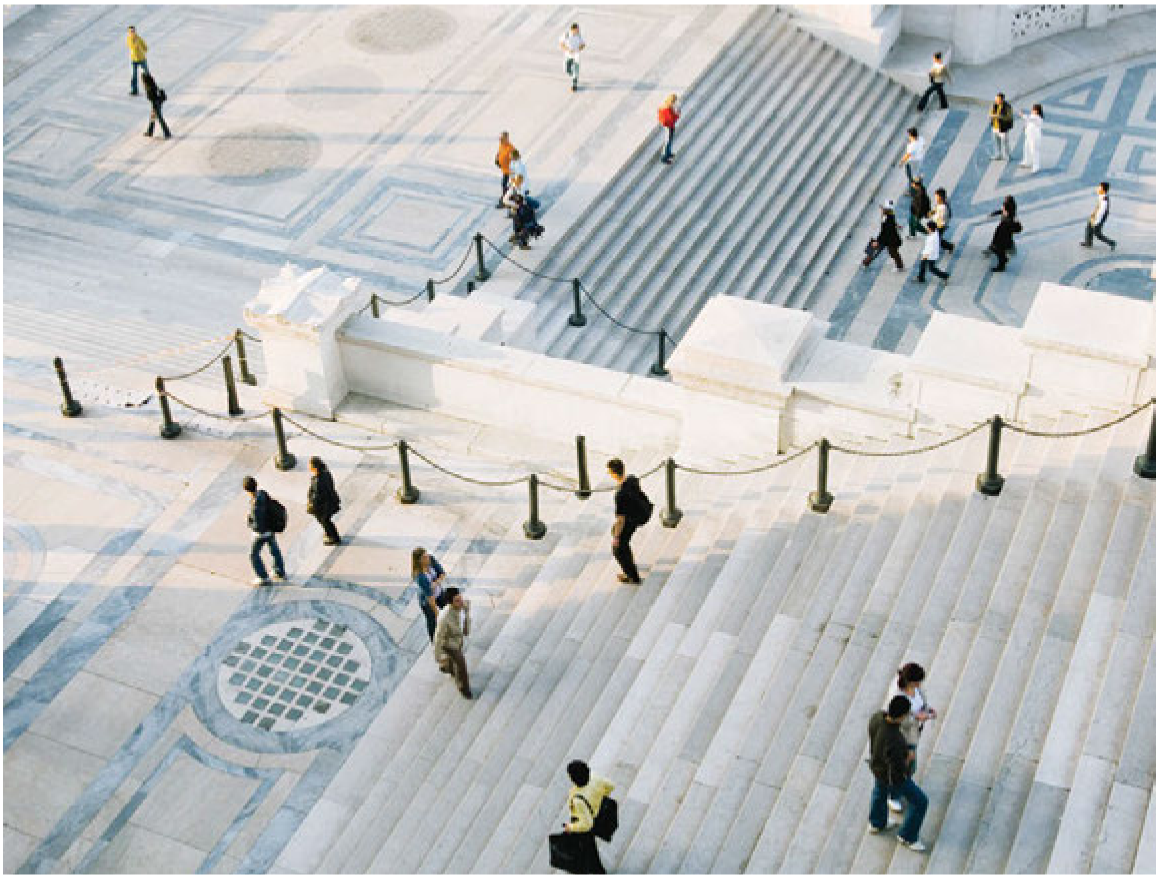
December 2013

Tax Transparency Building Public Trust

How companies are telling their tax story



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'PwC has long supported well considered transparency by business including appropriate reporting of tax information, recognising the potential value for companies from being open with shareholders and other stakeholders.'

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More companies are saying more about tax

We have been reviewing the tax reporting of UK listed companies for eight years as part of the Building Public Trust Awards. In that time, we have seen considerable changes in how companies report their tax affairs.

Not only are companies saying more about tax, but they are covering a broader range of tax topics. From the top 50 reporters:

52% Over half (52%) now include some discussion of how they approach their tax affairs, compared to 18% in 2007

60% Nearly 60% talk about taxes other than corporate income tax – more than double the number that did so in 2011

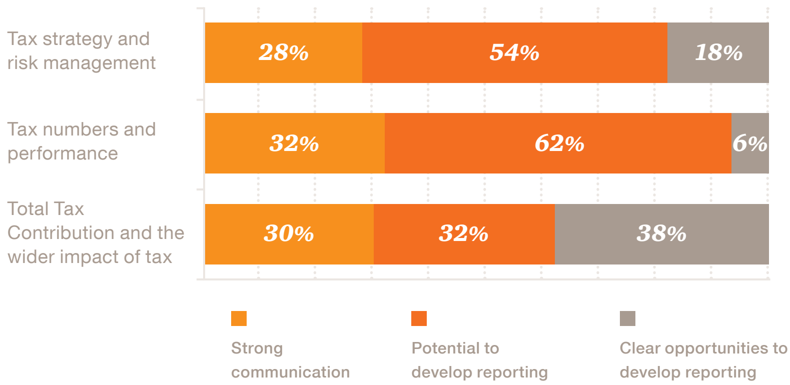
2/3 Two thirds talk about the governance and oversight of tax, compared to 23% in 2007

1/3 A third disclose tax payments by country or region – up from a quarter last year

54% Over half (54%) talk about their relationship with tax authorities – a 50% increase in two years

1/2 Half include tax as part of a discussion of the broader economic value they add – up from 27% in 2007

The quality of tax reporting of the top 50 companies, as identified by our scoring process, is shown opposite using the three main areas of the tax transparency framework. While many companies exhibit strong tax reporting, there is still room for many companies to consider whether their tax reporting is as helpful as it could be.



All statistics in this publication are based on our review of the 50 companies that had the most extensive tax reporting in the FTSE 350. The 50 companies were selected by looking at the number of references to tax in the companies' reports (annual reports, sustainability reports, websites etc) for periods ended between 1 April 2012 and 31 March 2013. Each of the 50 sets of reports was then examined against 38 separate criteria in line with the PwC Tax Transparency Framework.

Foreword

Given the level of public debate around tax, there has never been a greater need for businesses to build trust around their tax affairs.

We highlight some truly innovative ways in which companies are seeking to explain their tax affairs, and the tax system more generally, to a wide audience.

A number of events this year have continued to challenge the public's trust in business, but for international businesses particularly, a key issue in 2013 has been the explosion of interest in the tax affairs of multinational companies. Companies are recognising that transparency in their approach to tax is a crucial element in regaining trust and this year our review of tax reporting in the FTSE350 shows that a number of companies have provided additional voluntary tax disclosures to explain their tax position to a much broader audience.

Much has been written about tax transparency recently and there's no sign that the debate will subside. But alongside the on-going rhetoric and arguments, we should recognise today's leaders in tax reporting. Without their leadership and innovation, their willingness to disclose information voluntarily on their tax affairs with no certainty as to the reaction, we would have made little progress in this debate. By "putting their heads over the parapet", the leaders are helping to rebuild public understanding of, and trust in, tax which is vital for tax systems to operate effectively.

Andrew Packman

Tax Transparency and Total Tax Contribution Leader

PwC UK

PwC has long supported well considered transparency by business including appropriate reporting of tax information, recognising the potential value for companies from being open with shareholders and other stakeholders.

2013 is the eighth year that we have reviewed the tax reporting of the UK's largest companies using the Tax Transparency Framework which we developed back in 2005 drawing on the views of business, investors, governments and analysts.

Over these eight years the framework has developed and matured to take account of the issues raised by various stakeholder groups as well as reflecting what companies are reporting in practice. Our first reviews of tax reporting were based on only nine questions, whereas now we include almost 40 questions.

In this report we look in more detail at how the Tax Transparency Framework has evolved and how companies have changed their tax reporting. We look at some of the questions that are being asked of companies on their tax affairs, and provide examples of disclosures made by the leaders in tax reporting to show what they are doing in practice.

Andrew Packman

The view from business

"Corporate tax and tax transparency remain highly sensitive topics and at Vodafone we have opted to take a proactive approach to addressing some of the common misunderstandings by publishing our tax risk management strategy, simple explanations of key issues, and, for the first time, details of how much tax we pay to individual governments, how much we invest in, and contribute to, the infrastructure and broader economy of all the countries in which we operate. Almost every week we are able to direct media, members of the public, NGOs or others with questions about tax to our published reports, which I hope will help foster a more sensible and balanced debate about tax and enhance Vodafone's reputation in this area."

John Connors
Group Tax Director
Vodafone Group

"Tax is a major subject of debate for all businesses, governments and other stakeholders. At Rio Tinto, our tax strategy and payments are central to our approach to achieving sustainable development for the long term as a business, as a sector and as a global corporate citizen.

We have committed to provide detailed tax reporting on tax payments to governments by voluntarily providing a detailed breakdown of all the taxes we pay, not just corporate income tax. We believe that our voluntary reporting can help to foster constructive debate over natural resource taxation policy as part of the overall contribution to economic development that responsible mining investments can make.

We believe that it is essential for tax policy and design to take into account the cyclical nature of the industry and to respect agreements under which investment capital has already been committed. For an industry that makes multi-decade investments, with significant up-front capital expenditure, the risk of fiscal instability will influence the global flow of capital and a country's ability to attract and retain investment. Above all, tax law should never be retrospective."

Mark Andrewes
General Manager, Global Tax
Rio Tinto

"Tax is both a significant operating cost for our business and an important part of the contribution that we make to the economies where we operate. This means that a wide range of stakeholders are interested in Rank's tax affairs and so it is important for us to set out clearly which taxes we pay, how much we pay, and how this affects our business. We believe it is vital that taxes are levied fairly in a way that promotes responsible behaviour and provides a sustainable revenue stream for governments.

We therefore actively engage with governments and regulators to inform the development of tax policies to deliver simple, sustainable and predictable receipts while encouraging investment and the generation of new jobs."

Clive Jennings
Finance Director
The Rank Group

Tax reporting that is limited to historical corporate income tax numbers is unlikely to be enough

It has become increasingly clear in recent years that a wide range of individuals and organisations are interested in the tax that companies pay. The challenge for many companies is understanding who wants to know what, for what purpose and then how best to provide that information in a way that tells the whole tax story and meets the needs of the readers.

Traditionally, companies have reported tax in their financial statements strictly in line with the relevant accounting standards. This meant that tax reporting tended to focus on corporate income taxes, was backward looking and generally provided tax figures only at the consolidated group level.

What the recent debates and legislative changes have shown is that this relatively narrow reporting is not always sufficient to provide all interested parties with the information and explanation that they want; in response we have seen companies broadening the nature and extent of the tax information that they are putting into the public domain. In a few cases, companies are issuing separate stand-alone reports on tax or are including significant sections on tax in their annual reports or corporate social responsibility reports.

While these companies see clear benefits in telling their whole tax story, there are many others that are not yet saying much more than the minimum that is required by accounting standards. Why might this be?
For some companies, tax will not be a significant financial or reputational risk. A company based and trading largely in the UK and selling to other businesses for example may be unlikely to have complex international tax affairs or to need to respond to interest from other stakeholders.

However, there is a feeling, given the tenor of the public debate and the headlines seen in the media, that many finance directors doubt the ability to secure positive coverage around tax disclosures. So, for the time being at least, some are deciding to 'keep their heads down', and disclose only what is required of them.

In this context, it is interesting to see that a number of companies are now attempting to explain the fundamentals of tax (see pages 28 and 29) which we hope will lead to a more informed debate.

For those companies that are understandably reticent to disclose more information, we would encourage them to think carefully about the disclosures that they do make. In many cases the language used in the tax disclosure notes and in tax accounting policy notes is shrouded in technical tax and accounting jargon and consequently not well understood by the general public. As an example, some instances of how companies are changing their tax reconciliations are shown on pages 20 to 23.

Companies may want to take a fresh look at their tax reporting in the light of recent developments and consider whether they should be doing more to improve trust in their tax position and in the tax system more generally. We would encourage companies to resist the temptation to simply roll forward the previous year's disclosure and to take time to think whether those disclosures could be improved. The tax reconciliation would seem to be a good place to start such an exercise.

And finally, the advent of country-by-country tax reporting, initially for the extractive, logging, banking and investment management industries, but potentially being considered for all industries, will force many companies to disclose new information (see box on page 13). The question for these companies is how that data will be interpreted in the absence of other information to provide an appropriate and relevant context.

The Tax Transparency Framework includes other areas of tax for companies to consider

Given that, for many companies, tax reporting under existing accounting standards is unlikely to be sufficient to meet the needs of all interested parties, the question remains as to what companies should be reporting and how.

Our review of the tax reporting of the FTSE 350 over the last eight years has been based on the Tax Transparency Framework set out opposite. The framework is not intended as a tick list of items that all companies should report, and indeed not all areas will be relevant for all companies. Instead, the framework provides a list of items for companies to think about when developing their tax reporting.

Since its initial conception in 2005, the framework has matured and developed to keep up to date with what we have been seeing in practice. Two areas now included in the framework that were not there in the beginning are:

- Discussion of the company's approach to advocacy and lobbying activities on tax.
- Disclosure of policy in key areas for the business, for example tax planning and transfer pricing. Based on this year's review, disclosure of policies on the use of jurisdictions commonly regarded as "tax havens" may need to be added to this list.

Tax Transparency Framework

1.

Tax strategy and risk management

- Discussion of tax objectives and strategy.
- Disclosure of policies in key areas for the business, for example, tax planning and transfer pricing.
- How the tax strategy and function are managed and who has responsibility for governance and oversight.
- Discussion of material tax risks.

2.

Tax numbers and performance

- Clear reconciliation of the tax charge to the statutory rate.
- Discussion of cash tax payments and how they relate to the tax charge.
- Forward-looking measures for tax, such as an indication of the future direction of the company tax rate.

3.

Total Tax Contribution and the wider impact of tax

- Show how tax impacts wider business strategy and company results.
- Discussion of advocacy and lobbying activities on tax.
- The impact of tax on shareholder value.
- Communication of the economic contribution of all taxes paid.

The developing world of tax reporting

Over the next few pages, we present some of the highlights from our review of tax reporting that we carried out in 2013. Not all of the examples will work for every situation and businesses will need to find the approach that works best for them. We are therefore not advocating that any business should follow the specific examples included. The examples are simply intended to show the possibilities that exist for tax reporting for those thinking about how best to tell their tax story.

It is noticeable that many of the companies which we use as examples have previously been shortlisted for, or have won, the Building Public Trust Awards for excellence in tax reporting. This reflects a trend that we have seen for a number of years; there are a relatively small (albeit growing) number of companies that have spent considerable time and effort in improving their tax disclosures and in general these companies continue to have some of the leading practice in tax reporting.

We have seen a few companies making significant improvements in their tax reporting in recent years, but overall there has been little movement in the composition of the group of 50 companies that we consistently view as having the best tax reporting in the FTSE 350.

That said, in the process of reviewing tax reporting against the Tax Transparency Framework we have identified a number of novel or ground-breaking approaches to disclosure.

The amount of work required by companies in making these disclosures should not be overlooked. The disclosures shown on the following pages have required companies to identify, gather, collate, verify, understand and present data in a way that they would not have done before. This effort is magnified if new disclosure requirements are introduced with little notice or if what needs to be disclosed is unclear.

Tax strategy and risk management
Just over half of the companies that we reviewed included some discussion of how they approached their tax affairs, two thirds talk about governance and oversight of tax and just over half talk about their relationships with tax authorities.

There is though considerable variation in how companies describe their tax strategies and a few contrasting examples are included on pages 14 and 15.

The framework has always encouraged companies to talk about tax risks and we are seeing companies now talking about tax as a reputational risk as well as a financial risk. For those companies where tax is a material risk, we look for tax risks that are well explained with sufficient detail to be able to understand the specific factors that give rise to the risk as well as understanding how the risk is managed.

Disclosing policy on the use of "tax havens" is not explicitly referred to as a separate item in the Tax Transparency Framework, but it continues to be a consistent area of focus for some civil society organisations (CSOs). We are though seeing some companies beginning to disclose their policies on operating in "tax haven" jurisdictions.

Tax numbers and performance
Tax numbers have always been at the heart of tax reporting. Almost all the companies that we review address several of the areas from this section of the Tax Transparency Framework. That said, while all companies report current and deferred tax figures and include a tax reconciliation, some companies' disclosures are easier to understand than others.

Many companies continue to use technical tax and accounting terms that would not generally be understood by members of the public. We include on pages 20 and 23 some examples of how companies are changing their tax reconciliations and view this as a key area where companies could do more on tax reporting, to aid a wider understanding of tax.

One area that makes tax harder to understand is the interaction of different countries' tax systems. We have seen this year a new approach in this area from Prudential as shown on page 23.

Cash tax paid is a key number that is often picked up by CSOs and the media, especially when the payment is smaller than the tax charge. Several companies are now including disclosures to explain this difference, as shown on page 25.

> *'Just over half of the companies that we reviewed included some discussion of how they approached their tax affairs, two thirds talk about governance and oversight of tax and just over half talk about their relationships with tax authorities.'*

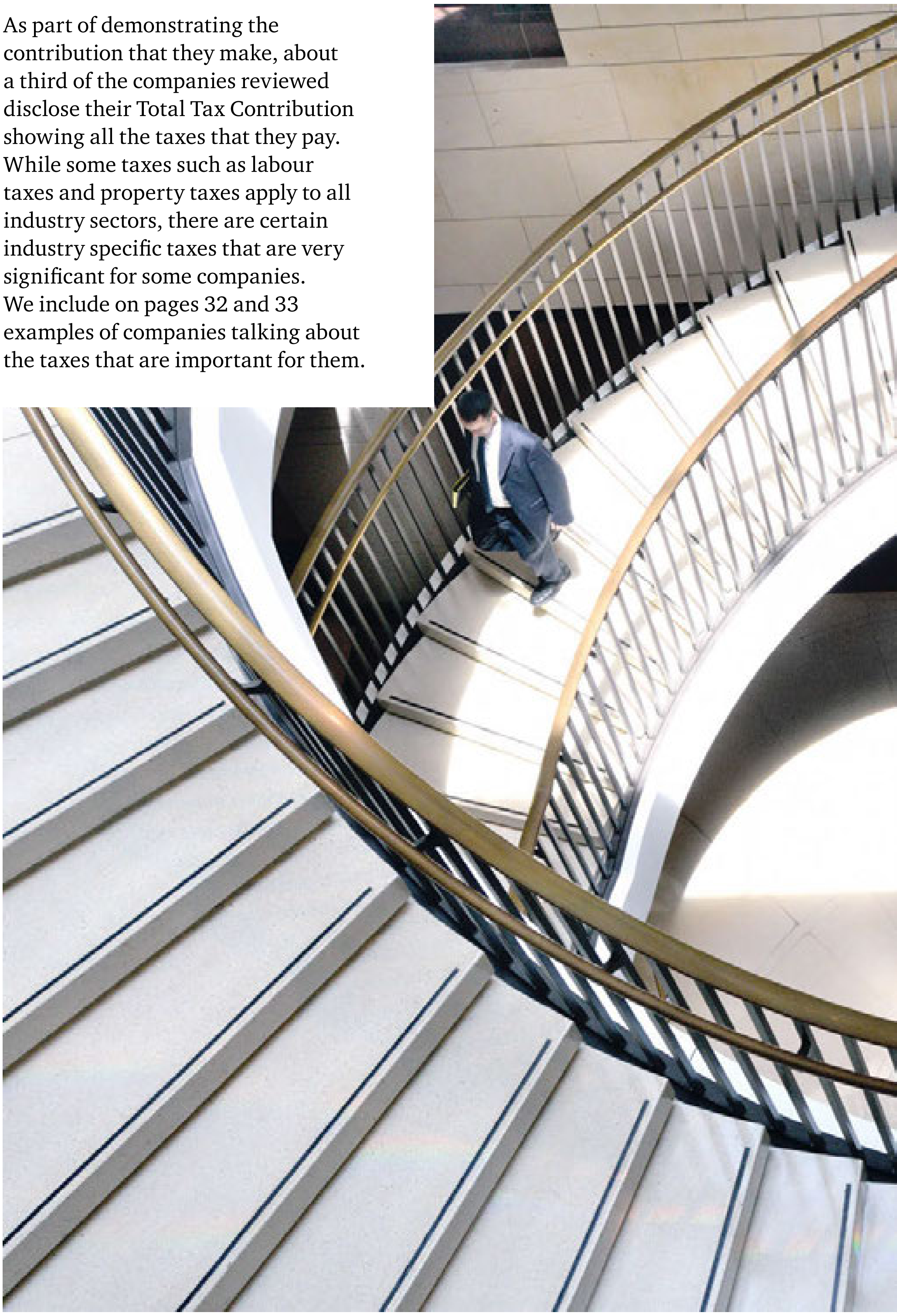
Total Tax Contribution and the wider impact of tax

The Tax Transparency Framework has always recognised that tax forms a significant part of the contribution that businesses make to the communities where they operate. It also recognises that this contribution comes not just from corporate income tax, but from all taxes that businesses bear and administer.

The taxes that businesses pay are however determined by the tax systems that apply to them, and so we welcome the developments this year with some companies looking to explain how those tax systems work.

Mandatory country-by-country reporting of tax and other financial data is a rapidly developing area of legislation (see box opposite), but country-by-country is not explicitly part of the Tax Transparency Framework. Meanwhile, a number of companies are considering whether meaningful voluntary information can be usefully communicated on a country-by-country basis. For some companies country-by-country reporting can help to demonstrate the tax contribution that they make in each country where they operate. This year we have seen more companies reporting tax payments by country or region and a greater level of detail from some companies than they have shown in the past.

As part of demonstrating the contribution that they make, about a third of the companies reviewed disclose their Total Tax Contribution showing all the taxes that they pay. While some taxes such as labour taxes and property taxes apply to all industry sectors, there are certain industry specific taxes that are very significant for some companies. We include on pages 32 and 33 examples of companies talking about the taxes that are important for them.



Country-by-country reporting

The following is a brief summary of current and forthcoming mandatory country-by-country reporting frameworks. More detail is available from the PwC publication, 'Tax transparency and country-by-country reporting, an ever changing landscape':

EU Accounting and Transparency Directives – large and listed extractive and logging companies in the EU will have to disclose payments to governments by country for all the countries in which they operate. Member States are currently transposing this requirement of the Directive into local legislation and it will apply from 1 January 2016 at the latest.

EU Capital Requirements Directive IV (CRD IV) – banks and certain investment firms operating in the EU are required by the Directive to disclose the following by country for every country where they operate: name, nature and location of activities; turnover; number of employees; profit or loss before tax; tax on profit or loss; and public subsidies received. Some aspects of these rules will apply from 1 January 2014 and all aspects will apply from 1 January 2015. The disclosures must be audited.

EU discussions – the European Parliament, European Commission and Council of Ministers are discussing amendments to the Accounting and Transparency Directive which, if implemented, would extend the CRD IV type disclosures (including the audit requirement) to all large businesses in the EU.

OECD discussions – as part of the work on base erosion and profit shifting, the OECD is looking at including a country-by-country reporting template in transfer pricing documents for disclosure to tax authorities.

Tax strategy and risk management

Tax strategy – the backbone of how businesses approach their tax affairs

- Over the eight years of the BPTA awards we have seen the number of companies discussing their tax strategy in their annual reporting increase from 18% to 52%.
- A clear strategy should underpin the key decisions that a business takes and this should also apply to tax decisions.
- In order to build trust and enhance reputation, tax strategy should be aligned with the overall business strategy and consistent with the wider corporate and social goals of an organisation.
- We provide below some examples of tax strategy disclosures, from the very concise to the very detailed.
- Matters that we frequently see included in descriptions of tax strategies are:
  - The balance between maximising shareholder value and tax optimisation
  - Responsibilities for tax and the level of board involvement
  - Approach to tax planning
  - Approach to relationships with tax authorities

Anglo American's tax strategy disclosure relates the tax strategy to its long-term business strategy and commercial decision making

Taxation objectives and policies

Our tax strategy, as approved by the Board, is to ensure we do not engage in any practices which avoid paying tax at the appropriate levels. We manage the taxes we pay having regard to the interests of our shareholders and our long-term relationship with the tax authorities. We will consider bona-fide arrangements which are integral to our business and which qualify for tax exemption or relief.

Source: Pennon Group plc Annual Report 2013, p34

Pennon Group has a very concise disclosure focussing on its approach to tax planning

Our tax strategy

Our approach to tax sits within the context of our long-term business strategy and is determined by our Board-approved tax strategy. This is discharged by a team of professionals acting in accordance with our Guiding Values and Good Citizenship Business Principles. It commits us to optimise and grow shareholder value through the responsible management of the Group's tax affairs in compliance with the law in all areas of tax planning and compliance.

Our tax strategy is split into three pillars:

- Tax governance
- Advisory and engagement
- Compliance and reporting.

Our tax professionals support our commercial decision-makers. They provide timely tax advice to ensure that we comply with the law and to enable us to proactively engage with tax authorities where appropriate. This forms part of our strategy to seek to maintain a long-term, open, constructive relationship with tax authorities and governments.

Our tax strategy clearly states that all Group companies should comply with their legal obligations and responsibilities in relation to the preparation of the tax computations, returns and payments required by every tax jurisdiction in which we operate, respecting the laws of each country.

Source: Anglo American plc, Sustainable Development Report 2012, p28

How clearly do you articulate your tax strategy and its implications for day to day business?

Tax strategy

Rank aims to manage and plan its tax affairs in the UK and continental Europe with a view to reducing the cash tax payable in each jurisdiction and minimising the Group effective tax rate, while fully complying with relevant legislation.

The Group tax strategy is regularly reviewed and approved by the board and supported by the use of appropriate advice from reputable professional firms. Where disputes arise over the interpretation and application of tax legislation, the Group is committed to proactive discussion with the relevant authorities as soon as possible and only resorts to litigation once all other avenues are exhausted. An open dialogue is maintained with HMRC involving regular meetings to review tax issues and brief them on business issues.

Over the course of the period, Rank has stepped up its efforts to conclude several outstanding issues with HMRC and overseas tax authorities. This escalation has already seen several longstanding issues resolved, with the result that Rank has received £6.2m of overpaid VAT from HMRC relating to the disposal of Rank's pension scheme. In concluding the remaining tax, duty and VAT issues Rank might be obliged to make cash payments to HMRC. However, Rank is satisfied that it has made adequate provision for any payments that might become due in relation to these, currently unresolved, tax issues.

Source: The Rank Group Plc, Annual Report and Financial Statements 2012, p52

The Rank Group's strategy disclosure clearly states its approach to tax optimisation. It also details the involvement of the board and external advisers as well as its approach to dealing with tax authorities

Legal and General's tax strategy disclosure provides considerable detail on its approach to tax planning and tax risk including its approach to transparency and the development of tax legislation

TAX STRATEGY

We are committed to meeting all legal requirements and making all appropriate tax payments in the territories in which we operate. When evaluating tax planning, we will also always consider the Group's reputation, brand and corporate and social responsibilities.

We will:

- not pursue arrangements which are not in line with our Group Code of Ethics;
- avoid tax pitfalls by considering tax as part of every major business decision and ensuring appropriate controls are in place to manage our tax risks;
- not undertake transactions whose sole purpose is to create an abusive tax result;
- discuss in real-time our interpretation of the law with HMRC where we pursue tax planning;
- include Board-level oversight as part of our tax risk governance processes;
- be transparent in respect of our tax affairs and provide disclosure in our Annual Report and Accounts about our tax approach, tax rate and cash tax payments; and
- contribute to the development of UK tax policy and legislation. where appropriate.

Source: Legal and General Group plc Annual Report and Accounts 2012, p43

Tax strategy and risk management

Tax can be a reputational as well as a regulatory and financial risk

- In the past, tax risk has largely been seen as a financial or regulatory risk with the principal danger being litigation costs and increased tax liabilities in the event that there was a dispute over interpretation of the law.
- Now, however, tax is increasingly being seen also as a reputational risk with some companies stating that one of the goals of their tax strategy is to manage the reputational risk associated with tax.
- Another statement we see is that companies want to be viewed as responsible corporate taxpayers.
- One aspect of managing the reputational issues around tax is for businesses to explain clearly the tax risks that they face and how they manage these.
- Tax is often complicated. Much depends on the individual circumstances of a group, but operating across country borders, operating in particular industries or territories increases complications and so increases risk.
- Where the tax risks are material, businesses need to explain these clearly to their stakeholders, yet many use generic disclosures, including tax with broader regulatory and other legal risks.
- Given the complexity, explaining tax risks and their mitigation to non-specialists is not easy. We include an example from Provident Financial which explains in detail the group's approach to mitigating tax risk and the progress it has made in reducing it.

In support of our overall business strategy and objectives, Rio Tinto pursues a tax strategy that is principled, transparent and sustainable in the long term. The Group has established principles governing its tax strategy which have been reviewed and approved by the board of directors. These remain unchanged from previous years and include the following key points:

- A tax strategy that is aligned with our business strategy and conforms with our global code of business conduct, *"The Way We Work"*.
- Commitment to ensure full compliance with all statutory obligations, and full disclosure to tax authorities.
- Management of tax affairs in a pro-active manner that seeks to maximise shareholder value, while operating in accordance with the law.
- Maintenance of documented policies and procedures in relation to tax risk management and completion of thorough risk assessments before entering into any tax planning strategy.
- Sustaining good relations with tax authorities, and actively considering the implications of tax planning for the Group's wider corporate reputation.

Source: Rio Tinto plc, Taxes Paid in 2012, p5

Rio Tinto considers the impact of tax planning on its wider corporate reputation

Tax strategy

We manage our tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Responsibility for our tax strategy rests with the Finance Director and the Global Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Source: National Grid plc, Annual Report and Accounts 2012/13, p49

National Grid states that it manages its tax affairs to minimise reputational risk

How clearly do you explain your tax risks and how you handle them?

RISK	DESCRIPTION	MITIGATION	PROGRESS IN 2012
FINANCIAL RISK	**The risk that the group suffers a loss as a result of unexpected tax liabilities.** HMRC is placing greater emphasis on taxation controls in assessing tax risk and the associated level of scrutiny placed on companies.	• The group's approach to tax is embodied in a board-endorsed tax strategy which has also been shared with HMRC. This strategy seeks to ensure that the group complies with tax rules and regulations, pay the tax it is legally required to pay in the territories in which it operates and its reputation as a responsible taxpayer is safeguarded. The strategy also sets out the group's approach for managing tax risk and ensuring tax receives the appropriate consideration at board level. • An experienced in-house team is responsible for managing the group's tax affairs and advice is sought from external advisors on all material transactions. • The group is committed to building open and honest relationships in its day-to-day interaction with tax authorities. Management has regular and positive dialogue with HMRC across all UK taxes which includes advance discussion of transactions where the tax treatment is uncertain. • The group has documented systems, processes and controls to support the UK taxes it pays and the preparation and submission of related tax returns. • Policies and procedures are in place which support the management of key tax risk areas, including policies and procedures which seek to ensure that the relationship between CCD and the agents it engages is such that self-employed status is maintained.	• Working to further improve and embed the procedures in place which seek to ensure that the agents engaged by CCD remain self-employed. • Working alongside HMRC to agree a number of historic corporation tax matters, thereby building on the progress made in 2010.

Provident Financial sees tax as a reputational issue

Provident Financial explains the progress it has made in agreeing tax matters with HMRC

Provident Financial sets out its key tax risk, as well as disclosing the actions that it takes to mitigate its tax risks more generally

Source: Provident Financial plc, Annual Report and Financial Statements 2012, p75

Tax strategy and risk management

Companies in locations which some regard as "tax havens" can be perceived as being there only for tax reasons

- A number of stakeholders, particularly (CSOs, have been concerned for some time about the activities of companies located in countries which some regard to be "tax havens".
- Reporting on "tax havens" is one of the seven key criteria for tax responsibility included by ActionAid in its publication "Tax responsibility an investor guide".
- An ActionAid campaign also sought to ensure that the companies in the FTSE 100 publically disclose the location of all their subsidiaries and the activities that they carry out.
- While CSOs have acknowledged that companies may exist in 'tax havens' for legal or trading reasons, the initial assumption is often that they are there for tax reasons.
- We are now seeing a few businesses discussing their approach to this area as well as setting out what they are actually doing in those locations. Some examples of disclosures are shown opposite.

While some companies' tax haven subsidiaries may represent legitimate domestic operations (for example, real sales or services provided commercially to consumers in those jurisdictions), tax haven subsidiaries are used by some companies in aggressive tax practices to shift profits from where key economic activity is taking place into a lower-tax jurisdiction. Investors should be especially concerned to receive information about these subsidiaries.

Source: ActionAid, Tax responsibility an investor guide, p23

SSE's Finance Director responding to a question on tax in the group's annual report

There are reports that some big businesses in the UK are avoiding making a fair contribution to the UK Treasury in terms of tax contributions. What is SSE's position?

Gregor SSE disagrees strongly with any company that takes an aggressive stance in interpreting tax legislation, or uses so-called 'tax havens' as a means of doing so. As a UK based and listed company operating solely in the UK and Ireland, SSE believes it has a responsibility to operate within both the letter and spirit of the law at all times.

SSE pays taxes in the United Kingdom and the Republic of Ireland, the only states in which it has trading operations. Central to SSE's approach to tax is that it should be regarded as a responsible tax payer. As a consequence, SSE maintains a good relationship with HM Revenue & Customs, based on trust and cooperation.

Source: SSE plc, Annual Report 2013, p8, 25

Should you show where your companies are and what they do?

There has been increased public and press interest in the use of "tax havens" by multinational companies in recent years. A tax haven is typically thought of as a low or no tax country which may also have laws that limit the public disclosure of information and which may restrict the exchange of information with tax authorities from other countries.

There can be sound commercial reasons for a multinational group to use companies located in tax haven territories such as where they offer a stable government and a clear legal framework. Other reasons include beneficial regulatory requirements or the provision of a neutral tax territory for joint ventures between companies that are headquartered in different countries.

Rio Tinto has over 650 subsidiaries of which about 20 are incorporated in countries which may be considered to be tax havens. Of these, several are inactive. The remainder are either tax resident in the UK, or are subject to the UK's international tax rules and any other similar international tax rules. The activities of these entities are fully disclosed to all relevant tax authorities.

Many of Rio Tinto's companies in 'tax havens' are tax resident in the UK

Source: Rio Tinto plc, Taxes Paid in 2012, p5

Tax in offshore financial centres and developing countries

Barclays operates under the laws of low tax jurisdictions for valid business reasons. In many of these jurisdictions, we have substantial businesses. For example, we operate full-service retail and corporate banking businesses in the Seychelles where we are the largest retail bank in the country, having operated there for more than 50 years. Our operations in offshore financial centres are based principally in the Isle of Man, Jersey and Guernsey, where our Wealth and Investment Management division is a long-term major local employer. The income from these Crown Dependencies represented only 2% of our total income in 2012.[9]

We have historically incorporated businesses under the laws of other jurisdictions, such as the Cayman Islands, because local corporate law makes it easy and cost-effective to set up and liquidate companies. As at June 2013, we had 113 companies incorporated under the laws of the Cayman Islands. Virtually all of the profits generated in these companies are subject to corporate tax at the UK corporate tax rate. The total amount of profit not taxed in the UK across all our entities incorporated under Cayman Islands law was less than £1m in each of 2010, 2011 and 2012. In 2012, 41 Cayman companies were liquidated and 55 were dissolved.

We have disclosed the nature and scope of these activities to HMRC and any other relevant tax authorities.

Nonetheless, Barclays has been reducing the number of entities it operates in low tax jurisdictions. Since, 2009 we have reduced the number of these entities by 25% to 253 (as at end of 2012). We plan to make further reductions in 2013.

We make significant tax payments in developing countries, which are often a major contributor to the overall tax revenue in these countries. For instance, in 2012, we paid taxes of £501m in Africa (including corporate income tax, social security and VAT).

Barclays talks about how it is reducing the number of its companies in the Cayman Islands

Source: Barclays PLC, Citizenship Report 2012, p21

Tax numbers and performance

The tax reconciliation – at the heart of explaining your tax position

- A tax reconciliation is required by IFRS and provides an opportunity for companies to explain what is driving their tax rate.
- For a number of the accounts that we reviewed, we felt that it would have been difficult for a non-tax specialist to have fully understood what gave rise to the key reconciling items.
- The clearest tax reconciliations that we saw included some of the following features:
  - linked tax adjustments to specific business events such as disposals of subsidiaries
  - avoided tax technical or accounting language
  - gave examples of the principal type of adjustment in a reconciling item
  - did not net off items such as non-deductible costs and non-taxable income
  - cross referenced items in the tax reconciliation to other accounting notes
- Under IFRS, the tax reconciliation looks only at the overall tax charge which includes both current and deferred tax, yet many people are more interested in the current tax charge. We have seen one company, Npower, introducing a current tax reconciliation in order to address this issue.

The tax attributable to equity holders differs from the tax calculated at the standard UK corporation tax rate as follows:

	2012 £m	2011 Restated £m
Profit before tax attributable to equity holders	**1,036**	953
Tax calculated at 24.5% (2011: 26.5%)	**254**	253
Effects of:		
Adjustments in respect of prior years, mainly relating to resolution of tax issues with HMRC	**(6)**	(34)
Lower tax on Shareholder Retained Capital	**(30)**	(20)
Income not subject to tax, such as dividends	**(3)**	(5)
Change in valuation of tax losses	**8**	15
Higher rate of tax on profits taxed overseas	**14**	11
Expenses not deductible for tax purposes	**(5)**	5
Impact of reduction in UK corporate tax rate to 23% (2011: 25%) on deferred tax balances	**7**	6
Differences between taxable and accounting investment gains, e.g. RPI relief	**(5)**	–
Other	**1**	1
Tax attributable to equity holders	**235**	232

Tax calculated on profit before tax at 24.5% (2011: 26.5%) would amount to £296m (2011: £205m). The difference between this number and the total tax of £409m (2011: £54m) is made up of the reconciling items above, which total £(19)m (2011: £(21)m), and the effect of the apportionment methodology on tax applicable to policyholder returns of £132m (2011: £(130)m).

Legal and General seeks to use everyday language e.g. 'change in valuation of tax losses' rather than 'change in deferred tax assets' which we have seen in other tax reconciliations

Source: Legal and General Group plc, Annual Report and Accounts 2012, p196

Could your tax reconciliation do more to help your stakeholders understand your tax position?

Refers to the specific business event that give rise to the adjustment

Details the principal item included in the reconciling item

RWE npower group UK statutory profit before tax			**277**
Excludes income from shares in npower subsidiaries	Split as:		
	Retail	138	
	Generation	139	
Expected current tax on UK statutory profit	at 24.5%		68
Adjustments			
Capital allowances in excess of accounts depreciation			(51)
Expenses not deductible for tax purposes (mostly goodwill amortisation)			24
Profit on sale of Horizon shares not taxable (substantial shareholding exemption)			(19)
Adjustment to tax computed for prior periods			3
Utilisation of brought forward tax losses (domestic gas business)			(7)
Actual current tax charge			**18**

Note: Although RWE Npower is not part of the FTSE 350 and as such is excluded from the BPTA process, the company has issued a standalone tax commentary that contains some innovative examples of tax reporting which merit inclusion in this report.

The schedule reconciles accounting profit to the current tax charge rather than the overall tax charge

Source: RWE Npower, Tax Commentary 2012, p28

Tax numbers and performance

Countries have different tax systems which leads to different tax profiles

- Operating in a number of countries will affect a business's effective tax rate for several reasons. Not only will the countries have different tax rates, but they will have different tax systems giving rise to differences in the tax treatment of certain transactions and differences in tax incentives. In addition they may have different accounting rules.
- The tax adjustments arising from operating in different jurisdictions are often significant, and can be difficult to explain clearly.
- Most companies reconcile their tax charge using the statutory tax rate in the territory of the ultimate parent company, but other methods are also available.
- A few companies use an average weighted tax rate for their tax reconciliation that takes account of the tax rates in a number of different territories. The difficulty here is how to calculate the weighting – is it by reference to local statutory accounting profits, or IFRS numbers or some other ratio? Whichever method is used, it should be clearly stated.
- A different and innovative approach was used by Prudential who have split their tax reconciliation by region, thereby clearly showing how much of the rate is due to statutory rate differences and how much is due to specific tax adjustments in each region.

11. Tax expense continued

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities as follows:

(in thousands of United States dollars)	For the year ended 31 December 2012	For the year ended 31 December 2011
Profit before taxation	119,247	402,701
Tax calculated at domestic tax rates applicable to profits in the respective countries	36,849	114,199
Tax effects of:		
Expenses not deductible for tax purposes/(non-taxable income)	5,483	(1,219)
Tax losses for which no deferred income tax asset was recognised	23,660	7,302
Prior year adjustments	8,258	(2,391)
Effect of tax rates in foreign jurisdictions	(3,187)	33
Tax charge	71,063	117,924

The tax rate in Tanzania is 30% and in South Africa 28% for both years presented.

African Barrick Gold uses a weighted average tax rate to calculate its theoretical tax charge

Source: African Barrick Gold, Annual Report and Accounts 2012, p118

How well does your tax reconciliation explain the tax impact of operating in different jurisdictions?

Disclosure of statutory tax rates applying in each region

Prudential's tax reconciliation is split by the main regions in which the group operates

Reconciliation of tax charge on profit attributable to shareholders for continuing operations:

2012	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
	2012 £m (except for tax rates)				
Operating profit (loss) based on longer-term investment returns	913	964	736	(80)	2,533
Non-operating profit (loss)	76	(109)	122	188	277
Profit before tax attributable to shareholders	989	855	858	108	2,810
Expected tax rate:*	23%	35%	25%	25%	27%
Tax at the expected tax rate	227	300	210	26	763
Effects of:					
Adjustment to tax charge in relation to prior years	(11)	10	(26)	(10)	(37)
Movements in provisions for open tax matters	–	(3)	–	32	29
Income not taxable or taxable at concessionary rates	(87)	–	–	(2)	(89)
Deductions not allowable for tax purposes	30	–	–	3	33
Different local basis of tax on overseas profits	–	(68)	–	–	(68)
Impact of changes in local statutory tax rates	–	–	(39)	9	(30)
Deferred tax adjustments	(6)	–	8	(1)	1
Irrecoverable withholding taxes	–	–	–	14	14
Other	5	(5)	8	(11)	(3)
Total actual tax charge	158	234	161	60	613

Movement in the provision for open tax matters shown as a separate line in the reconciliation

Source: Prudential plc, Annual Report 2012, p260

Tax numbers and performance

Cash tax paid is not the same as the tax charge in the income statement

- There is often a considerable difference between the tax charge in the accounts and the amount of tax actually paid in the year.
- Many stakeholders are interested in the amount of tax paid as much as, if not more than, in the amount of tax charged.
- Recent media articles have also shown that the reasons for the differences between cash tax and the tax charge are not always well understood.
- We have seen a number of companies providing explanations of the differences between the tax charge and the tax paid in the period. National Grid uses a table to set out its explanation, while Legal and General uses a bridge diagram.
- The Rank Group is the only company that we have seen that provides both a current and a forecast effective tax rate for cash tax.

A reconciliation between the tax payments shown in section 5 and the taxes charged is shown below.

All amounts are US$ millions	Corporate income tax	Other taxes	Total tax borne
Total included in Group income statement	273	3,347	3,620
Add deferred tax credit included above	4,127	–	4,127
Net payments not accrued in 2012	1,754	207	1,961
Total tax paid in the year	**6,154**	**3,554**	**9,708**

All amounts are US$ millions	Corporate income tax	Other taxes	Total tax borne
Parent companies and subsidiaries	5,823	3,474	9,297
Non-controlled entities	331	80	411
Total tax paid in the year	**6,154**	**3,554**	**9,708**

Rio Tinto reconciles the tax charge in the accounts to the tax paid in the year

Source: Rio Tinto plc, Taxes Paid in 2012, p12

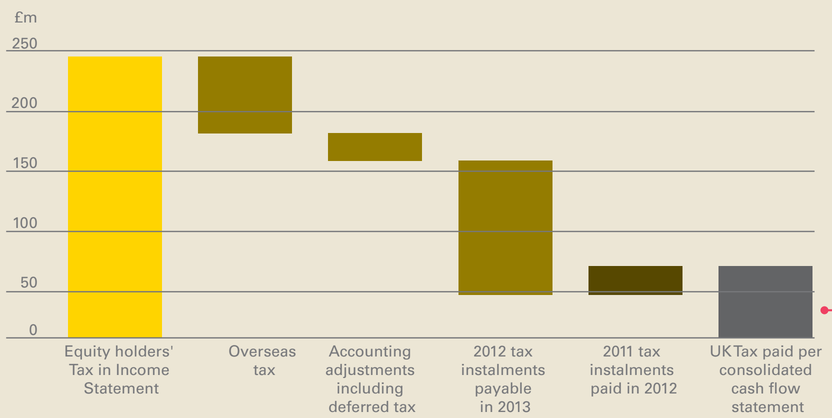
Do your stakeholders have the information to understand the difference between the tax charged and the tax paid?

National Grid shows how instalment payments, deferred tax and adjustments to prior year tax charges affect its UK corporation tax payments

Reconciliation of UK total tax charge per accounts note 5 to UK corporation tax paid	**Years ended 31 March 2013 £m**	**2012 £m**
Total UK tax charge per accounts note 5 (current tax £289 million (2012: £181 million) and deferred tax £43 million (2012: £6 million credit))	**332**	175
Adjustment for non cash deferred tax items	**(43)**	6
Adjustments for accounts current tax charge relating to prior years	**17**	5
UK current tax charge	**306**	186
UK corporation tax instalments not payable until following year	**(155)**	(92)
UK corporation tax instalments of prior years paid in current year	**92**	76
UK corporation tax paid	**243**	170

Source: National Grid plc, Annual Report and Accounts 2012/13, p50

Reconciliation of tax charge in income statement to UK tax paid in the cash flow statement



Source: Legal and General Group plc, Annual Report and Accounts 2012, p43

Legal and General shows how overseas tax, deferred tax and instalment payments explain the difference between the group tax charge and the UK tax paid

Tax numbers and performance

Investors are interested in what your tax rate will do in the future

- While financial statements generally look back at the last year's performance, many investors are interested in what a company's tax rate will do in the future.
- In some cases they may be able to hazard a guess at this by looking at the historical tax rate. If so, it would often be helpful for them to know which tax adjustments are one-off, and which are recurring.
- While many companies disclose expected changes in statutory tax rates, very few say how this will affect their effective tax rate.
- In a few cases, companies are providing details on how they expect their tax rates to perform in the future, either by providing a forecast effective tax rate, or by talking about how the drivers of the rate are expected to perform in the future.
- As mentioned above, we are only aware of the Rank Group providing a future effective cash tax rate.

Hunting expects its underlying tax rate to reduce to 27% following reductions in statutory tax rates in its countries of operation

Taxation
The Group's underlying tax rate for 2012 has remained at 28% (2011 – 28%), resulting in an underlying tax charge of £34.6m (2011 – £22.5m). The tax rate reflects the weighting of profits in lower tax jurisdictions, together with a reduced UK corporate tax rate. The underlying tax rate for 2013 is currently expected to reduce to 27% as a result of reductions in global corporate tax rates in the countries where we operate, however, the actual rate will be dependent on the regional mix of profits.

Source: Hunting plc, Annual Report 2012, p23

Centrica expects its effective tax rate to remain above the UK statutory rate

(c) Factors that may affect future tax charges
Production of gas and oil within the UK continental shelf is subject to several taxes: corporation tax at 30% (2011: 30%) on profits of gas and oil production; a supplementary charge at 32% (2011: 32%) on profits of gas and oil production (adjusted for financing costs) and petroleum revenue tax (PRT) at 50% (2011: 50%) on income generated from certain gas and oil production (net of certain costs).

PRT is a deductible expense for the purposes of corporation tax and the supplementary charge. The rate of tax suffered on profits of UK gas production therefore falls between 62% and 81% (2011: 62% and 81%). To the extent that the Group's profits are earned from UK gas and oil production, its effective tax rate will remain above the current UK statutory rate of 24% (2011: 26%).

Income earned in territories outside the UK, notably in the USA and Norway, is generally subject to higher effective rates of tax than the current UK statutory rate. In the medium term, the Group's effective tax rate is expected to remain above the UK statutory rate.

Source: Centrica plc, Annual Report and Accounts 2012, p95

How much information do your stakeholders have about how your tax rate might perform in the future?

Tax

The effective rate of tax for the year (before amortisation of intangible assets other than computer software and exceptional items) was 27.0% compared with a rate of 27.5% in the prior year. This change in the rate resulted from a combination of factors including:

- a full year's impact of the Foster's acquisition;
- the resolution of various uncertain tax positions; and
- reductions in corporate income tax rates in certain territories.

In the medium term we continue with our expectation that the effective tax rate will be between 27% and 29%. This is a level which we believe is sustainable based on the current structure of the group.

The statutory corporate tax charge for the year was US$1,201 million, a small increase compared with US$1,126 million in the prior year.

Source: SABMiller plc, Annual Report 2013, p39

SABMiller expects that its effective tax rate will remain between 27% and 29% in the medium term

Effective tax rate

The Group's effective corporation tax rate in 2011/12 was 26.3% (2010/11: 29.4%) based on a tax charge of £16.2m on adjusted profit before taxation and exceptionals of £61.5m. This is below the Group's anticipated effective tax rate because of a series of prior year adjustments and the reduction in the headline rate announced in Budget 2012. The effective corporation tax rate for 2012/13 is expected to remain around the current level. Further details of the taxation charge are provided in note 6.

Source: The Rank Group plc, Annual Report and Financial statements 2012, p54

The Rank Group expects its effective corporation tax rate to remain unchanged

Cash tax rate

In 2011/12 the Group had an effective cash tax rate of 7.8% on adjusted profit following the utilisation of brought forward losses and capital allowances. The Group is expected to have a cash tax rate of 20% to 22% in 2012/13, excluding any tax payable on the resolution of a number of legacy issues.

Source: The Rank Group plc, Annual Report and Financial statements 2012, p53

The Rank Group provides a current and a forecast effective cash tax rate

Total Tax Contribution and the wider impact of tax

Tax is complicated and often poorly explained

- The recent attention given to tax matters in the media has highlighted how complicated tax systems can be, especially when applied to multinational enterprises.
- Given this level of complexity, it is not surprising that many people struggle to understand the fundamental principles behind corporate taxation.
- There is an onus on businesses to explain taxation to a wider group of stakeholders and we are seeing more companies doing just that.
- To the tax professional this may seem to add little to the disclosure, but, along with the *CBI's publication on misunderstood tax concepts*, this can be helpful in increasing the public's understanding of tax affairs.
- Vodafone and Npower provide detailed and clear explanations of certain aspects of tax systems.

Vodafone explains how profitability affects the amount of corporate income tax charged

Corporation tax is paid on profits, not on revenues. If a company makes little or no profit – for example, as a consequence of declining sales, competitive market conditions or a period of intense capital investment, particularly if funded through borrowing, it will generally incur lower tax charges than another similar company with higher profits. This approach is common to all countries as without it, companies enduring periods of low profitability would be faced with disproportionate tax demands and significant disincentives for investment in infrastructure. In a number of Vodafone's markets, including the UK, the cost of acquiring radio spectrum from the government, high operating costs, substantial levels of capital expenditure and sustained competitive and regulatory pressures have a significantly negative effect on the profits of our local businesses. In addition, in some markets, other taxes that are levied on revenue (together with non-taxation-based contributions such as spectrum fees) have the effect of depressing profit and so reducing corporation tax liabilities

Taxation is local. Taxes generally fall due wherever profits are generated, and the tax liabilities that arise as a result are decided under the rules of the country that is host to the business in question. So, for example, a company operating in South Africa pays taxes to the South African government under tax rules determined by that country's government; and a company operating in Italy pays taxes under Italian rules to the Italian government. Vodafone pays all taxes due under the law in all our countries of operation: in 2011/12, these amounted to more than £3 billion. For further details, see 'Multinationals, governments and tax'

Vodafone discusses the territorial nature of corporate income tax

Source: Vodafone Group plc, Sustainability Report 2012/13, p66

Could users of your accounts benefit from having a better understanding of how tax works?

The cost of a capital asset, when it's being used in a business over a period of time, can be spread over the expected period of its use before it wears out. This is known as depreciation. Capital allowances give businesses a type of tax relief that's broadly equivalent to depreciation, because depreciation itself is not an allowable UK tax deduction.

Capital allowances are available on some but not all of a business's assets. The assets that do or don't qualify have changed over time, but recently we've seen moves towards removing tax relief for assets and/or reducing the rates of relief altogether.

Nevertheless, for some capital intensive businesses (those that need to invest heavily to operate effectively), capital allowances can provide a temporary benefit when the tax relief on an investment starts out being larger than the accounting depreciation.

The result is that taxable profits can initially be lower than 'expected'. Npower saw this happen in 2009-2011. This example shows how timing can impact on the differences between taxable profits and accounting profits (the figures are simplified).

Example

An existing energy company builds a new power station costing £1 billion. It is depreciated in the company's accounts over a 20 year period (£50m each year, for 20 years, equals £1 billion).

We'll assume that the capital allowance rate is 15%, which is the simple average of two rates that were available (10% and 20%) up to March 2012.

This percentage is applied to what's known as the unrelieved balance of expenditure each year. As an example, in year 6, capital allowances are (15% x Year 5 closing tax value of £444m) £67m.

This shows how taxable profits are initially lower than reported accounting profits, with the result that less tax is payable than expected.

But something that isn't usually as widely reported perhaps, is that in Year 8 onwards (as shown in this example) the difference then reverses so that more tax is payable than expected.

Over the life of the asset then, the total capital allowances will equal the total depreciation. Claiming capital allowances doesn't avoid tax - it just delays it.

Npower explains how capital allowances work, including a worked example showing how accounting depreciation and capital allowances unwind over time

Year	1	2	3	4	5	6	7	8	9	10	15	20
Accounts value of power station (start of year)	0	950	900	850	800	750	700	650	600	550	300	50
Expenditure in year	1000	0	0	0	0	0	0	0	0	0	0	0
Depreciation in year	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
Accounts value (end of year)	950	900	850	800	750	700	650	600	550	500	250	0
Capital allowances	150	128	108	92	78	67	57	48	41	35	15	7
Tax value (end of year)	850	723	614	522	444	377	321	272	232	197	87	39
Tax profit (lower)/higher than accounts profit by:	-100	-78	-58	-42	-28	-17	-7	2	9	15	35	43

Source: RWE Npower, Tax Commentary 2012, p18

Total Tax Contribution and the wider impact of tax

The pressure to report tax on a country-by-county basis is growing

- As discussed earlier, there has been a lot of change in the last year in the rules that require certain companies to report the tax they pay on a country-by-country basis.
- A number of companies, particularly in the extractive sector, have been voluntarily reporting taxes paid on a country-by-country basis for a number of years.
- Rio Tinto has one of the most detailed disclosures as it reports taxes paid down to the level of local government.
- Legal and General's country-by-country reporting is set out in graphical form showing the Total Tax Contribution in each country.

Country and level of government (US$ millions)	Corporate income tax	Government royalties	Employer payroll taxes	Other taxes and payments	Total tax payments borne	Employee payroll taxes	Total taxes paid
UK National	6	–	23	19	48	88	136
Northumberland County Council	–	–	–	6	6	–	6
Westminster City Council	–	–	–	5	5	–	5
Highland Council of Scotland	–	–	–	3	3	–	3
UK Total	6	–	23	33	62	88	150

Rio Tinto shows taxes paid split between different levels of government

Source: Rio Tinto plc, Taxes Paid in 2012, p8

Taxes paid directly to government by category and country $ million

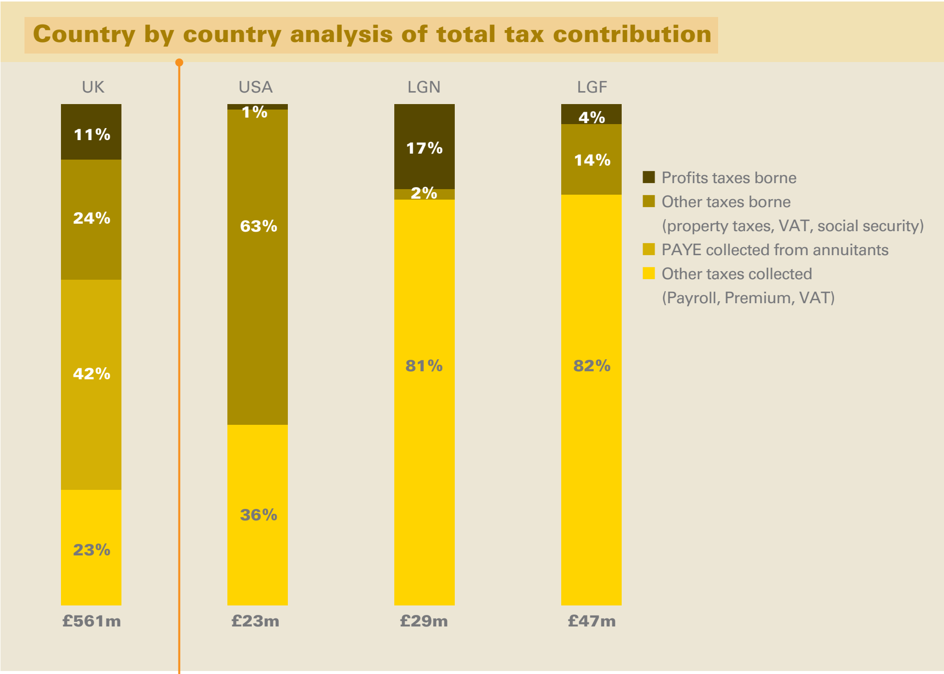
	South Africa	Chile	Australia	UK	Brazil	Venezuela	Peru	Zimbabwe	Namibia	Canada	Other	Total
Profits	912	405	28	11	50	14	0	0	25	-19	12	**1,438**
Transactions	50	6	5	1	112	4	0	3	1	0	0	**182**
Labour	9	33	115	52	37	1	1	0	0	8	1	**257**
Royalties and environmental	177	61	256	80	26	5	0	10	15	0	0	**630**
Capital gains	0	1,016	0	0	0	0	0	0	0	0	0	**1,016**
Other	2	6	27	3	6	0	0	0	0	1	0	**45**
Total borne	1,150	1,527	431	147	231	24	1	13	41	-10	13	**3,568**
Total collected	581	97	173	247	115	0	2	1	5	30	12	**1,263**
Total	**1,731**	**1,624**	**604**	**394**	**346**	**24**	**3**	**14**	**46**	**20**	**25**	**4,831**

Notes:
Taxes borne reflects Anglo American Group income statement charges in respect of controlled operations for 2012, excluding the effect of deferred tax.
Taxes collected by Anglo American and remitted to government include payroll taxes and VAT. Further tax data can be found in the Anglo American Annual Report 2012 and at **www.angloamerican.com**

Source: Anglo American plc, Sustainable Development Report 2012, p77

Anglo American provides a summary of tax paid by country showing taxes borne and collected

Should you disclose the size of the contribution you make in each of the countries where you operate?



Source: Legal and General Group plc, Annual Report and Accounts 2012, p43

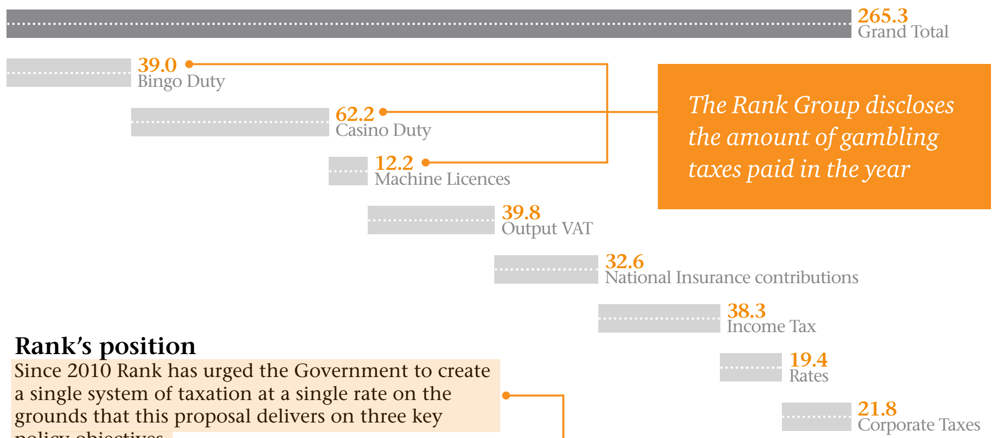
Legal and General discloses its Total Tax Contribution analysed by country

Total Tax Contribution and the wider impact of tax

For many businesses, corporate income tax is not the biggest tax they bear

- Tax reporting in financial statements focusses on corporate income taxes and other taxes on profit which appear in the tax line in the income statement.
- All companies however are subject to other taxes and some companies suffer industry specific taxes that are far more significant for them than corporate income tax.
- Some companies provide considerable detail about the sector specific taxes that affect them. The Rank Group, for example, explains the company's position on gambling and betting taxes and also shows the amount of these taxes that it pays.
- Pennon Group highlights the impact of landfill tax on the group's profit before tax.
- The extractive sector is subject to a range of taxes, fees and other payments to government and African Barrick Gold discusses how it manages these taxes and shows the total amounts that it pays.

UK tax contribution (£m)



Rank's position

Since 2010 Rank has urged the Government to create a single system of taxation at a single rate on the grounds that this proposal delivers on three key policy objectives.

Fairness – by removing arbitrary distinctions in the taxation of the same gaming products and thus ending state aid for online gaming operators;

Responsibility – by creating a tax regime which allows adults to gamble in safe, licensed premises without penalising the operators of such premises; and

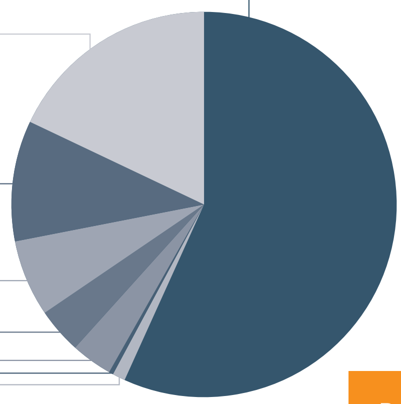
Sustainability – by encouraging all operators to make a fair contribution to the UK economy and by stimulating job creation in the UK, through increased investment.

The Rank Group explains its position on the taxation of the betting industry

Source: The Rank Group plc, Annual Report and Financial Statements 2012, p52, 53

Should you be talking about all the taxes that significantly affect your business?

Tax contribution 2012/13



In addition to corporation tax the most significant taxes involved, together with their profit impact, were:

- Landfill tax of £139 million was collected by the Group on behalf of HM Revenue & Customs (HMRC). This amount includes £10 million paid to local environment bodies via the Landfill Tax Credits Scheme. Landfill tax is an operating cost which is recovered from customers and is recognised in revenue. In addition the Group incurred landfill tax of £23 million on the disposal of waste to third parties. This is an operating cost for the Group and reduces profit before tax

Source: Pennon Group Plc, Annual Report 2013, p34,35

Pennon Group discloses the impact of landfill tax on its profit before tax

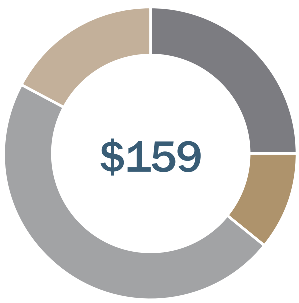
Government relations

Notwithstanding the acquisition of AMKL in 2012, the majority of our assets and our cash flow remain in Tanzania. During 2012, we continued to build on the constructive dialogue we enjoy with the Tanzanian government as our operations delivered significant benefits and value to our host communities. The decision to voluntarily move to a royalty rate of 4% from 3% was one that ABG instigated but it was also recognition of the improved level of cooperation we saw from the Tanzanian authorities as we solved a range of taxation, permitting and licensing issues, some of which dated from several years back.

From a taxation perspective, we are working closely with the appropriate authorities to ensure we minimise the level of working capital tied up in indirect tax payments which are recoverable under the terms of our Mineral Development Agreements.

African Barrick Gold discusses mining royalties and indirect taxes and shows the amount of these taxes that it pays

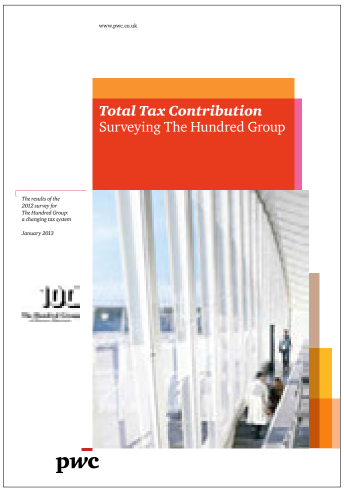
2012 NET TAX CONTRIBUTION
(US$m)

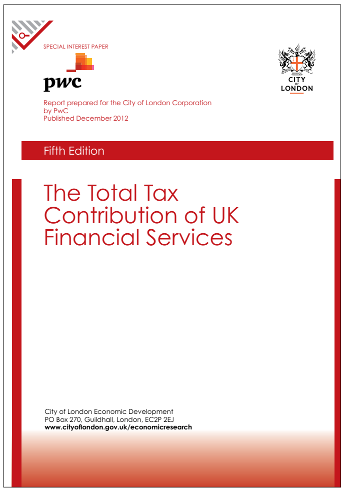


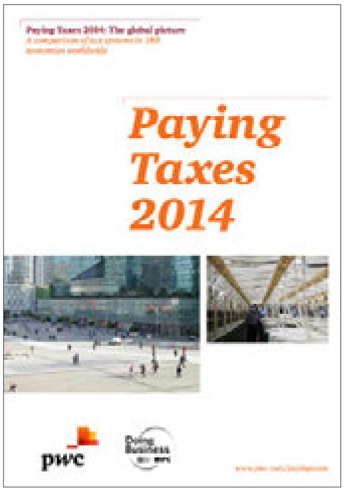
Corporate income tax	0
Royalty – government	40
Indirect taxes (VAT and fuel levies)	17
Payroll taxes (inc. social security)	75
Other taxes (inc. WHT, stamp duties, environmental levies	27

Source: African Barrick Gold, Annual Report and Accounts 2012, p10, 43

Recent publications







Key contacts:

PwC has a strong network of people who can advise you on how to develop your reporting to best meet the needs of your business, the board and external stakeholders. To discuss reporting insights for your organisation, please speak to your usual contact or one of these people:

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