aggressive to protect their tax base, whilst imposing additional taxes to raise more revenues. High profile corporate failures have fuelled increasing regulation, requiring stronger systems and controls including over tax. All this has resulted in the corporate sector becoming more sophisticated in its approach to tax, coupled with a requirement to allocate increased resources to the oversight, management and regulation of tax.

At the same time as tax has become more complex and specialised, a diverse range of external stakeholders has become more interested in tax in the corporate sector, increasing the demands on companies to provide more information on tax. Investors, analysts, non-governmental organisations (NGOs) and financial journalists are among those now focused on tax. These stakeholders are very often not tax experts, and need information that is readily understandable. Tax can no longer stand behind its reputation as deeply complex, technical and accessible only to the expert.

This greater stakeholder interest can be difficult for companies to manage. What each stakeholder group is looking for from the company's tax position can be different and sometimes conflicting. For example, investors will often want the lowest sustainable tax charge because that will flow through to after tax returns. On the other hand, governments are trying to maximise their tax take and get value for natural resources. For some NGOs, just the terms 'tax avoidance' and 'transfer pricing' are emotive and seen as contrary to corporate responsibility. Even stakeholders themselves may have conflicting view points. For example, employees may want their company to be a good corporate citizen and pay tax but, when they switch hats and become consumers, then they may be focused on lower prices which imply lower taxes.

So, on the face of it this is a very difficult situation. How do companies manage the reputational aspect of tax with such a diverse group of stakeholders each with very different needs? Despite the conflicts, there is some common ground.



At the heart of all stakeholder needs is enhanced transparency. All stakeholders want more and clearer information about the company's tax on which to base their decisions. In the past, tax has been seen as a deeply technical subject, best left to the experts. Tax people have been cautious about providing information on their tax strategy and tax numbers from the genuine and understandable concern that this might be misunderstood, or lead to more and unwelcome questions. However, we are now in a more transparent business environment and there is increasing pressure on companies to say more about their tax position. The chart summarises some of the potential risks and benefits of greater tax transparency.

External	Internal
Benefits	
<ul style="list-style-type: none"> General awareness of the tax and economic contribution of business Encouraging a balanced view of tax contributions Responding to information demands of key stakeholders and transparency initiatives Tailored stakeholder reporting and communication Longer-term reputation risk benefits 	<ul style="list-style-type: none"> Encourages greater board involvement in strategy Increased focus on risk issues around tax Better-connected business decision making
Risks	
<ul style="list-style-type: none"> Conflicting stakeholder interests and pressures Scope for misunderstanding if poor or inconsistent reporting framework being used Confidentiality issues Greater attention to lower payers 	<ul style="list-style-type: none"> Resource: time and cost Lack of reporting mechanism Quantification difficulties and uncertainties Conflicting pressures – tax planning versus tax transparency and reporting

Stakeholders are looking for more and better information on tax. They want to know a company's tax strategy and overall approach to tax. They want to understand the numbers and why the tax charge is not the accounting profit at the statutory rate of tax. They want to know what companies contribute in taxes. They want to be able to do their own analysis and take informed decisions. Tax people are having to respond and improve their communicating to non-tax specialists who have a different perspective and approach.

Historically, the disclosures in a company's annual report may have been the only information on tax in the public domain. However, our work shows that companies are responding to the need for a better understanding by their stakeholders and are starting to say more in a variety of ways. Discussing these needs with stakeholders and a number of companies led us to develop the Tax Transparency Framework which was used as the basis for our review of the tax communications of the FTSE350.

Appendix II

The 2007 Building Public Trust Awards

The PricewaterhouseCoopers Building Public Trust Awards celebrate the commitment of the UK's largest corporations and public sector bodies to build public trust through their communication of the key building blocks of sustainable performance. The largest UK-based companies (FTSE100 and 250) are eligible for one or more of the awards listed.

Awards

2007 is the fifth anniversary of the awards. In 2007, awards were made in the following categories:

In the FTSE:

- Measures of Success
- Executive Remuneration
- Tax Reporting
- Pensions Reporting
- Building Public Trust Award "For Telling it How It Is" in the FTSE250
- Building Public Trust Award "For Telling it How It Is" in the FTSE100

There is also a Public Sector award:

- Building Public Trust Award "For Telling It How It Is" in the Public Sector

The judges

The awards are judged by an independent panel, who review a shortlist put forward by PwC. In 2007 the Building Public Trust Award judging panel was made up of the following leading business figures. Between them they cover a wide range of disciplines and hold an array of knowledge about the key issues faced by businesses today.

- John Coombe (Chair), Non Executive Director of HSBC Holdings plc and Home Retail Group plc, Chairman of Hogg Robinson Group plc and member of the Supervisory Board of Siemens AG. (Formerly Chief Financial Officer of GlaxoSmithKline plc)
- Nick Anderson – Head of Research, Insight Investment
- Professor David Begg – Principal, Tanaka Business School, Imperial College, London
- Sir John Bourn KCB – Comptroller and Auditor General, National Audit Office
- Peter Elwin – Head of Accounting and Valuation Research, Cazenove Equities
- Philippa Foster Back OBE – Director, Institute of Business Ethics
- Baroness Denise Kingsmill CBE
- Professor Sir Andrew Likierman – London Business School (formerly HM Treasury)
- Anita Skipper – Head of Corporate Governance, Morley Fund Management

The PwC corporate reporting framework

In drawing up the shortlist, PwC follows criteria based on its innovative approach to assessing corporate reporting which has been codified in the PwC corporate reporting framework. This framework was developed in response to the global emphasis on greater corporate transparency and reporting of non-financial performance and its purpose is to help companies provide clear, relevant, and comprehensive information to investors and others. The framework was developed following a global research program which surveyed the views of company executives, investors, and sell-side analysts.

Our Tax Transparency Framework, which was used to review and short list companies for the tax award, was similarly developed in discussions with companies and their stakeholders and was based on the approach used in our corporate reporting framework.

The corporate reporting framework consists of four broad categories of information, shown in the chart below.

Market overview	Strategy and structure	Managing for value	Performance
Competitive environment	Goals and objectives	Financial assets	Economic
Regulatory environment	Governance	Physical assets	Operating
Macro environment	Risk framework	Customers	Environmental, social and ethical
	Organisational design	People	Segmental
		Innovation	
		Brands and intellectual assets	
		Supply chain	

The market overview serves as a logical starting point for assessing and understanding a company's performance because the dynamics of the external operating environment typically exert significant influence over a company's strategic options, current performance, and future prospects. For the Tax Transparency Framework, we included criteria covering the tax impacts of the business strategy and results.

A company should clearly communicate how its strategy and corporate structures enable the company to compete and thrive. This area forms a key part of the Tax Transparency Framework. Our criteria include: a clear discussion of the company's tax objectives and strategy; disclosure of how the company's tax strategy and function is managed; who in the organisation has responsibility for governance and oversight; and clear disclosure of the material tax risks faced by the company.

Managing for value is an area where companies show how they have managed their resources and relationships in order to create value. We included this in the Tax Transparency Framework with the criteria on disclosure of the impact of tax on shareholder value.

The final area is performance, covering a number of different aspects. Our Tax Transparency Framework criteria cover two separate areas within performance. First, clear numerical information including a clear explanation as to why the current tax charge is not at the statutory rate of tax; a transparent reconciliation of the company's cash tax payments to the tax charge included in the income statement; and disclosure of the forward looking statements surrounding tax, including forecast accounting and cash tax rates.

Second, performance also includes reporting on how well the company is meeting environmental, social, and ethical responsibilities and our criteria includes clear communication of the economic contribution of all taxes paid by the company.

The judges' comments

The Tax Reporting award was introduced in 2006, recognising that tax is a key factor in delivering shareholder value and managing reputational risk, as well as the growing scrutiny from investors, revenue authorities, and other stakeholders. The judges were looking for each company to provide clear disclosure in the areas of the framework. This includes good discussion of tax strategy and risk management, clear and understandable tax performance numbers, and an indication of the wider impact of tax and the company's Total Tax Contribution.

In 2007, the judges were pleased with the overall improvement in tax reporting, whilst recognising that this is an evolving area and that many companies have some way to go. The judges felt the shortlisted companies were all well advanced in their tax reporting and commented as follows.

Winner: Vodafone Group Plc

"Vodafone's unique and publicly-available code of conduct on tax feeds through to its reporting, with explicit information on tax strategy, extensive detail on tax risks, and discussion of its wider economic impact. Its reporting also has a great sense of honesty – Vodafone tackles head-on the dilemma of whether a company should pay a fair amount of tax or that tax is a cost to be minimised."

Highly commended (in alphabetical order):

Anglo American plc

"Anglo American highlights the importance of tax right up front in the chairman's statement and never lets it drop. It gives a clear account of its tax strategy linked to the company's business principles, and is a leader in disclosure of its Total Tax Contribution, including detailed information about the impact on local communities across the world."

Diageo plc

"Diageo is balanced in its coverage of the three key areas – tax strategy, numbers and total contribution. Diageo provides clear coverage of its tax risks and wider economic impact, and treats tax as an integral part of the business rather than something separate from its everyday operations."

Appendix III

PricewaterhouseCoopers Total Tax Contribution: an outline

The PricewaterhouseCoopers Total Tax Contribution Framework has been developed to provide a methodology which enables companies to measure and communicate their tax contribution in a consistent and easily understandable manner – with a view to meeting the needs of various stakeholders and improving transparency. Governments are a key stakeholder in what taxes companies pay, and generating total tax information is proving to be of great interest to them in terms of having access to data that is not otherwise available, and so helping inform the process of policy formation and facilitating a more constructive conversation with business as part of this process.

Over the last two years PricewaterhouseCoopers has actively engaged with business and a wide variety of these stakeholders, including governments in several countries, international organisations, professional associations, academics and NGOs. This has been undertaken with a view to securing a general understanding and consensus of the Total Tax Contribution concept and to take on board views and comments to ensure that we evolve the methodology to optimise how it can best be used.

The framework encompasses all the taxes that are paid by companies and includes, for example, property taxes, labour taxes and contributions, sales taxes and other taxes; as well as corporate income tax. It makes a fundamental distinction between two types of taxes paid by companies; these are known as taxes borne and taxes collected. In essence, taxes borne are those which are a cost to the company, such as property taxes, employer social security and corporate income tax. Taxes collected are where the company is collecting the tax on behalf of the authority, including taxes deducted from employee's salaries, sales taxes and excise duties².

The framework also offers the capability of collecting data and reporting on tax administration costs and on the wider contributions made to the community such as infrastructure improvements or licence fees.

The Total Tax Contribution Framework is being used extensively to generate empirical data on the tax contribution of companies.

In the UK, a survey is undertaken each year with the Hundred Group to collect data on the taxes they pay³. The Hundred Group is a cross industry grouping representing more or less the top hundred companies on the London Stock Exchange FTSE index. The survey is now in its third year having focused on taxes borne to start with, adding taxes collected in the second year and this year there will be significant additional information around compliance time and cost, as our discussions with stakeholders have shown a strong interest in this data. Governments and business have a common interest in reducing complexity and the regulatory burden.

² *Total Tax Contribution Framework – What is your company's overall tax contribution? – A PricewaterhouseCoopers discussion paper, April 2005.*

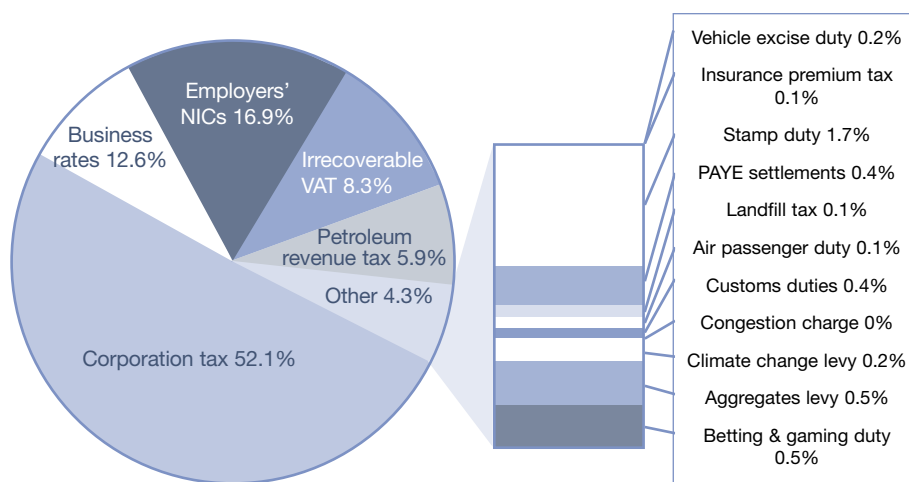
³ *Total Tax Contribution – PricewaterhouseCoopers LLP 2006 survey for the Hundred Group, January 2007*

The survey achieves high participation with 78 companies providing data in 2006. Some key themes that have been reported from the Hundred Group surveys include:

- There are 21 taxes in the UK that companies pay in addition to corporate income tax.
- For every £1 of corporate income tax there is another £1 of tax borne by these companies.
- For every £1 of corporate income tax borne there is also a further £3.70 in taxes collected.
- Taxes borne and collected are equivalent in size to around 18% of these companies' turnover.
- Taxes contributed by these companies to the UK Treasury increased by 16% between 2005 and 2006.

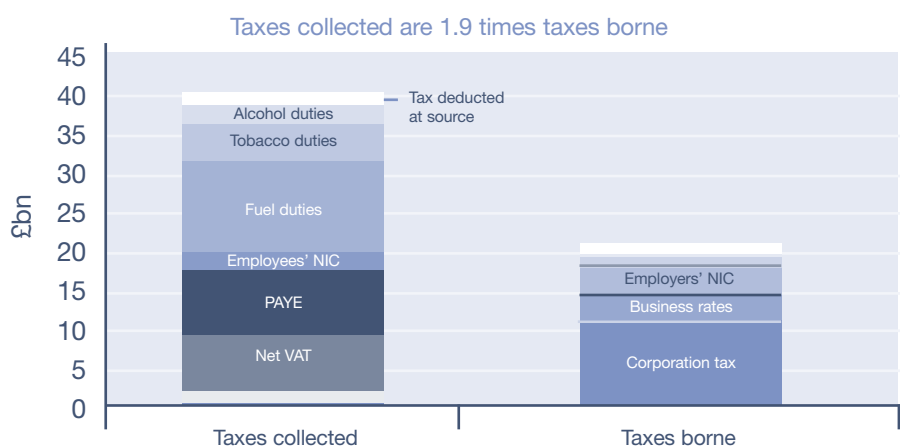
The diagram below shows extracts from the survey results. The pie chart shows the distribution of taxes borne by members of the Hundred Group participating in the survey. Broadly speaking, for every £1 of corporate income tax paid by these companies, they bear another £1 in other business taxes borne. This is generally a hidden contribution, since these other business taxes are not reported in the financial statements.

Taxes borne by survey participants in 2006 – by percentage



In addition to taxes borne, these Hundred Group members collected significant business taxes on behalf of the UK Government. The columns in the diagram below show that overall the amount of taxes collected was larger than taxes borne. Broadly speaking, for every £1 of corporate income tax paid by these companies, they collect another £3.70 in taxes collected. Altogether, in taxes borne and collected, the Hundred Group accounts for 16% of UK Government tax revenues.

Total taxes collected to taxes borne for survey participants in 2006



A similar survey was also undertaken by the PwC firm in Australia in 2006 for the Business Council of Australia and this attracted a high level of participation from large companies operating in Australia⁴. Key messages were:

- Australia has a total of 56 taxes that companies pay. Some of these have different rules and separate filing obligations in the different state territories, multiplying up to 182 taxing points.
- 35 territory and local taxes accounted for only 17% of the taxes paid by this group of companies. This represents a great deal of complexity for very little tax take.
- On average, each company surveyed had the equivalent of 9.1 full time employees dealing with compliance with Australian taxes.

The survey results stimulated a healthy discussion between Government and business in Australia on the shape of the tax system.

Empirical work is also underway in other countries and we hope the results from these will be published next year.

The methodology from the Total Tax Contribution Framework is also adopted by the World Bank in its Paying Taxes study which is part of their Doing Business project. The study looks at the ease of paying taxes in 178 countries around the world using a case study company for the basis of generating the results. The study measures the tax cost by calculating a Total Tax Rate for each country based on the Total Tax Contribution methodology. The use of the methodology by the World Bank to generate the Total Tax Rate provides a consistent way in which tax systems can be compared by reference to the case study company. It has ensured that the full range of taxes borne by business are considered rather than having a restricted focus on corporate income taxes which, as the survey shows, represents only 36% of the tax bill of the case study company overall.

⁴ *Tax Nation – Business Taxes and the Federal-State Divide*, published by the Business Council of Australia, April 2007.

Appendix IV

Related PricewaterhouseCoopers publications

Total Tax Contribution Framework: What is your company's overall tax contribution?

Published: April 2005
www.pwc.com/uk/ttc



Total Tax Contribution PricewaterhouseCoopers LLP 2006 survey for The Hundred Group

Published: January 2007
www.pwc.com/uk/ttc



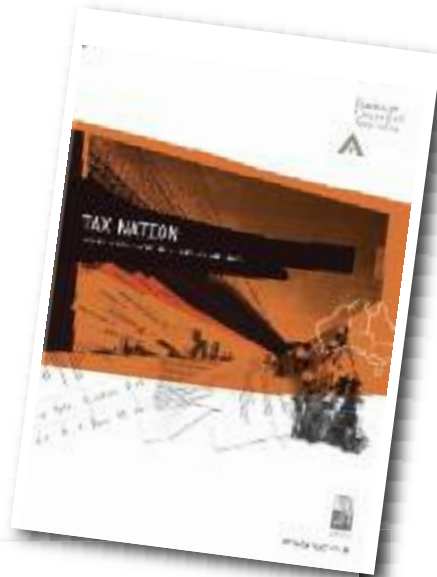
Tax Transparency Framework: A suggested framework for communicating your total tax contribution

Published: May 2007
www.pwc.com/uk/ttc



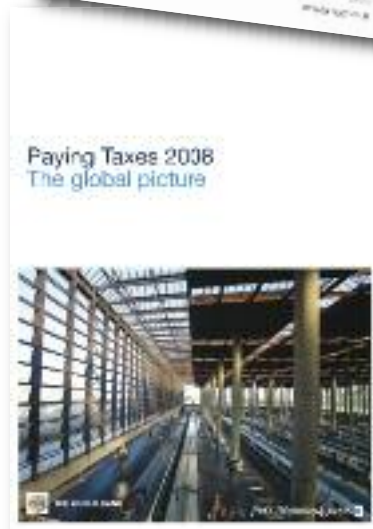
Tax Nation: Business Taxes and the Federal-State Divide

Published jointly with the Business Council of Australia: April 2007
www.pwc.com/au/ttc



Paying Taxes 2008

Published jointly with the World Bank Group: November 2007
www.doingbusiness.org/taxes
www.pwc.com/uk/ttc



Appendix V

PricewaterhouseCoopers team



If you would like further information about this report, please contact:

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David Clayton is a tax partner specialising in corporate and international tax and led the development of the Tax Transparency Framework. His clients are mainly in the energy and extractive industries sectors. During his 24 years with PwC, David has developed a particular interest in corporate responsibility and the contribution of the corporate sector to the wider community.

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Richard Faulkner is responsible for managing the BPTA Tax Reporting award and the detailed analysis of the tax reporting in the FTSE 350. He is a senior tax manager within the Financial Services tax team, specialising in the provision of tax advice to property companies and property funds.

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Matthew Bess is a tax consultant, specialising in tax benchmarking. He has worked with companies around the world, in a variety of industry sectors, analysing and benchmarking the tax rate disclosures in their formal statements against selected peer groups. This role has led to an increased interest and involvement in the wider tax reporting agenda.

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