

Total Tax Contribution

Tax Transparency Framework

A review of the tax communications of the largest listed companies in Belgium, the Netherlands and UK



Tax objectives and strategy

Tax management and governance

Material tax risks

Tax charge explanation

Tax cash payments reconciliation

November 2008

Dear reader,

We hope you will find our publication useful in summarising how the largest listed companies in Belgium, the Netherlands and the UK 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.

Last 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 reviewing the tax communications of the largest listed companies in the three countries against this framework.

Though we focused our attention on large listed companies in Belgium, the Netherlands and the UK, 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.

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

Please do not hesitate to get in touch with one of us, if you would like to discuss this developing area further.

Yours sincerely,



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November 2008

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Executive summary

The PricewaterhouseCoopers (PwC) Tax Transparency Framework was developed in discussions with different stakeholder groups with an interest in tax. A number of companies provided detailed information on their tax affairs; we suggest that all companies consider reporting across nine criteria which are grouped into three areas:

- 1 Tax strategy and risk management
- 2 Tax numbers and performance
- 3 Total Tax Contribution and the wider impact of taxes

We view tax communications as a developing area and invite views and input on our suggested framework. We do not advocate a change to be established and regularly evolving financial accounting standards but we hope that the framework and our findings will stimulate discussion on a subject rapidly rising up investor and boardroom agendas. We have reviewed the tax reporting of the largest listed companies in the UK in each of the last two years and seen a real improvement in how companies communicate around tax in that short period of time. We

have expanded this review to consider whether the increasing focus of stakeholders on the contribution that companies make to government is driving an improvement in the tax reporting of corporate tax payers around Europe. We have considered in detail the reporting in the UK again and added in-depth reviews of the largest listed companies in the Netherlands and Belgium.

Though the review has focused on the largest listed companies we believe the principles in the framework are much more widely applicable. Given the increasing focus on the actions of the business community, and not just around tax, we believe that companies can help set the agenda to define good practice in this area.

Our review

In line with our previous findings in the UK, the best communicators continue to get better and those leaders in this area are widening the gap between themselves and the rest.

Tax strategy and risk management

- ▶ In the UK there was a slight increase in number and depth of discussions around tax strategy and governance. However, those companies that provide any information in this area remain very much in the minority and this was reflected in our findings on the reporting in Belgium and the Netherlands.
- ▶ The communication of a company's risk and governance procedures surrounding those tax risks is generally more widespread than that for tax strategy. This is particularly true for the Netherlands, where the horizontal monitoring project introduced by the Dutch Ministry of Finance has led to greater transparency on Dutch tax risks.

Tax numbers and performance

- ▶ Most companies provide satisfactory explanations as to why their tax charge is not simply equivalent to the accounting profit at the statutory rate. The terminology used in many reconciliations of the expected tax charge to the actual tax charges do not, however, lead to real clarity as to why some of the adjusting items have the impact they do.
- ▶ Very few companies provide any guidance on future tax performance and the majority of those that do are based in the UK.
- ▶ The relationship between cash tax paid and the accounting tax charge is not well understood by many stakeholders and only one example of a company trying to bridge this gap was seen. This is despite value driven stakeholders wanting to see much greater detail in this area.

Total Tax Contribution and the wider impact of taxes

- ▶ The desire to communicate the economic contribution made was a common theme across all three countries which we considered in detail. There was some variance on how the message was delivered, with some choosing to use PwC's Total Tax Contribution framework and others focusing on a value added methodology. Outside the areas of tax performance reporting this evidence of reporting in this area was found most widely.
- ▶ Certain industry sectors discussed tax as part of the general business strategy but this was not widespread.
- ▶ Very few companies made any reference to a link between tax and shareholder value.



Tax is pretty much the single most commonplace and material cost facing companies so it is no surprise that markets require information on corporate tax issues. However, the level of analytical skills to analyse taxation disclosures, outside of tax professionals, is limited. In many ways, given the technical nature of taxation, it is no surprise that it presents significant challenges to investors and analysts... Therefore it is of crucial importance for corporate tax disclosures to be made with clarity, so that judgements on these issues are as rational as possible. Although this is not always easy with complex tax issues, it is the only approach to ensure engagement with capital markets."

Kenneth Lee, Head of Accounting and Valuation Research at Citigroup Investment Research, and author of Unlocking Tax Value

"Income taxes

The AFM [Authority for the Financial Markets] found that disclosure of accounting policies for income taxes was not extensive enough. The AFM believes that disclosure of accounting policies for income taxes included in the financial statements can be improved, among other things, by tailoring these policies to the circumstances of the company. In addition, companies can provide greater transparency regarding the question whether recognised and unrecognised deferred tax assets are reviewed at each balance sheet. There is also room for improvement regarding certain required income tax disclosures."

Supervision of the 2006 financial reports of listed companies –
Activity Report Netherlands Authority for the Financial Markets (AFM)

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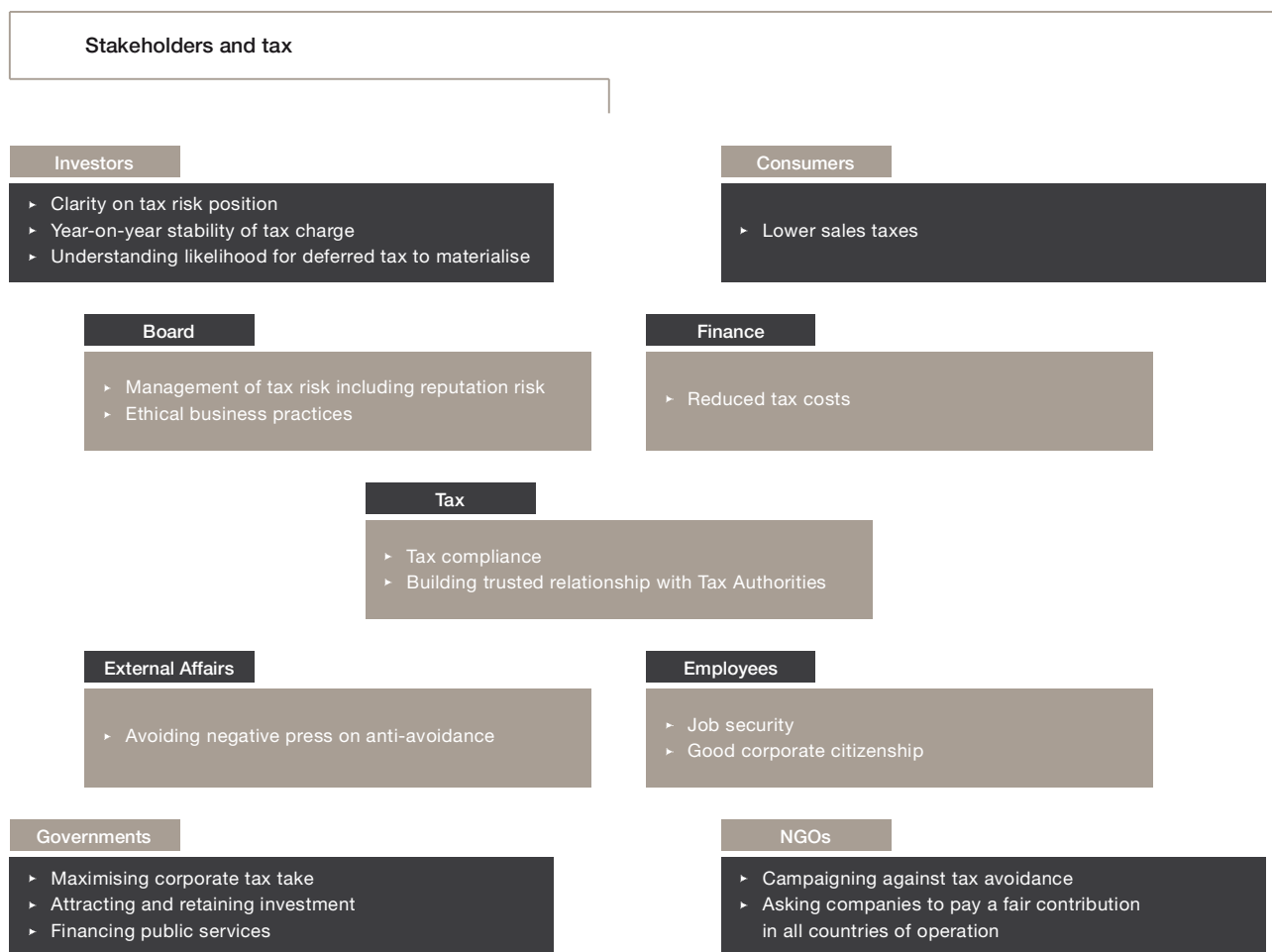
A photograph of a person from behind, wearing a white shirt, looking out a large window. The window frame is visible on the left and right sides. The background outside the window is bright and slightly blurred.

Stakeholders and tax

In recent years tax has become more complicated and specialised, as globalisation has challenged local tax regimes and governments to become more aggressive in protecting their tax base, whilst imposing additional taxes to raise revenue. This has resulted in increasing sophistication in the approach to tax, requiring the allocation of increasing resources to the oversight, management and regulation of tax and the tax function.

The range of external stakeholders interested in tax in the corporate sector has grown, increasing the demands on companies to provide more information. Investors, analysts, Non-Governmental Organisations (NGOs) and financial journalists are among those now focused on tax; they are very often not tax experts and need information that is readily understandable. Tax can no longer be treated as a 'black box' and viewed as deeply complex, technical and accessible only to the expert.

Stakeholders and tax



Stakeholders in the centre of the figure are internal company stakeholders. Those on the outside are **external**.

Stakeholders and tax communications

What each stakeholder group is looking for from the company's tax position and information is different and sometimes conflicting. Balancing these relationships is becoming increasingly difficult and we believe requires a considered approach to how tax is managed internally and how that management and strategy is communicated to this wider stakeholder group. There are a number of obvious conflicts with investors often wanting the lowest sustainable tax while governments are trying to maximise the tax collected. A company's tax position is beginning to take on a moral element in the eyes of some NGOs, with the terms 'tax avoidance' and 'transfer pricing' emotive and the results seen as contrary to a wider corporate responsibility. Individual stakeholders may even have conflicting views with employees wanting their company to be a good corporate citizen and pay tax, but when they switch hats and become consumers, they may be focused on lower prices, which imply lower taxes. How do companies manage the reputational aspect of tax with such a diverse group of stakeholders? Despite the conflicts, there is some common ground.

The diagram on the next page shows potential conflicts:

- ▶ Governments have to balance maximising the tax take to finance public services with maintaining a competitive tax system to attract investment.
- ▶ Companies have to optimise their tax charge to serve the interest of shareholders, but at the same time want to manage their reputational risk with a wider group of stakeholders.

But some common ground is also clear:

- ▶ Governments and society have a common interest in attracting and retaining investment.
- ▶ Governments and companies both want a simpler, better tax system and easier compliance, and there is a common interest in good corporate citizenship.

Stakeholders are generally looking for more and better information on tax. They want to know a company's tax strategy and to understand the numbers and why tax is not simply the accounting profit at the statutory rate of tax. They want to know what companies contribute in taxes with a drive to be able to do their own analysis and take informed decisions. One of the challenges is how tax specialists faced with these trends communicate all this information in a way that is understandable to the non tax specialist.

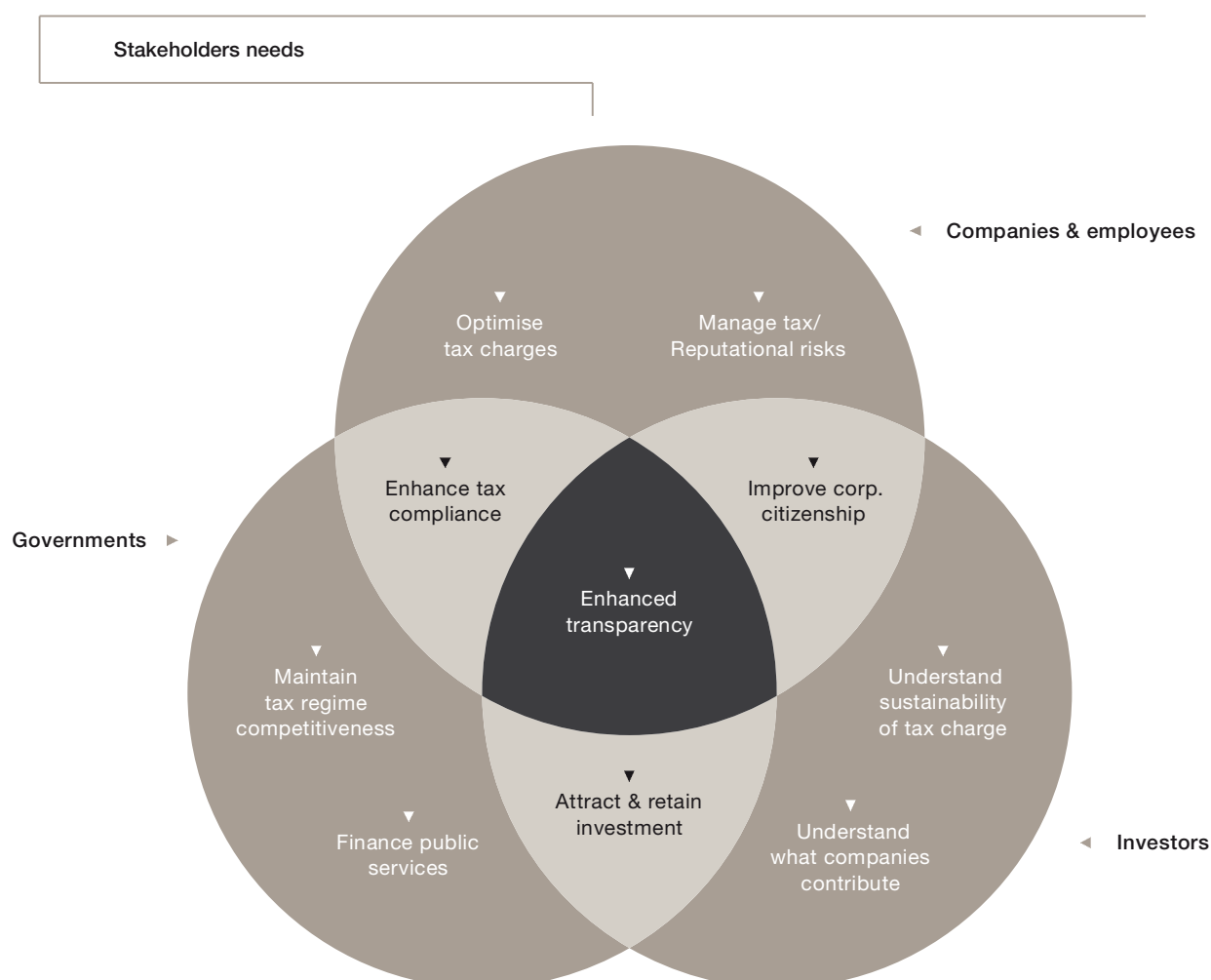
What stakeholders want

What do stakeholders want in detail and why? We have had discussions over a number of years with stakeholders and have identified three broad areas where clearer information would be welcomed.

Strategy and risk

All stakeholders want more and clearer information about a company's strategy and business on which to base their decisions. This is more widely accepted in other parts of a business where articulating your strategy to stakeholders is considered extremely important. Tax professionals have traditionally been cautious about discussing their tax strategy and tax numbers out of the genuine and understandable concern that this might be misunderstood, or lead to more and unwelcome questions.

Understanding the strategy is to understand how a company approaches tax, the attitude



to planning and compliance. It is also the key pointer to the way the company balances the pressures of minimising taxes to enhance shareholder returns whilst managing reputational risk. Stakeholders often attach more importance to how a company presents its tax strategy as they were clear in their view that without this framework, the other information on tax loses a significant portion of its value.

Understanding the corporate governance procedures put in place to ensure the strategy is implemented in accordance with the agreed policy is also critical. Stakeholders want reassurance that whatever strategy is in place, it is monitored, in order to be confident

that what happens in practice is consistent with that strategy. The increasingly difficult tax environment, as revenue authorities take a more robust position in investigations, coupled with the growing focus on tax by other stakeholders, indicates an area where the risks are growing.

Stakeholders also want a clear explanation of the tax risks a company faces as a result of its business model. 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. If steps have been taken to minimise the risk, stakeholders are also keen to see the detail.

Tax numbers and performance

An easily understandable reconciliation of accounting profit to taxable profit is welcomed by most stakeholders, and there was a desire for the use of straightforward descriptions for each of the adjusting items. There is a consistent desire for the notes to be sufficiently detailed to provide useful information, without the compression of a number of adjustments attached to very large numbers.

Investors, and increasingly the corporate responsibility community, are keen to understand the cash impact of tax and how much is paid into government coffers.

Cash tax is unaffected by the impact of accounting adjustments and deferred tax, which is often misunderstood and needs to be communicated carefully. Investors are often more interested in the cash tax payments as the cash figures will feed more readily into any present value modelling analysis.

All stakeholders in the area of tax are interested in clear and understandable numerical information across these areas.

The wider impact of tax

Tax has moved up the boardroom agenda in recent years, and stakeholders often want to understand the impact of tax on a business and on the communities where it operates.

Tax can have a material impact on the overall business strategy of a company. And the materiality is often dependent on the industry in question. The business may depend partly on the tax treatment of its products, as in the financial services industry, or the post-tax return may be materially affected by different types of taxes, as for extractive industries. Transparent discussion of these often external factors is key to providing investors with the tools to fully understand the company's business and its operating environment.

There is a clear desire for more information on the economic contribution of the taxes paid by a company in the countries where it operates. There is a push for disclosure beyond the corporate tax charge in the financial statements and the inclusion of information on the often very varied taxes a company can pay. PwC's Total Tax Contribution provides a useful framework for this reporting (see Appendix 1).

Discussing these needs with stakeholders and a number of companies led us to develop the transparency framework, which is laid out on page 13 and was recently published in the UK.

We then go on to discuss what we found when looking at the published reports of large listed European companies, focusing on the UK, Belgium and the Netherlands.

What stakeholders want

Why do they do it?



There are two drivers behind our decision [to communicate our tax strategy].

Driver 1, and to be clear what it isn't, it isn't to be altruistic, it isn't to be transparent for its own sake, it is because I think there is real value to Vodafone in being transparent to the markets, to our stakeholders about what it is we do and our tax strategy, our tax risk and our approach to dealing with tax administrations. Secondly I think it's just part of a culture that permeates the organisation; it's important to say and to be transparent and open in your external conversations because that transcends into your internal conversations and how you think about yourself as professionals, how you approach tax, the integrity, the openness and the transparency with which you deal with each other, with which you deal with people in the business and your external stakeholders. Those are the drivers behind why we take this so seriously and why Vodafone works so hard to be transparent in its external reporting.

Going back to that first point, it is really important to re-emphasise that there is nothing altruistic, there is nothing about raising our ethical or moral standards in respect of our transparency in this regard, it is truly about a real business benefit; I believe that providing certainty and respect to what it is we do in the tax space, why we take the approach we do, how we manage risk and how we approach our interaction with tax authorities comes back to us in real shareholder value and that is the fundamental driver behind why we take this so seriously."

Joel Walters, Group Tax Director, Vodafone

"It's important to us that we align our tax strategy and philosophy with our longer term business strategy and we find that the benefits to reporting the taxes paid are far wider than just purely tax.

As a group we have an active policy of constructively engaging with our stakeholders at all levels, from a tax perspective I see that as no different from what we are trying to do as a general business and therefore we have found that by actively reporting what our total tax contribution is, that's helped us as a group to actively engage with our stakeholders. Historically tax has always been the corporate tax line in the profit and loss account and I think as we've moved down the road of reporting more and more of our total contribution both in terms of taxes paid and collected, it's brought an increased understanding across the group, whether that's at board level or senior management level, of the contribution we as a tax function are actually making to the group."

Keith Tucker, Executive Vice President for Tax, Anglo American

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A suggested framework

Section 1 Tax strategy and risk management

- ▶ 1 Clear discussion of the company's tax objectives and strategy
- ▶ 2 Disclosure of how the company's tax strategy and function is managed and of who in the organisation has responsibility for governance and oversight
- ▶ 3 Clear disclosure of the material tax risks faced by the company

Section 2 Tax numbers and performance

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

Section 3 Total Tax Contribution and the wider impact of taxes

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

Section 1



Tax strategy and risk management

Key observations

- ▶ Only a small minority of companies make any reference to their tax strategy.
- ▶ As with tax strategy disclosure, the UK has a slight lead in this area, with around 1 in 4 companies providing details on their governance processes surrounding tax.
- ▶ More companies provide details on their specific tax risks than report on strategy and governance.

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

A clear strategy is the basis of any company's reporting and, in any area of reporting, is the base for understanding what a company says. The coherent disclosure of a tax strategy is considered key because it is difficult without the strategy to put the other disclosures around tax into context. Investors and other value driven stakeholders want to see a clear explanation of what the strategy is, how that strategy was devised and the potential impact of following the strategy.

An increasing number of companies are discussing tax strategy, but those that we have previously seen report their tax strategies well are continuing to do so and are generally providing greater detail in this area.

More companies are discussing their tax strategy in their corporate responsibility reports than in their financial statements. This indicates 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 make a suitable contribution into the communities where they operate.

We have included several extracts illustrating how companies disclose information on their tax objectives and on their attitude to tax risk and planning.

Source ► Nutreco NV – *Annual Report 2007* – Page 71



Tax

In January 2006 Nutreco Holding N.V. concluded an enforcement covenant with the Dutch tax authorities as part of the 'horizontal supervision' project initiated by the Dutch Ministry of Finance on the basis of which existing cooperation was further enhanced. The starting points of the covenant are openness and transparency, based on mutual respect and trust, resulting in an intensive exchange of information and preliminary consultations on matters with potentially material tax consequences. During 2007, under the covenant, agreement was reached on the Dutch tax position up to and including the fiscal year 2006 and the final tax assessments up to and including 2006 were imposed accordingly. With regard to 2007, any relevant tax matters were raised – and agreement was reached – at pre-consultation sessions. As a result, any uncertainties concerning the Dutch tax position have been reduced to a minimum.

This form of collaboration fits within Nutreco's policy on risk management in respect of taxation and is partly made possible by a constant focus on the level and quality of the internal control framework in the area of taxation, which is also included in the collaboration under the covenant.

In the other jurisdictions where Nutreco is operating, the Company is, where possible, pursuing a proactive policy in order to minimise any uncertainties regarding the tax positions. The internal control framework for taxation is used in most other countries as well and will be further implemented in 2008.



Source ► KBC SA/NV – *Corporate Social Responsibility Report 2007* – Page 36

4 RESPECT FOR GOVERNMENT

KEY PRINCIPLES

Our respect for and willingness to co-operate with government (see below)
Group Responsible Tax Strategy

As KBC's operations span various countries on several continents, we take particular care in observing national and local laws and regulations of our host countries and are mindful of our obligations under them. Indeed, the basic principle underlying our responsibility towards public authorities as stakeholder is our respect for and willingness to co-operate with government by:

- obeying both the letter and spirit of the laws and regulations in place
- making the necessary efforts to cultivate a good and long-standing relationship with local authorities and public bodies.

In particular, we are committed to being a responsible taxpayer, based on solid tax compliance and legitimate tax planning. This is also part of our Group Responsible Tax Strategy⁵⁵. More specifically, we aim to:

- ensure correct and timely payment of all taxes due,
- manage our tax risks and tax disputes pro-actively,
- enable tax clearance for KBC products,
- provide first-rate tax advice.

These objectives are to be met by means of:

1. an optimal system of tax management,
2. compliance with tax obligations in the various jurisdictions in which KBC operates,
3. a code of conduct specifying the standards of fiscal best practice⁵⁶,
4. policies aimed at limiting and controlling tax risk,
5. increased transparency via a reporting system and information exchange.

Source ► KBC SA/NV – *KBC Group Responsible Tax Strategy*

KBC Group Responsible Tax Strategy



Objectives and mission

The KBC group is committed to being a **responsible taxpayer**, based on professionally executed tax compliance and **legitimate tax planning**, based on valid business purposes.

More specifically, KBC's reputation as a responsible taxpayer shall be safeguarded by:

- ensuring correct and timely payment of all tax due
- managing tax risks and tax disputes pro-actively
- providing tax clearance for KBC products

whilst legitimate tax planning should lower the overall tax cost incurred by KBC by:

- mitigating the effective rate of corporation tax and all other tax liabilities
- avoiding tax leakage via compensation of all carry-forward losses and optimisation of VAT recovery
- pro-actively managing the tax base
- providing high-quality and solution-driven tax advice.

Source ► Diageo plc – *Corporate Citizenship Report 2007* – Page 27

DIAGEO

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

Transactions between Diageo subsidiaries in different countries are priced on an arm's length basis as if the subsidiaries were unrelated companies, in compliance with the OECD Model Tax Convention. 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 ► Vodafone Group plc – *Corporate Responsibility Report 2008* – Page 166



Tax

We believe it is important to state clearly and precisely our views on tax in the context of corporate responsibility. 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. Within this agreed obligation, we have a responsibility to our shareholders to legally minimise and control our tax costs. We accept that some may not share this view and believe that transparency regarding our position on this point is the best policy.

In meeting our legal tax obligations, we must operate within clear, agreed ways of working. This includes:

- operating in a manner that is consistent with appropriate conduct and behaviours
- contributing to shaping the tax environment where we operate
- being transparent and accountable.

Our approach to achieving these objectives is outlined below.

Code of conduct

Vodafone is committed to acting with integrity and transparency in all tax matters. We operate within a clearly defined Group Tax Code of Conduct which sets out the principles, responsibilities, conduct and approach to working relationships of all tax professionals working in (and with) Vodafone. We expect our employees and advisers to behave with integrity and maintain the highest professional and ethical standards in line with our Code of Conduct. Vodafone does not condone tax evasion (using illegal means to reduce taxes payable) in any circumstances.

This expectation is reinforced by our Tax Team Behaviours, against which individual performance is evaluated to ensure accountability.

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

The importance given to a clearly defined tax strategy to provide support for the rest of the tax reporting depends itself on the supporting governance framework. Any strategy has to be put into context by the governance and management processes surrounding it.

It can often be difficult to determine to what extent the board is involved in setting a company's tax strategy or how tax comes within the scope of the wider risk management policy. We know that tax receives much more attention from the boards of companies than is apparent from reading 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 tax risks, just as in any other area, are appropriately identified, assessed and managed.

We found that only a minority of companies identified who was responsible for setting the tax strategy. Some companies have begun to identify tax as a separate responsibility within the remit of the CFO, to reassure stakeholders that responsibility in this area was clearly assigned, rather than being inferred or implied.

Recent adjustments to accounting standards are requiring further detail on tax risks and likely financial impact; the framework does not suggest any amendment to or competition with these standards but rather that the additional information could be complementary to those standards.

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



Source ► Royal Vopak NV – *Annual report 2007* – Page 44

Legislative and regulatory risks

Vopak is a decentralised company with a clear network strategy and branches in 30 countries. The company initiates regular local external audits of its compliance with laws and regulations. The Corporate Tax department regularly visits divisional offices and terminals to discuss tax positions, increase awareness and management of these positions and ensure smooth communications between terminals, the division and the Corporate Tax department. Guidelines for dealing with tax issues were updated and implemented in the organisation during the year. Vopak also maintains a compliance database.



Source ► **Kazakhmys plc** – *Annual Report 2007* – Page 38

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risks, and has therefore adopted a tax strategy which is aimed at achieving the above objectives, thereby aligning it with the Group's long-term strategy:

- the Group's tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Chief Financial Officer who reports them to the Audit Committee on a regular basis;
- significant tax risks, implications arising from those risks and potential mitigating actions are considered by the Board when strategic decisions are being taken;
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;
- the interim and annual effective tax rate and the composition of the tax charge are reviewed by the Audit Committee as part of their remit in reviewing the interim and annual reports;
- the Group builds an equitable relationship with the tax authorities in the jurisdictions in which it operates;
- the Group takes appropriate advice from reputable professional firms;
- where disputes arise with government authorities with regard to the interpretation and application of tax legislation, the Group is committed to addressing the matter promptly and resolving the matter with the relevant tax authority in an open and constructive manner;
- the Group employs professional tax managers within the corporate head office and the operating businesses, and provides ongoing technical training to them.

Source ► **KBC SA/NV** – *Corporate Social Responsibility Report 2007* – Page 36

At KBC, the tax administration and management function is spearheaded by our Group Tax Division. Tax issues relevant to our international operations are managed along entity and country lines. Moreover, each year, the local tax functions are required to report to the group tax function on tax matters. International tax legislation and trends are monitored centrally and communicated to local tax functions, while the latter collect information on tax laws and trends relevant to their countries



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

All companies face tax risks to some degree, and stakeholders are keen to see information on the quantum of the risk along with the likelihood of the risk crystallising.

Material tax risks can often arise from differing interpretations by companies and the tax authorities. There is always a need to balance providing information to stakeholders with the concern of providing detail on their assessment of the risk to the tax authorities. We are not suggesting disclosure of commercially sensitive information, but rather that the issues and risks are presented. There were a number of good examples where details of ongoing discussions with the tax authorities were provided in areas where the tax treatment of a particular transaction was being considered.

We found an increasing number of companies disclosing information in relation to major risks, including the company's measurement and view on the likely outcome, and the impact on the financial statements. There is significant variability in the quality of disclosure.

The best examples provide comprehensive detail on the specific issues and a careful quantification of the risk. However, a number of companies disclose in very general terms, with few details on the likely outcome of specific issues to help the user of the accounts. This does not allow investors and analysts to have a clear understanding of the future potential cash tax impact.

The ongoing horizontal monitoring project in the Netherlands also led to excellent reporting by a number of listed Dutch groups in this area. The participants carefully explained the intent and the impact the discussions with the tax authorities had on their tax risk profile.



Source ► Rank Group plc – *Annual Report and Financial Statements 2007* – Page 16

| Risks | | |
|---|---|--|
| 1) Regressive changes to gambling regulations 2) Further deterioration in consumer spending | 1) Increased competition from new casino openings 2) Increased competition from in-home leisure | 1) Further increases in taxation 2) Increases in operating costs (particularly labour) |
| Risk assessment | | |
| – No stated changes to gambling policy – Hostility to gambling reform in certain quarters of the national media – Group focus on customer value | – Pace of supply growth in casinos much slower than expected – At least 40% of Rank's UK casinos face no new competition under current legislation | – No significant increases in taxation expected ¹ – Further increase in National Minimum Wage expected in October 2008 |

¹ The Group believes that it will not be affected significantly by any taxation increases in the Government's Budget on 12 March 2008

Source ► Koninklijke Ahold NV – *Annual Report 2007* – Page 80



ICA tax claim

The Swedish tax authorities have denied interest deductions made by ICA for interest on borrowings to an Irish subsidiary of nearly SEK 1.8 billion (EUR 190 million) for the period 2001–2003. The Swedish tax authorities claim amounts to SEK 716 million (EUR 76 million), including penalties and interest. The Irish subsidiary's operations were wound up in 2003. ICA believes that the deductions were in compliance with tax rules. ICA is contesting the claim and penalties and has appealed the decision to the County Administrative Court. The Swedish tax authorities have also conducted an audit of the restructuring of the ICA Group's finance operations in July 2004 but – as announced by ICA on November 29, 2007 – have withdrawn a statement to the County Administrative Court that ICA should be denied interest deductions of SEK 1.7 billion (EUR 179 million) made in 2004–2005.

Source ► Mobistar SA/NV – *Annual report 2007* – Page 30



Information concerning important litigation and other commitments

4. Since 1997, certain municipalities and two provinces in Belgium have introduced fiscal measures enabling them to levy taxes on GSM pylons, masts and antennas located in their area. The legality of these taxes is being contested before the Council of State and the Courts of First Instance (Tax Chamber).

Following an interlocutory question brought by the Council of State to the Court of Justice of the European Communities, the latter ruled in a decision dated 8 September 2005 that such taxes are not incompatible with European law, insofar as they do not alter the conditions of competition between the historical operator and the new market operators.

The Council of State has decided on 20 November 2007 that a local tax violates the principle of equality if the reason appearing the preamble of the local tax rule, is pulled by the financial position of the municipality. Indeed, such a motive clarifies by no means the differentiation applied between the mobile network operators (which are taxed by virtue of the local tax rule in question) and the owners of other similar networks (which are not taxed by virtue of the same local tax rule). The local tax rule cannot be held for bench if the difference in treatment is based on a likely criterion of justified and reasonable objectives.

The receivable representing the disputed amount of enrolled taxes, increased by the interests on arrears at legal rate, gives rise to a provision recorded in the P&L account for an amount of 24.325 million euro of which 4.331 million euro arose in 2007.

Section 2



Tax numbers and performance

Key observations

- ▶ Although accounting standards require explanation as to why the tax charge is not simply the accounting profit at the statutory rate of tax there is significant variation of quality.
- ▶ Very few companies provide reconciliation of the company's cash tax payments in relation to the accounting tax charge.
- ▶ The provision of forecast accounting or cash tax rates is sporadic with slightly more evidence of UK groups providing this information.
- ▶ Forward-looking statements and measures are a key part of any company's communications and, for tax stakeholders, focus on future effective tax and cash tax rates.

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

The reconciliation of the actual tax charge to the charge on profits at the statutory rate of tax has long been a requirement of accounting standards.

Most companies reviewed, provide a satisfactory explanation as to why their tax charge is not simply profit at the statutory rate of income tax, and this was true across all jurisdictions. However, many companies use ambiguous terminology which often does not enlighten the reader.

Stakeholders are looking for straightforward tax notes and disclosures without technical complexity or ambiguity. 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 could be a very useful step in explaining in detail why the tax rate varies because of, say, overseas operations or specific reliefs. The use of opaque terminology means that this opportunity is often not taken.

Tax reporting can be somewhat opaque; transparent reporting and the provision of clear explanations without the use of complex tax technical descriptions is just one of the challenges tax professionals face.

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

belgacom

Source ► Belgacom SA/NV – *Financial report 2007* – Page 40

The reconciliation of income tax expense applicable to income before taxes at the statutory income tax rate to income tax expense at the group's effective income tax rate for each of the three years ended is as follows:

| (EUR million) | Year ended 31 December | | |
|---|------------------------|---------------|---------------|
| | 2005 | 2006 | 2007 |
| Income before taxes | 1,436 | 1,451 | 1,258 |
| At Belgian statutory income tax rate of 33.99% | 488 | 493 | 427 |
| Lower income tax rates of other countries | 0 | 0 | -3 |
| Effect of reduction in income tax rates on closing balance of deferred income tax | 0 | -1 | 0 |
| Income tax consequences of disposal of subsidiaries and other participating interests | -105 | -42 | -25 |
| Income tax consequences of capital losses on investments in subsidiaries | 0 | 0 | -1 |
| Non-taxable income from subsidiaries | -58 | -95 | -119 |
| Non-deductible expenditures for income tax purposes | 17 | 18 | 21 |
| Other | -3 | -16 | -1 |
| Income tax expense | 339 | 358 | 300 |
| Effective income tax rate | 23.57% | 24.65% | 23.84% |



Source ► Anglo American plc – *Annual Report 2007* – Page 102

b) Factors affecting tax charge for the year

The effective tax rate for the year of 30.5% (2006: 29.8%) is marginally higher than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

| US\$ million | 2007 | 2006 ⁽¹⁾ |
|---|-------|---------------------|
| Profit on ordinary activities before tax – continuing operations | 8,821 | 8,443 |
| Tax on profit on ordinary activities calculated at United Kingdom corporation tax rate of 30% | 2,646 | 2,533 |
| Tax effect of share of net income from associates | (59) | (182) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | | |
| Operating special items and remeasurements | 15 | 34 |
| Exploration expenditure | 19 | 17 |
| Other non-deductible expenses | 85 | 86 |
| Non-taxable income | | |
| Profits and losses on disposals and financing remeasurements | (71) | (83) |
| Other non-taxable income | (41) | (48) |
| Temporary difference adjustments | | |
| Changes in tax rates | 12 | – |
| Movements in tax losses | 13 | (86) |
| Enhanced tax depreciation | (91) | – |
| Other temporary differences | (14) | (9) |
| Other adjustments | | |
| South African secondary tax on companies | 175 | 227 |
| Effect of differences between local and UK rates | (48) | 69 |
| Other adjustments | 52 | (40) |
| Tax charge for the year – continuing operations | 2,693 | 2,518 |

⁽¹⁾ Comparatives have been adjusted to exclude amounts relating to discontinued operations.

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

Stakeholders want to understand how the accounting tax charge links to the cash tax payments a company makes. This is a real focus of the value driven stakeholders and those stakeholders with a remit in corporate responsibility.

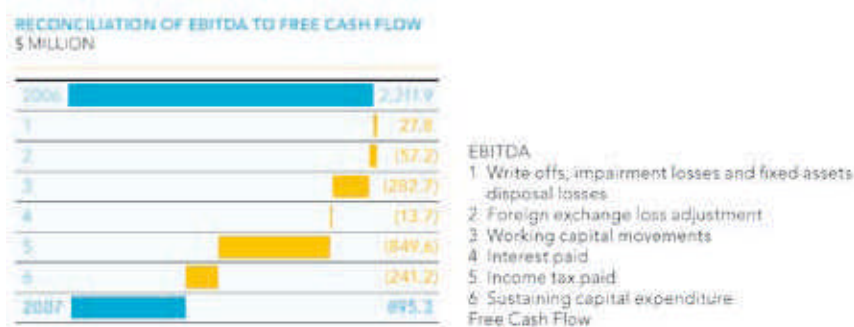
There is often a misunderstanding of the relationship between the accounting tax charge and cash tax. Often the cash tax paid is lower than the accounting charge in the year due to the impact of deferred tax or losses brought forward. This can lead to inaccurate assumptions about the level of tax payments 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.

More companies are acknowledging the importance of cash tax as a measurement of performance but they remain a significant minority. We found only one example of a direct reconciliation between the cash tax payments made and the income statement tax charge. Investors want to understand how cash tax will or could vary in the future, which, given the impact of tax on cashflows, can be key in present value modelling.

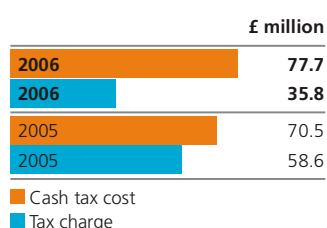
Some useful examples of how the cash tax is disclosed are included below.

Source ► **Kazakhmys plc – Annual Report 2007 – Page 34**



Source ► **Tomkins plc – Annual Report 2006 – Page 20**

Tax charge and cash tax cost



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.

Tomkins

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

Stakeholders are always very clear that they want information or forecasts on future performance and this is as true for tax as for any other area.

It is clear from discussions with companies that there are a range of management measures for tax. It is also clear that few publish these. The forward-looking measures used by a company to manage tax could be a useful tool for all stakeholders. Similarly 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 effective tax rates and cash tax rates and payments.

Our review shows some companies, irrespective of jurisdictions, are publishing forward-looking statements, and some groups are willing to disclose estimates of the future tax rate. These range from a relatively vague range of potential tax rates with no fixed time scale, to more specific estimates of the coming year's rate. Again these companies are in a significant minority.

Below are some interesting examples of how this can be approached:

Source ► **BT Group plc** – *Annual Report & Form 20-F 2008* – Page 50

Tax accounting

At each financial year end an estimate of the tax charge is calculated for the group and the level of provisioning across the group is reviewed in detail. As it can take a number of years to obtain closure in respect of some items contained within the corporation tax returns it is necessary for us to reflect the risk that final tax settlements will be at amounts in excess of our submitted corporation tax computations. The level of provisioning involves a high degree of judgement.

The level of cash tax payments in 2008 and 2007 has been materially affected by a repayment of overpaid tax in relation to prior years following the settlement in 2007 of all open UK tax matters for the ten years up to and including 2005. In 2008 we received a cash repayment of £521 million and in 2007 a cash repayment of £376 million.

In each of the three years 2006, 2007 and 2008 the cash tax paid is lower than the income statement charges. This is partly due to the phasing of UK corporation tax instalments, the level of provisioning for risks, taxation of specific items, the impact of deferred tax and the impact of overseas losses or profits which are relieved or taxed at different tax rates from the UK.

It is expected that the cash tax paid will increase in the short term, despite the reduction in the UK corporation tax rate from 30% to 28% from 1 April 2008, with one of the contributing factors being the change in the capital allowances rate for plant and machinery which fell from 25% to 20% with effect from the same date.

The effective corporation tax rate on profits before specific items is expected to increase from 23.2%, the rate applicable to 2008. However, we believe that the future years' tax effective rate will remain below the statutory rate of 28%.



Source ► LogicaCMG plc – *Annual Report and Accounts 2007* – Page 94



Taxation

Based on the progress of the legal structure integration following the acquisitions in recent years, we have been able to accelerate the benefit of historic tax losses in 2007. The effective tax rate on continuing operations for the year, before share of post-tax profits from associates, exceptional items and amortisation of intangible assets initially recognised on acquisition, was 17.6% (2006: 25.4%). The effective tax rate for 2008 is expected to be around 23%.

The total tax charge for the year ended 31 December 2007 was £5.4 million (2006: £31.2 million) of which a tax credit of £26.4 million (2006: £14.0 million credit) relates to exceptional items and amortisation of intangible assets initially recognised on acquisition. The remaining decrease is mainly due to the use of previously unrecognised tax losses brought forward.

Source ► AstraZeneca plc – *Annual Report and Form 20-F Information 2007* – Page 81

The effective tax rate for the year was 29.5%, similar to the 29% for 2006. The slight increase for the year compared to 2006 reflects the combined effect of differences in the geographical mix of profits, the reversal of tax deductions relating to share-based payments, the reduction in the UK tax rate as applied to UK net deferred tax liabilities, and an increase in tax provisions principally in relation to global transfer pricing. The full year tax rate for 2008 is anticipated to be similar to 2007.

Reported earnings per share were \$3.74 compared with \$3.86 in 2006, a decrease of 5%. After adjusting for the impact of restructuring and synergy costs, earnings per share rose from \$3.86 to \$4.20, an increase of 7%. Excluding the impact of MedImmune as well, earnings per share increased by 15% to \$4.52. The share re-purchase programme is calculated to have added 8 cents to EPS during the year, after allowing for an estimate of interest income foregone.



Section 3



Total Tax Contribution and the wider impact of tax

Key observations

- ▶ The tax impact on their wider business strategy is discussed by a minority of companies.
- ▶ Very few companies refer to tax in the context of shareholder value.
- ▶ In contrast, an ever increasing number of companies referred in some way to their wider economic contribution and, in particular, communicated via their sustainability reporting.

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.

In particular changes to fiscal policy can have an impact on how a company does business, and though often dependent on the structure of that company. With the ever increasing changes to the tax environment we believe there is value in being transparent as to if and how these changes impact the wider business. Disclosure of this information can help investors gain a deeper understanding of the environment in which a company does business.

There is a significant variance in the disclosure between different industries facing ongoing material issues with tax, such as tobacco, alcoholic beverages and the extractive industries. We found some companies used the opportunity to provide a general commentary on the tax environment and how it affected their operations while others used the annual report as a lobbying tool for what they perceived to be disadvantageous tax rules or proposals.

Examples illustrating how tax can impact the overall business strategy are detailed below.

Source ► Aegon NV – *Annual Report 2007* – Page 74



TAX CHANGES

Insurance products enjoy certain tax advantages, particularly in the United States and the Netherlands, which permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products under certain conditions and within certain limits. Taxes on this 'inside build-up' of earnings may not be payable at all and, if payable generally are due only when earnings are actually paid. The US Congress has, from time to time, considered possible legislation that would eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the US Congress passed legislation in 2001 that provided for reductions in the estate tax. The possibility of a permanent repeal of the estate tax continues to be discussed. This could have an impact on insurance products and sales in the United States. Changes to tax laws in the Netherlands at the end of 2005, meanwhile, have reduced the attractiveness of early retirement plans but tax advantages have been granted from January 1, 2006 for savings products known as Levensloop (Life Cycle). Any changes in United States or Dutch tax law affecting similar products could have a materially adverse effect on AEGON's business, results of operations and financial condition.



Source ► Rank Group plc – *Annual Report and Financial Statements 2007* – Pages 7-8

Gambling taxation

During 2007 we stepped up our campaign for a level playing field across the gambling industry through the application of fair and consistent tax and regulatory policies.

The focus of our efforts was the pursuit of a change in taxation for bingo which, unlike any other form of gambling in the UK, is subject to both 17.5% value added tax (VAT) and 15% gross profits tax (GPT). It is disappointing that, in spite of repeated questions from Members of Parliament and the Bingo Association, the Government has yet to provide a satisfactory explanation for its continued discrimination against bingo.

The Government's decision to increase casino gaming duty in the Budget 2007 cost Grosvenor Casinos an additional £4.6m in gaming duty. The change, which was introduced without prior notification or consultation with the casinos industry, resulted in a 22.6% increase in casino gaming duty, although some of our smaller casinos experienced duty rises of as much as 500%.

HM Treasury has stated that it is reviewing the taxation treatment of player-to-player poker played in casinos. The effect of applying GPT to poker fees (in addition to VAT) would not be material in terms of Group profits but would nevertheless discourage investment in poker rooms, which represent a softer gaming aspect to casino operations. We would consider such a move to be contradictory to the stated aims of the Government's gambling policy.

Source ► CNP SA / NPM NV – *Annual Report 2007* – Page 10

NPM/CNP

The holding companies and tax

A more in-depth analysis of the valuation basis, breaking down the net profit of each of the shareholdings contributing to it, shows that the around EUR 544 million in net profit are comprised of EUR 924 million gross and EUR 380 million in tax. This shows a transitive tax rate of 41%. Who said that holding companies do not pay taxes? If the dividends that they receive from their shareholdings and the capital gains that they realise on them are to a large extent tax-free, it is simply because the underlying revenues have already been the subject of taxation at a previous level. In this respect, the Belgian exoneration scheme on the taxation on the dividends, "definitively taxed revenues", is aptly named. The holding companies actually pay tax (NPM/CNP at a rate of 41% in 2007), but they pay it only once (... as it should be!), at the level of the shareholdings.



Source ► TNT NV – *Annual Report 2007* – Page 119

Value added tax on postal services

At present, TNT is not allowed to charge value added tax (VAT) on postal items forming part of the mandatory postal services. The flip side of this is that for mandatory postal services TNT cannot deduct the VAT amounts paid on its purchases of services and goods related to the mandatory services. TNT is required to charge VAT on all services not included in the mandatory services, i.e. the services in competition with other operators. Competitors are required to charge VAT on those items as well. Therefore, in the Netherlands there is a level

playing field for competitors and TNT on these services. In most other Member States of the European Union the scope of mandatory services is very large. Hence a VAT-exemption is given to national postal operators over a considerable part of the postal market in these countries. According to the European Commission, this distorts the functioning of the Internal Market for postal services. It has launched an infringement procedure against Germany, the United Kingdom and Sweden on this VAT issue in order to resolve it.

8 Disclosure of the impact of tax on shareholder value

In our discussions with external stakeholders, their key test of a company's overall reporting strategy is a logical and consistent approach in their communication. Not surprisingly investors stated the key measure they were concerned with is shareholder value.

This is a developing area – very few companies considered went beyond linking tax to earnings per share. We would be interested in views as to whether this is seen as a worthwhile area of communication.

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



Source ► Friends Provident plc – *Annual Report & Accounts 2006* – Page 35

Shareholder cash generation is set out below:

| | | 2006 | | 2005 | |
|---|---------------------|-----------------------|-----------------------------------|------------------|-----------------|
| | | Cash consumption | Cash generation | Cash consumption | Cash generation |
| UK Life & Pensions | New business strain | £295m | | £261m | |
| | In-force surplus | | £507m | | £253m |
| | Taxation | | £35m | | £102m |
| International Life & Pensions | New business strain | £65m | | £63m | |
| | In-force surplus | | £99m | | £71m |
| | Taxation | £1m | | £2m | |
| Sub total: Life & Pensions net cash operating surplus | | | £280m | | £100m |
| | | | Other operating surplus/(deficit) | | £8m |
| | | | Investment return | | £87m |
| | | | F&C dividend received | | £27m |
| Sub total: cash generated by the business before finance items | | | £340m | | £208m |
| | | Dividends paid | £164m | £157m | |
| | | Securitisation | £86m | £49m | |
| | | Financial reinsurance | £69m | £17m | £40m |
| | | Other finance items | £76m | £36m | |
| Total movement | | £55m | | £13m | |

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

We believe there should be better understanding of the impact of the tax paid by a business.

There are regular calls from campaign groups and non-governmental organisations for companies to pay a 'fair' amount in tax, which reflects the lack of clarity as to what taxes a company actually does pay across the business.

Companies do pay many other business taxes beyond corporate income tax but, in many cases, the only information in the public domain is that disclosed in a company's financial statements within its annual report. This communication often does not go beyond a corporate income tax charge in detail and neglects to mention the varied other types of business tax the company pays.

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, to encourage disclosure including the economic impact of their operations. This has been adopted by companies in a number of countries and 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 and where those taxes make an economic contribution. The current level of compliance by the adherents to the EITI with the issued guidelines varies, with not all signatories 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 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 and this appears to be the most widely accepted area of the framework outside the communication of tax performance. Interestingly we have seen the best examples provided not in the formal annual report but included in corporate responsibility reporting.

There was good communication in this area across all three countries with a variance between reports in how this message was passed on. Some companies used PwC's Total Tax Contribution framework to report on all business taxes paid and collected. Other communications, particularly those within the beverages sector, used a measure of value added to report on their contribution to government.

On the following pages are several examples of how companies are disclosing their Total Tax Contribution and its wider economic impact.



Source ► Colruyt SA/NV – *Annual Report 2007/2008* – Page 16

■ IV. Mission and Values of the Colruyt Group in Practice

g. Salary Costs – Net Salary

| | <i>In million €</i> | |
|---|---------------------|---------------|
| Total salary expense | 617.17 | 100% |
| Employer's contribution for social security and insurance | 136.62 | |
| Gross stipends to Belgian employees | 480.55 | 77.85% |
| Employee NOSS contributions | 50.82 | |
| Advance tax payment withholdings | 95.15 | |
| Net Salary | 334.58 | 54.21% |

Of the gross salary of € 480.55 million, the employees received € 334.58 million or 69.62%.

The employer NOSS contributions and other legal insurance amounted to € 136.62 million.

The total annual cost of the Colruyt Group salary mass amounted to € 617.17 million (€ 480.55 million + € 136.62 million). Of this sum, the employees received € 334.58 million or 54.21% net.

During the 2007/2008 fiscal year, the Colruyt Group transferred a sum of € 187.44 million (€ 136.62 million + € 50.82 million) to the Belgian Office for Social Security.

h. Contribution to the Belgian Treasury

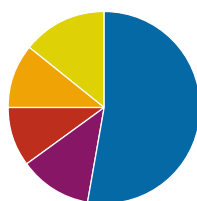
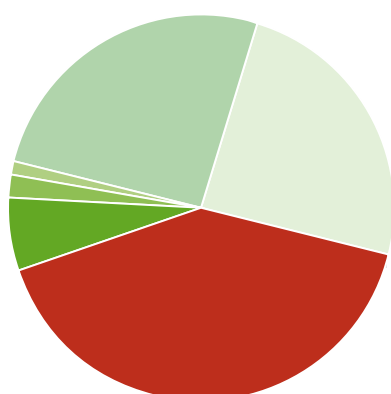
| | <i>In million €</i> |
|--|---------------------|
| Social security | 187.44 |
| Advance tax payment withheld from salaries | 95.15 |
| Corporate tax on profits | 128.96 |
| Difference between VAT due and deductible VAT | 179.65 |
| Withholding tax on movables | 23.35 |
| Withholding tax on immovables | 4.65 |
| Provincial and municipal taxes and other federal taxes | 3.35 |
| Total | 622.55 |

The total contribution transferred to the Belgian treasury represents 52.16% of the added value(*) generated by the Colruyt Group in Belgium.

(*) Added value = operating income minus the cost of goods sold minus services and miscellaneous goods, or € 1.19 billion in Belgium.



Source ► Umicore SA/NV – *Report to Shareholders and Society 2007* – Page 9



Umicore paid taxes to the governments and authorities where it operates.

Source ► Inbev SA/NV – *A report of InBev's Social, Economic and Environmental performance, 2007* – Page 4



Our aim is to create value for shareholders and our broader stakeholders, especially our employees and the communities in which we operate. Given the size and breadth of our operations, we can make a substantial positive impact through job creation, and through paying taxes and excise duties. By continuously improving our operations, we aspire to go on creating new jobs, improving economic standards and adding value to the communities where we work. This is the starting point for all our Corporate Citizenship activities.

InBev's Wider Economic Impacts

| | |
|---------------------------|--|
| Total taxes | Income taxes: 531 million euro Excise taxes: 4 163 million euro |
| Value added (Europe only) | Approximately 5 billion euro ¹ |
| Total wages and benefits | 2 075 million euro |

¹/3 348.6 million GBP at a conversion rate of 1.48 = 4 955.93 euro.



Source ► Anglo American plc – *Report to Society 2007* – Pages 20-21

Our investment in the countries in which we operate is reflected in a combination of social, infrastructure and economic benefits - and those economic benefits include taxes.

The taxes we pay as a company and those we collect from employees on behalf of government are important contributions to the creation of wealth and well-being in those countries. We endorse the principle of transparency in our business dealings and are signatories to the EITI, which promotes reporting on taxes by companies and the countries in which they are paid.

In many countries the Group's operations form a fundamental part of the local economy and the socio-economic impact of the Group spreads significantly wider than the operations and their employees. In many cases there are businesses ancillary to the Group's operations which would otherwise not exist. We do not report the taxes resulting from these ancillary businesses. However, on page 22 we investigate the wider impact of the Landau colliery.

Over \$2,867 million was paid directly to governments in taxes as a result of our operations in 2007 (\$3,119 million in 2006). The reasons for this decline at a time of increased earnings are given below. This included company taxes, employer taxes, royalties, transaction and other taxes. In addition, we indirectly contributed some \$943 million in value-added tax (VAT) and employee taxes, which we collected on behalf of governments and paid over to them. The regional breakdown is shown on page 21*.

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 collectable tax revenues.

TAXES PAID DIRECTLY TO GOVERNMENTS BY MANAGED OPERATIONS, BY COUNTRY†

\$ MILLION

| | Borne | Collected | Total |
|----------------|--------------|------------|--------------|
| South Africa | 936 | 411 | 1,347 |
| Chile | 912 | 49 | 961 |
| United Kingdom | 333 | 255 | 588 |
| Brazil | 169 | 61 | 230 |
| Australia | 133 | 70 | 203 |
| Venezuela | 189 | - | 189 |
| France | 35 | 28 | 63 |
| Switzerland | 41 | - | 41 |
| Ireland | 34 | 5 | 39 |
| Poland | 16 | 20 | 36 |
| Namibia | 29 | 5 | 34 |
| Canada | 12 | 12 | 24 |
| Others | 28 | 27 | 56 |
| Total | 2,867 | 943 | 3,810 |

† Unaudited amounts payable as a result of our operations (borne) and employee taxes and net value-added tax (collected).

The total of \$3,810 million paid to governments was split between developed countries (27%) and developing countries (73%). Many other indirect tax benefits arise as a result of our operations as our customers and suppliers also pay company, employee and other taxes.

The total tax borne, collected and remitted by the Group exceeds the corporate tax charge shown in the Income Statement. The main reasons are that the tax numbers disclosed in this report reflect the total tax contribution including some transactional taxes and taxes borne by employees which are collected by the Group and remitted to government but which are not reflected in the Income Statement.

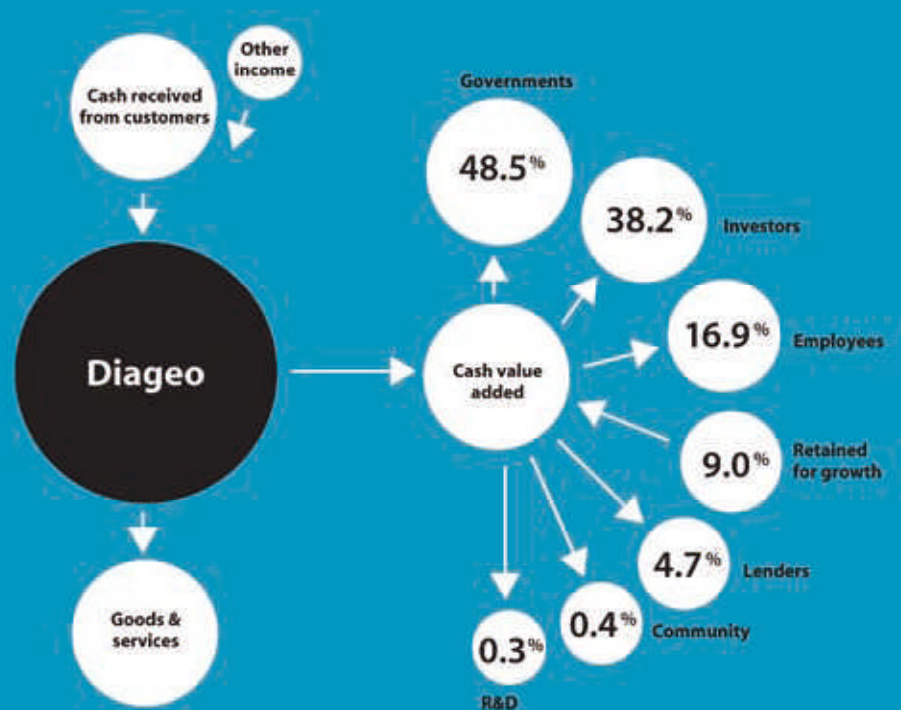
DIAGEO

Source ► Diageo plc – *Corporate Citizenship Report 2007* – Page 27

Distribution of cash value added 2007

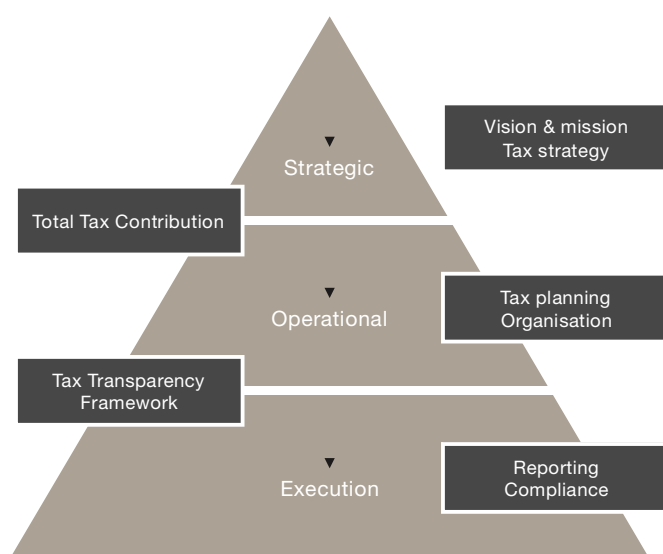
£5.9bn

Total cash value added in 2007



4

How does the Tax Transparency Framework link to tax function effectiveness



As the previous chapters show, tax is getting more attention from various stakeholders. We believe the current financial crisis will increase the demand for information. Why? Governments are putting billions of euros in the financial markets to keep the system in place. Tax payers and pressure groups are starting to ask questions in the media. This will bring the question of what the Total Tax Contribution of companies is to the forefront. Of course, this question can only be answered by companies if they have a transparent and coherent way of communicating about tax. Communicating about tax, the Tax Transparency Framework, is therefore an important part of managing the tax function within an organisation. The increasing demand for transparency has an effect on how internal departments of the organisation have to deal with tax.

Strategic

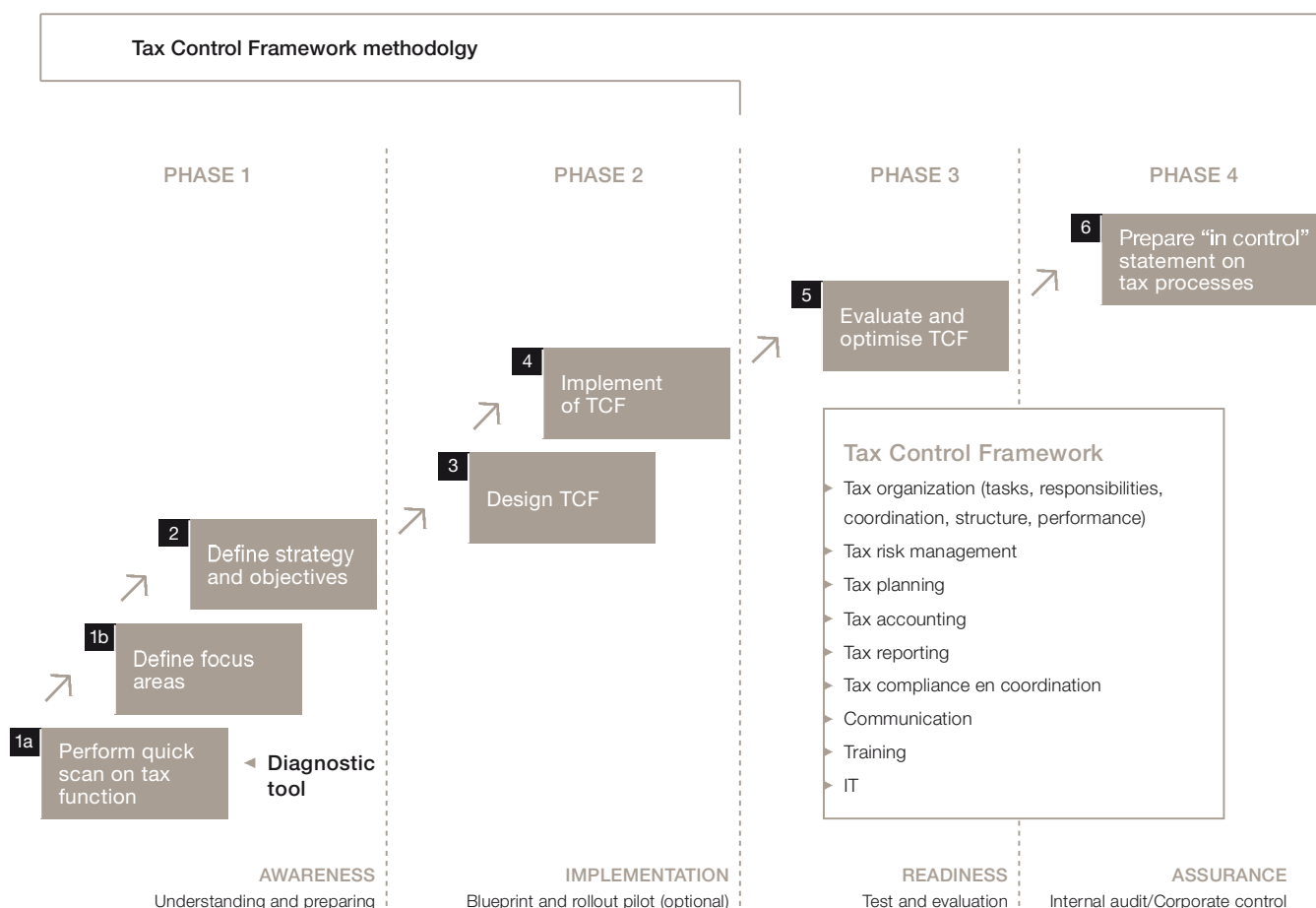
At the core of this are strategic issues. This incorporates the vision and mission concerning tax. In other words: the tax strategy of an organisation. The organisation has to set its fiscal objectives. The scope needs to be set, responsibilities need to be clear, and objectives need to be drawn up. This is phase one of the Tax Control Framework methodology and concerns the tax strategy and risk management questions in the Tax Transparency Framework. Setting a clear strategy therefore is both important for internal and external stakeholders.

Operational

Step two is the implementation of the strategy. This is the actual design of measures to assure that the organisation can manage

and control tax processes. To develop this within an organisation, a wide range of specialties need to be involved; tax, process management, business management, accounting and reporting and communication. In this phase, the actual Tax Control Framework is designed. Several issues need to be addressed. Among these are tax organisation, tax risk management, tax planning, tax accounting, tax reporting and communication.

This is where the Total Tax Contribution Framework fits in. The organisation needs to be well equipped to generate data regarding all of the taxes it faces. This is not only important to communicate to external stakeholders, it is also important for management purposes and is therefore an integral part of the strategic and operational part.



Execution

The final step is execution. The focus in this step is on compliance and reporting. Transparency is important in this phase. Accurate reporting with correct and complete information is essential for stakeholders concerned. Tax data is the resultant of tax policy based on tax strategy. The properly functioning Tax Control Framework therefore needs to be in order to produce correct data and comply with rules and regulations. The Tax Transparency Framework fits in with the reporting part. When the operational and execution parts are in order, the external tax communication has to be executed to complete the process. The organisation has to communicate its tax strategy, the numbers and the economic contribution of taxes paid in order to fulfil stakeholder needs.

Therefore, the Tax Transparency Framework is an essential part of a properly functioning Tax Control Framework, which, in turn, is needed for an effective tax function.

Future outlook

In our view companies should refocus their tax strategies and bring them in line not only with expectations of shareholders but also with demands of other stakeholders. A financial crisis like we are in now will shift expectations. A society that sees that rescue operations by Governments are funded with tax money understands that these funds cannot be allocated to, for example, healthcare, education or security. The public will insist sooner rather than later that companies show what their contribution to society is. Companies will need to show what their Total Tax Contribution is. We believe this trend will be increased by political pressure groups on Governments. We believe that, under political pressure, the systems of checks and balances around Corporate Governance and the controls on how companies meet their legal and regulatory obligations, including fiscal, will change.

In the OECD meeting of January 2008 (Cape Town Communiqué), emphasis was on enhanced relationship (horizontal monitoring). Enhanced relationship is a relationship between tax authorities and taxpayers that is based on mutual trust, understanding and transparency. In short, companies voluntarily disclose (actual) potential tax risks to the tax authorities. In return, the tax authorities give upfront assurance (proactively) on the companies' tax position. Some countries have tested enhanced relationship.

The Netherlands is a good example of this. After several successful pilots, enhanced relationship is being extended from large and mid sized organisations to smaller companies. One important condition to enter into an enhanced relationship with a company is that it is willing to put a Tax Control Framework in place. As the Tax Control Framework is part of the internal control system and has the objective to control a business's entire set of tax processes, the Tax Control Framework has an important role in building up and strengthening trust. As the Dutch State Secretary of Finance puts it:

“ I would also like to emphasise that the main basic premise is that enforcement covenants are concluded with businesses whose Tax Control Frameworks are solid, shaped by IFRS standards and the United States Sarbanes-Oxley Act.”

As the OECD believes enhanced relationship will more and more become the international standard, the importance of introducing a Tax Control Framework does not only come from inside the organisation. The outside pressure to develop and implement a Tax Control Framework will be felt by more and more companies.

Total Tax Contribution, Tax Transparency Framework and Tax Control Framework are all part of the execution of a company's tax strategy.

* Letter dated 9 June 2006 to the Chair of the Dutch Senate of the States General from the State Secretary of Finance, No DGB06-3312.



Appendix

Appendix I

The PricewaterhouseCoopers Total Tax Contribution: an outline

The PricewaterhouseCoopers Total Tax Contribution Framework (TTC) 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.

The TTC framework is used by PwC with groups of companies around the world to generate empirical data on the total tax contribution of those companies. This data has so far included not only the Total Tax Rate (the burden of all taxes borne by a particular business) but also the absolute figures for taxes borne and collected, the total tax contribution as a percentage of turnover,

TTC

employment taxes raised per employee, the distribution of value created, and various measures to assess the cost of tax compliance for companies.

A good example of this empirical work is the survey undertaken each year in the UK with companies in the Hundred Group to collect data on the taxes they pay. 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 fourth year. In addition to gathering data on taxes borne and taxes collected, the survey also gathers data on the time and cost involved in complying with the tax system.

Over the last twelve to eighteen months this empirical work has been greatly extended with similar surveys now conducted in Australia (two sets of results have been published, in 2007 and 2008), Belgium (results were published in 2008 and a second survey is underway), Canada (results have been published in 2008 and a second survey is underway), and South Africa (results have been published in 2008 and a second is underway). A private survey was undertaken in the Netherlands. Surveys are also now underway in France, India, Ireland, Germany and Luxembourg, with results due for release in early 2009 and the results for a survey in the United States are due in November 2008. Further countries are planning similar surveys.

We will be publishing further material in this respect in due course, but it is perhaps interesting to reflect on some initial comparisons of TTC as a percentage of turnover in the table below*:

TTC as a % of turnover

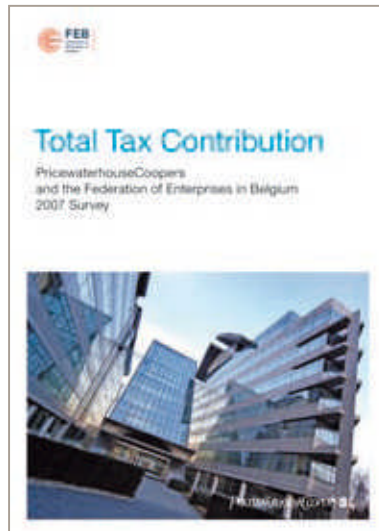
| | |
|----------------|----------|
| Australia | ► 17.5 % |
| Belgium | ► 18.9 % |
| Canada | ► 22.3 % |
| Netherlands | ► 23.4 % |
| South Africa | ► 16.8 % |
| United Kingdom | ► 17.9 % |

* TTC to turnover is an average per company for the companies in the survey in each country and will be influenced by the industry mix of companies participating.

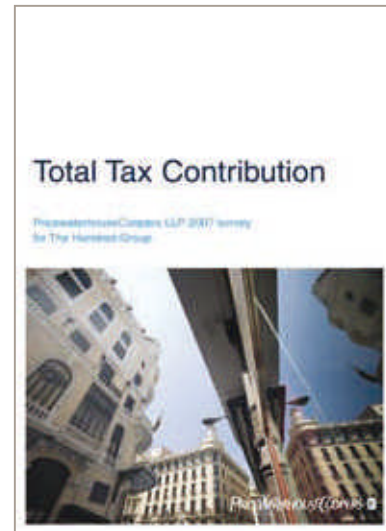
In addition to running Total Tax Contribution surveys with cross industry groups of companies PricewaterhouseCoopers is increasingly focussing on the results of individual industry sectors as it is quite clear that the tax profiles can vary significantly from industry sector to industry sector. In the UK for example, surveys have been conducted with the insurance industry and the oil and gas sector, and the firm hopes to release some results of a global survey of the mining industry. The total amount of a company's tax contribution around the world is a number which is generally just not available and having the ability to compare the total taxes paid in different countries and to be able to report that data is of benefit to the whole cross section of stakeholders in a company, ranging from management to shareholders, investors and government.

Appendix II

Total Tax Contribution – PwC publications



Total Tax Contribution
PricewaterhouseCoopers and the Federation
of Enterprises in Belgium – 2007 Survey
Published March 2008



Total Tax Contribution
PricewaterhouseCoopers LLP 2007
survey for The Hundred Group
Published February 2008



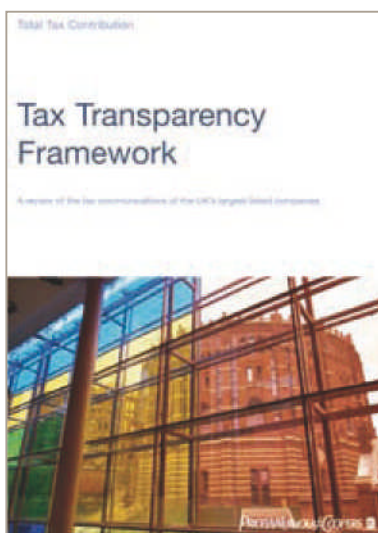
What is your company's Total Tax Contribution?
Australian 2007 survey results
Published April 2008



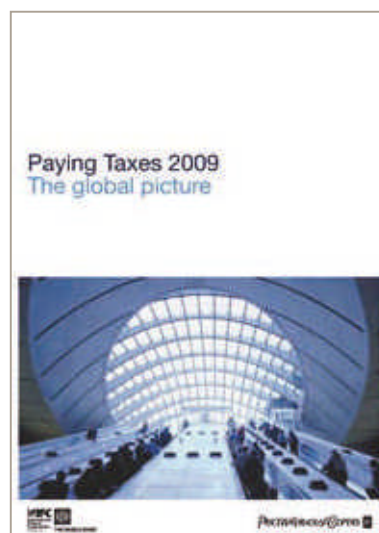
Total Tax Contribution
How much do large South African companies really pay?
Published September 2008



Total Tax Contribution
Canada's tax regime: complexity and competitiveness
Published May 2008



Tax Transparency Framework
A review of the tax communications of the UK's largest listed companies
Published November 2007



Paying Taxes 2009
The global picture
Published jointly with the World Bank Group
Published November 2008

Appendix III

PwC contact details



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Susan Symons is a Senior Client Tax Partner and has led the development of the PwC Total Tax Contribution Framework to enable companies to report on their contribution in business taxes. Susan is one of PwC's most experienced partners and works with the Hundred Group to collate and publish data on their total tax contribution. Prior to joining PwC she spent 16 years with the Inland Revenue.



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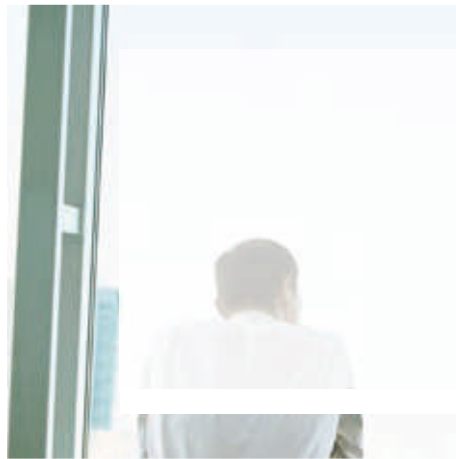
Frank is the Managing Partner of the PwC Tax and Legal services department in Belgium. He obtained a law degree at the Free University of Brussels and an LLM in Business and Taxation at the McGeorge School of Law in Sacramento – USA. He has worked and lived in the Netherlands, the USA, Luxemburg and Belgium. He writes numerous articles and regularly speaks at seminars on taxation. Frank specialises in International Taxation.



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