16 December 2011 | 128 pages

Taxing Times

An Investors' Guide to Corporate Tax

- Tax

Sarah Deans
+44-20-7986-4156
sarah.deans@citi.com

Neil Dawson
+44-20-7986-7987
neil.dawson@citi.com

- **Comprehensive review of corporate tax** — We have reviewed corporate tax trends across Europe and investigated tax on a sector by sector basis, using 25 company case studies. Key issues include companies with potentially unsustainably low tax rates, aggressive tax planning, and those with large deferred tax assets.

- **Tax outlook uncertain** — For more than a decade, corporate tax rates have fallen sharply across Europe, contributing to earnings growth. This trend may not continue: although the UK is committed to further reductions, France and Portugal have increased corporate tax. In addition, several countries are restricting companies' ability to utilise tax losses, raising taxes on specific industries, or targeting tax minimisation techniques. Companies are likely to pay more tax as a result. However, new tax incentives for innovation may benefit some industries, notably pharmaceuticals.

- **Tax is important but under-analysed** — Tax is obviously a major expense for most businesses, with tax charges typically reducing profits by around 25%-30%. Yet few analysts or investors analyse tax in detail. It doesn't help that many companies are less than transparent about their tax position.

- **Low tax rates a concern** — Less tax means more cash for shareholders. However, a low tax rate can also be a risk, potentially indicating aggressive tax minimisation and/or higher tax rates in future. Companies with low tax rates include Ahold, Experian, HeidelbergCement, Randstad, Reed Elsevier, WH Smith and Wolters Kluwer.

- **Tax assets at risk in downturns** — Deferred tax assets (on or off balance sheet) can be material for company valuation. In the banks sector, they can also be important sources of capital, although this is changing under Basel III. However, valuing tax assets, particularly arising from tax losses, is difficult, and tax assets may be written down as the economic outlook worsens. Deferred tax assets are particularly material in the Banks sector, eg Banco Popolare, Banca MPS, KBC, Natixis, UniCredit and Commerzbank.

- **Strategy view** — Our European strategists note that corporate tax is another example of the growing gap between the haves and have-nots. Across Europe, corporate tax rates have previously converged at lower levels. Now, it appears that divergence will be the new trend. There is a clear arbitrage between cash-strapped governments and cash-rich corporates. But, governments can not push too hard, except on asset-heavy domestic companies, for fear of capital flight. This is another factor in our strategists' preference for strong balance sheet companies with international exposure based in 'stronger' European economies.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Contents

Taxing Times

For more than a decade, falling corporate tax rates have been a support to corporate earnings in Europe. It is unclear if this trend will now continue. We believe that investors should be aware of the possibility of government action on tax minimisation, limitations on the use of tax losses, additional taxes on certain industries, and higher tax rates in some countries. As a result companies may report higher tax charges.

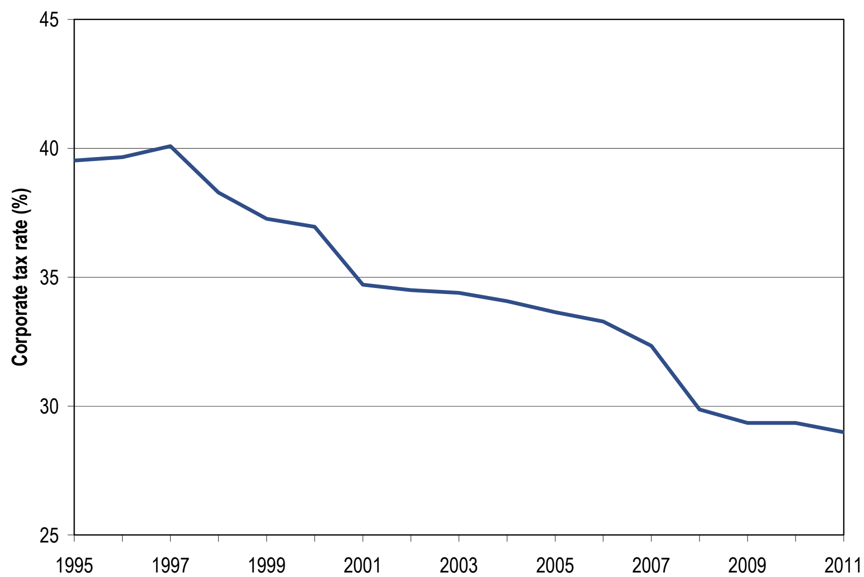
In this report we provide an investors' guide to corporate tax. We also analyse the key tax issues and trends in European countries (see page 9). Finally, we have reviewed each sector covered by CIRA to identify tax issues specific to the sector and companies exposed to higher tax risk.

The end of the trend?

Average tax rate down from 40% to 29% for largest EU countries

Corporate tax rates in Europe have fallen dramatically over the last 15 years. Figure 1 shows that the average rate for the largest EU countries[1] has fallen from 40% in 1996 to 29% in 2011. In theory at least, this equates to 1% growth in earnings per annum simply from falling corporate tax rates. For the EU overall, the (unweighted) average rate has fallen from 35% to 23% in 15 years. Almost all EU countries have reduced the corporate tax rate in the last decade.

Figure 1. Average corporate tax rates of largest EU countries, 1995–2011



Source: EuroStat, CIRA. Unweighted average of France, Germany, Italy, Netherlands, Spain, Sweden and the UK

Future trend uncertain – UK and Netherlands reducing tax rate, France and Portugal increasing

It is unclear now if this trend will continue. As European countries address their debt, will they increase or lower corporate tax rates? The UK has committed to further reductions in the corporate tax rate (to 23% by 2014/2015) and the Netherlands reduced its tax rate from 25.5% to 25% this year. However, France recently announced a temporary increase to its corporate tax rate from 34.4% to 36.1% in 2012, and Portugal increased its tax rate from 26.5% to 29% with a further increase in 2012. Countries may also raise additional tax on certain industries, such as Italy's recent extension of its Robin Hood tax to utilities as well as energy companies. Current corporate tax rates by major European countries are shown in Figure 2 on page 9. Clearly if corporate tax rates rise, this will be, on average,

[1] Unweighted average of France, Germany, Italy, Netherlands, Spain, Sweden and the UK.

detrimental to companies operating in that country. Companies with accumulated tax losses will be partly insulated from the effect, while those with deferred tax liabilities will be worse off.

Several countries limiting relief for tax losses

Of course, the headline tax rate is not the only way of varying the corporate tax take. Countries may also increase or reduce the tax base by changing the calculation of taxable profits. This can include methods such as providing extra tax relief for some activities (such as R&D), restricting the use of tax losses, allowing a tax deduction for notional interest on equity financing, or passing anti-minimisation legislation. We note that several countries have recently changed the rules on tax losses to reduce the amount of tax relief which can be claimed.

On a more positive note, several governments (eg UK, Netherlands, Belgium) have sought to incentivise innovation by introducing or proposing lower tax rates for profits on intellectual property, which is likely to benefit some sectors, particularly pharmaceuticals.

Governments may seek to tackle tax minimisation

Whatever happens to headline tax rates, we expect that governments will be keen to tackle aggressive tax minimisation (as well as evasion[2]). In this report we highlight a number of companies which appear to use tax planning techniques to minimise the corporate tax burden below the expected geographic weighted tax rate. Investors should be aware of the potential higher tax risk associated with these companies.

How does corporate tax work?

Taxable profit is not the same as IFRS reported profit

Companies pay corporate tax on a measure of profit which is based on, but usually not the same as, the accounting profit before tax. Various adjustments may be made to profit before tax, such as:

- Depreciation or amortisation may be added back, and a different tax depreciation (known as capital allowances in the UK) deducted instead
- Some expenses may not be allowed (deductible) for tax (such as fines)
- Some income or expense may be taxed on a cash rather than an accruals basis, eg pension contributions, unrealised gains/losses on financial instruments, etc
- Other adjustments may be made, for example a deduction for a notional interest cost on equity financing in Belgium

In most cases, individual companies (separate legal entities) pay tax rather than groups of companies. However, some rules usually apply to companies within the same group, which may affect the treatment of intragroup dividends, capital gains, tax losses, etc.

Rules on tax losses vary

Although companies pay tax on profits, they do not normally receive a payment from the tax authorities when they incur losses. This means that most countries have rules allowing tax losses to be carried forward for offset against future profits, and in a few cases tax losses may be carried back against past profits to obtain a refund. In addition, tax losses may sometimes be offset against the profits of other companies in the same group. The rules on tax losses in major European countries are summarised in Figure 3 on page 10.

[2] Tax minimisation refers to legal tax planning methods to minimise tax paid, while tax evasion is illegal.

Companies generally pay tax on all their profits in the country where they are tax resident. There is usually some relief for foreign tax paid to prevent double taxation of profits in two countries.

Deferred tax

Deferred tax should match the tax charge to the profits

As discussed above, taxable profit is not usually the same as accounting profit. As a result the cash tax paid may be volatile and not relate to the profits declared in the relevant year. Deferred tax rules may be considered a way of applying the "matching principle" so that the reported tax corresponds to the assets and liabilities recognised in the balance sheet. In IFRS, these rules are set out in IAS 12, and rather un-intuitively focus on the balance sheet assets and liabilities.

IAS 12 terminology

IAS 12 takes a balance sheet driven approach

The key point of IAS 12 is that each asset or liability has a "**tax base**" which is the amount attributed to it for tax purposes. The tax base of an asset is the amount that will be deductible for tax purposes in future. For example, suppose an asset was originally purchased for 100, but depreciation for tax purposes of 30 has already been deducted. This asset will have a tax base of 70.

Temporary differences are differences between the value of an asset or liability in the balance sheet and its tax base. For example, suppose the asset mentioned above is recorded in the balance sheet at 80. There will be a taxable temporary difference of 10 (=80-70). **Taxable temporary differences** arise when the balance sheet asset is greater than the tax base, while **deductible temporary differences** arise when the tax base is larger than the balance sheet asset.

Deferred tax liabilities are the amounts of taxes payable in future in respect of taxable temporary differences, in other words the temporary difference multiplied by the tax rate. **Deferred tax assets** are amounts of taxes recoverable because of deductible temporary differences, or because of the carry-forward of unused tax losses/credits. It is important to note that deferred tax assets (or liabilities) are equal to the temporary difference or tax loss *multiplied by the relevant tax rate*. The relevant tax rate is the rate expected to apply when the tax asset /liability is realised, but only based on tax law or tax rates "enacted or substantively enacted" at the balance sheet date.

Deferred tax assets commonly relate to:

- Tax losses
- Pension deficits
- Unrealised losses on financial instruments

Deferred tax liabilities commonly arise on fixed assets (eg due to accelerated tax deprecation) but may also arise on financial instruments, pensions, etc.

We have provided some simple deferred tax worked examples in Appendix 3 on page 101.

DTAs only recognised if probable they will be realised

The accounting for deferred tax assets and liabilities is not entirely symmetric. Deferred tax liabilities (DTLs) are usually recognised whenever taxable temporary differences occur (with limited exceptions) whereas deferred tax assets are only recognised to the extent that it is "probable that taxable profit will be available

against which the deductible temporary difference can be utilised". IAS 12 also notes that "the existence of unused tax losses is strong evidence that future taxable profit may not be available". In other words, IAS 12 requires prudence so that deferred tax assets (DTAs) can only be recognised on balance sheet if it is probable they will be realised. Unrecognised DTAs, with a less than 50% probability of utilisation, must be disclosed. (In this report we refer to these as "off balance sheet DTAs".)

No guidance on time frame for assessing DTAs

IAS 12 does not provide any guidance on the appropriate time frame to consider in determining the likely utilisation of DTAs, but a few companies disclose the time frame they consider. For example, RBS refers to projections that DTAs can be used over 8 years, while UBS references profitability assumptions over a 5 year horizon. Lanxess and Havas also mention 5 year timeframes.

DTAs not discounted

One other important aspect of IAS 12 is that DTAs and DTLs are not (explicitly) discounted[3]. Where DTAs are material to valuation, investors should consider whether they should reduce the value of the DTA to adjust for the time value of money. For example, tax losses which cannot be utilised for several years are less valuable that tax losses which can be used within a year.

Companies with DTAs and DTLs often have more volatile tax charges. For example, if tax rates change, DTAs and DTLs are re-measured at the new rate, creating tax gains or losses. Companies with net DTAs report P&L income if tax rates rise or P&L tax charges if tax rates fall (tax assets are more valuable if tax rates are higher) while the converse applies to companies with net DTLs (tax liabilities are more onerous at higher tax rates).

Tax and company valuation

Reducing tax creates value for shareholders

We think it is stating the obvious that tax matters for company valuations. Investors depend on after-tax cashflows to pay dividends. Both DCF and P/E based valuations are affected by the tax rate applied. Other things being equal, a company which can reduce its tax rate will increase value for shareholders.

Analysts and investors therefore need to have a view on the future tax rate which a company will suffer. A starting point for the likely sustainable long-term tax rate is the geographic weighted tax rate. For example, a company with 50% of pre-tax profits arising in a country with a 30% tax rate and 50% arising in a 20% tax rate obviously might be expected to suffer a 25% tax rate. However, companies can sometimes achieve lower tax rates, typically through tax planning measures (see page 7). It is also possible for companies to suffer higher tax rates, due to tax losses which cannot be utilised, double taxation due to tax inefficient structures, or other reasons.

If a company's P&L and/or cash tax rate differs materially from the expected geographic weighted rate, we recommend reviewing the company tax notes as we have done in this report. In particular, companies are required to publish a tax reconciliation which should explain the reasons why the tax rate differs from the statutory or weighted tax rate.

[3] However, in some cases they are effectively discounted, because the asset/liability on which they are calculated are present values, such as pension deficits.

Tax may be particularly relevant to valuation if the company has very significant tax assets. In these cases, rather than estimate how the cash tax rate will vary in future, it may be easier to value the DTAs explicitly. For example, a DCF valuation may use the geographic weighted tax rate but a value of the DTAs may be included separately in the valuation.

DTAs can be difficult to value

When valuing DTAs, it is important to bear in mind the following points:

- As noted earlier, DTAs are generally not discounted. The actual economic value of DTAs in respect of, say, tax losses, is therefore less than the reported amount.
- Off balance sheet DTAs are uncertain, that is, the company believes there is a less than 50% chance of them being realised (if >50% probability they would be on balance sheet). So, we believe investors should only include off balance sheet DTAs in valuation with an appropriate discount (if at all).
- DTAs should not be double counted – eg if a DTA is reducing the pension deficit which is factored into valuation net of tax, the resulting lower cash tax rates should not be applied in valuing other parts of the business.
- DTAs (on or off balance sheet) can either be valued separately, or valued by applying the resulting lower cash tax rates eg in a DCF. In our view either method is acceptable though we have a slight preference for separate valuation. In either case it is usually necessary to determine the time frame over which the DTAs will be utilised, except for DTAs arising on pension deficits, which are already implicitly measured at present value.
- In some countries, tax losses can only be carried forward for a limited number of years, increasing the risk that they will have no value (see Figure 3 on page 10). Any time limits on tax losses should be disclosed in the annual report and should be considered when valuing the tax losses.
- Many countries have rules limiting tax carry-forwards on change of ownership. These rules can be important in assessing whether a company with significant tax losses may be an attractive acquisition target.

Tax planning measures

Tax may be reduced through intragroup financing or transfer pricing

Companies will usually seek to reduce the tax they pay through using tax efficient group structures, to minimise double taxation and reduce the overall tax burden. Most countries have a variety of anti-minimisation legislation to attack artificial arrangements entered into solely to reduce tax.

Tax can be reduced through measures such as:

- **Tax efficient intragroup financing**

Typically international groups may seek to provide financing around the group such that interest charges are higher in high tax jurisdictions and intragroup interest receipts are taxed at low rates, or not taxed. For example, see the Randstad case study on page 35, as this company has been quite open in the past with investors about its tax efficient financing arrangements. However, some countries have rules about the extent to which interest charges are tax deductible (thin capitalisation rules).

- **Transfer pricing**

Different parts of the group will charge each other for goods or services provided, but these may be calculated for tax purposes to allocate more profit to lower-tax countries and higher costs to higher-tax countries. Again, tax authorities have rules governing acceptable transfer pricing (eg that it should be on an "arm's length" basis). Many companies have been challenged on transfer pricing, particularly in the pharmaceutical sector (eg GlaxoSmithKline and AstraZeneca, see page 76).

- **Making use of tax incentives**

Countries may incentivise companies to carry out certain activities (such as R&D) through special tax credits (eg UK R&D tax credits, see Qinetiq case study on page 21). Increasingly, governments seek to encourage innovation with new tax rules such as the Netherlands lower tax rate for income resulting from certain R&D projects and similar UK Patent Box rules (see page 15). This is likely to benefit certain sectors, such as pharmaceuticals, particularly.

Other countries may encourage companies to invest locally by offering special low tax rates (eg Singapore, see Lanxess case study on page 40).

- **Changing tax residence of the parent company**

In recent years several companies have changed tax residence from the UK to Ireland, Switzerland, or elsewhere. This is discussed on page 15. Such moves can take advantage of lower tax rates or avoid onerous tax legislation such as the UK "Controlled Foreign Company" rules. However, the reduction in tax rate achieved is often relatively small as profits are generally taxed where they are generated rather than solely at the head office level.

- **Shifting the group towards lower tax jurisdictions**

Tax rules are likely to be a consideration when investing in another country. For example, several companies have mentioned the impact of a changing geographic mix on their tax rate.

European country specific tax issues

Italian companies have highest forecast tax rates, Irish & Swiss companies the lowest

Although there have been clear international trends over recent years, such as tax competition driving down average tax rates in the EU, country specific issues cannot be ignored. On average, tax charges are highest in Italy (corporate tax rate 31.4%, median 2012E rate[4] 37%) and lowest in Ireland (corporate tax rate 12.5%, median 2012E rate 19%) and Switzerland (corporate tax rate 21%, median 2012E rate 21%). Appendix 4 on page 105 shows the CIRA European coverage universe tax rates, presented by country of principal operation.

Some countries have made recent changes to tax rates, such as the UK (lower tax rate) and France and Portugal (higher tax rate). Figure 2 shows the corporate tax rates in some European countries, together with the rates in the US and Japan.

Tax rates in major W. European countries vary from 12.5% to 36.1%, while US and Japanese rates are higher

Figure 2. Corporate tax rates for selected countries, 2011–2012E (%)

Country	2011	2012E
Austria	25.00	25.00
Belgium[2]	33.99	33.99
Denmark	25.00	25.00
France[3]	34.43	36.10
Germany[1]	30.00	30.00
Greece	20.00	20.00
Ireland	12.50	12.50
Italy	31.40	31.40
Japan[4]	42.00	39.98
Luxembourg	28.80	28.80
Netherlands	25.00	25.00
Portugal[5]	29.00	31.50
Spain	30.00	30.00
Sweden	26.30	26.30
Switzerland[1]	21.00	21.00
UK[6]	26.50	25.25
USA[1]	40.00	40.00

Source: KPMG, Deloitte, EuroStat, CIRA. [1]Corporate tax includes regional taxes which vary; estimated average rate included in table. [2]Effective Belgian rate is lower than headline rate due to notional interest deduction. [3]French corporate tax rate increased for 2012/13. [4]The Japanese Diet has voted to reduce the corporate tax by approximately 2.7% for periods beginning on or after 1 April 2012, we have included this new rate above. [5]Portuguese state taxes increased for 2012/13. [6]UK tax rates are 26% for April 2011-March 2012 and 25% for April 2012-March 2013.

Changes to tax loss rules

In addition, several countries have changed the rules governing the use of tax losses in recent years, including France, Portugal and Spain. Figure 3 summarises the rules on tax losses. Most countries also have rules which can restrict the use of tax losses when there is a change of ownership.

[4] For companies covered by CIRA analysts.

Figure 3. Tax loss carry-forward and carry-back rules for selected countries

Country	Loss carry-forward period	Loss carry-back available
Austria	Indefinite - can only offset 75% of annual taxable profits	No
Belgium	Indefinite	No
Denmark	Indefinite	No
Finland	10 years	No
France[1]	Indefinite - can only offset 60% of annual taxable profits in excess of €1m	Only 1 year, €0.5m limit
Germany	Indefinite - can only offset 60% of annual taxable profits in excess of €1m	Only 1 year, €0.5m limit
Greece	5 years	No
Ireland	Indefinite	Yes - 1 year, operating losses only
Italy	IRES: indefinite - can only offset 80% of annual taxable profits. IRAP: no carry-forward	No
Netherlands	9 years	Yes - 1 year
Norway	Indefinite	No
Portugal[2]	4 years	No
Spain[3]	18 years; over 2011 - 2013, losses may only offset 50% of annual taxable profits	No
Sweden	Indefinite	No
Switzerland	7 years	No
United Kingdom	Indefinite	Yes - 1 year, operating losses only
USA	20 years	Yes - 2 years
Japan[4]	7 years	Yes - 1 year (currently suspended)

Source: PwC, Deloitte, CIRA.

Notes: [1] France changed its tax loss rules in September 2011, previously there was no limit on the use of tax loss carry-forwards, and 3 year tax loss carry-back was allowed. [2] Portugal reduced the tax losses c/f from 6 years to 4 years in 2010; recent proposed change to 5 years from 2012, but with deduction limited to 75% of taxable profits. [3] Spain introduced the temporary restriction of maximum 50% profit offset in August 2011, but extended loss c/f from 15 years to 18 years. [4] The Japanese Diet has voted to amend its tax loss c/f rule to 9 years c/f, but with losses only allowed to offset up to 80% of taxable profits.

We discuss below some of the country specific tax issues which have been highlighted in our work. A summary guide to selected countries' tax rules is provided in Appendix 1 on page 95.

Belgium

Belgian effective tax rate is lower than headline 34% rate

Belgium's corporate tax rate is a relatively high 33.99%. However, the calculation of taxable profit is unusual in Belgium in allowing a notional interest deduction calculated on the basis of shareholders' equity. This means that the tax regime is more neutral between debt and equity financing than in most countries. The notional interest deduction means that effective tax rates are more typically in the range 24%-27%, depending on the level of equity capital. For example, the CIRA Telecoms team notes that the notional interest deduction is the main reason for Belgacom's 24% rate. Some foreign groups have based treasury centres in Belgium to benefit from the notional interest deduction, eg Randstad.

France

France has made several important changes to corporate tax rules over the last two years.

Relatively high and increasing French tax rate

In November 2011, the French government announced an increase in corporate tax for large companies (with revenue greater than €250m) in the form of a 5% surcharge. This increases the 34.43% rate (33.33% corporate tax rate plus "social surcharge") to 36.1%.

Recent restriction on use of tax losses

France also revised the corporate tax rules on the use of tax losses. French rules previously allowed companies to carry tax losses back three years to offset against earlier profits, and carry forward any unutilised losses to offset future profits. The revised rules permit loss carry-back for one year only, and permit only €1m of losses to be carried back. Losses carried forward in excess of €1m may only be used to offset 60% of taxable profits in a year, meaning that a minimum of 40% of taxable profits will be subject to corporation tax each year. This will increase the cash tax payable by French companies with tax losses, for example France Telecom. The new rules apply to all losses irrespective of the year they were incurred, and the rules apply for fiscal years ending after 21 September 2011. Notably, these changes bring France into line with German rules on loss relief (see Figure 82 on page 96).

France also recently discontinued its worldwide tax consolidation regime (effective from 2011). This had enabled French groups (subject to agreement by the Ministry of Finance) to offset losses arising overseas with French taxable profits, and was used by companies such as Total.

Planned harmonisation of French and German tax rules

In August 2011, France and Germany announced plans for a bilateral harmonisation of corporate tax, although they have not yet published detailed plans. The French President has requested French and German finance ministers to prepare draft proposals to be debated in 2012, and targeted the beginning of 2013 to put in place a common tax base and tax rate for French and German companies. The proposals may have some similarities to the long-discussed European Common Consolidated Corporate Tax Base (see page 100). CIRA Economists' view is that the new rules may take the form of a tolerable range between the French and German tax rates of 2%. With the recent increase taking the French corporate tax to 36.1% for large companies, there is currently a gap of 6% between the French rate and the German rate of around 30%.

In 2010 some French companies reported increased *apparent* tax rates due to changes to French business taxes. The "taxe professionelle" local business tax was replaced with the "Contribution Economique Territoriale", comprising two separate taxes, a tax assessed on the value of real estate (CFE) and a tax assessed on the value added by the business (CVAE). The taxe professionelle was normally categorised as an operating expense, while the CVAE, as a type of tax on income, could be included as an income tax as defined in IAS 12[5]. The change to business taxation meant that tax costs previously reported within operating expenses became classified within the tax line. Affected companies included Carrefour, Edenred, and Randstad.

Germany

Corporate tax in Germany reformed in 2008

Germany carried out major corporate tax reform in 2008, which lowered average tax rates dramatically (from 39% to 30%) and brought it closer towards the European average, having been historically much higher. German corporate tax is a combination of national corporate income tax, a "solidarity surcharge" and a local trade tax which depends on the location of the business within Germany. Therefore different companies may suffer differing tax rates depending on their location.

The 2008 tax reform also affected the calculation of taxable profit, in particular restricting the tax deductibility of interest payments in some cases.

[5] The French accounting body the Conseil National de la Comptabilité stated that each company should exercise judgement to determine if the CVAE should be classified as an income tax.

Tax loss carry-forwards may be eliminated on change of ownership (totally lost if more than 50% of shares change hands, with a partial loss for 25%-50% change in ownership). These rules may affect M&A situations significantly. However, there are certain exceptions, for example when a distressed company is acquired preventing insolvency, although this has been challenged by the European Commission.

In addition a "minimum taxation" rule limits the amount of tax loss carry-forwards which can be deducted (only 60% of amounts over €1m can be offset).

Tax rules can be significant in M&A situations

These possible restrictions may make it harder for a group to sell a loss-making or previously loss-making subsidiary because of the risk of the tax losses being lost, or the value of the losses being reduced. In addition, tax deductibility of interest can be a crucial issue for an acquirer which intends to use increase gearing in the target company (eg private equity buyers).

Greece

Greece announced significant changes to its tax law in January 2011. The headline corporate tax rate fell from 24% to 20% in 2011. There is no longer a distinction between profits distributed as dividends and those reinvested by the company. However, a dividend withholding tax has been reintroduced, now at a 25% rate (previously 10%). It is not clear if the crisis levy charged on 2008 and 2009 profits will continue; a levy on 2010 profits has yet been announced[6].

Our analysts also note that some of the conglomerate companies can suffer higher effective tax rates because they cannot offset tax losses from joint ventures against other profits.

Ireland

Ireland has lowest tax rate in Western Europe

Ireland has the lowest corporate tax rate in Western Europe at 12.5%, combined with other tax incentives, and comprehensive tax treaties with other countries. It has a higher corporate tax rate of 25% for passive (non trading) income.

The low tax rate and good treaty coverage have helped Ireland to attract some UK companies to relocate there for tax purposes in recent years (eg UBM, WPP, Experian, and Shire). The median tax rate for listed Irish companies in our sample was just 15% over 2008-2010.

Question mark over future of low Irish tax rate

It is unclear whether Ireland's low tax rate and its tax incentives will continue, given Ireland's financial situation and the support required from the EU. Some EU member countries would like to see Ireland give up its low tax rate. The recent statement by EU Heads of State on 21 July 2011 (concerning measures to support Greece) noted "Ireland's willingness to participate constructively in the discussions on the Common Consolidated Corporate Tax Base draft directive (CCCTB) and in the structured discussions on tax policy issues". However, Ireland has since written to the EU on 2 September 2011 to request that EU law is amended to guarantee Ireland jurisdiction over its corporate tax rate. The EU had previously agreed to a similar request in June 2009, but the changes were not completed.

The Citi Transport team notes that Ireland's low tax rate and permitted accelerated tax depreciation rules are a significant factor for Ryanair and aircraft leasing companies. They believe that if Ireland's tax regime became less favourable, these companies could shift out of Ireland.

[6] The 10% crisis levy was first introduced in 2009 on 2008 profits and was also charged in 2010 on 2009 profits.

C&C Group mentioned in its recently published annual report that “Future income tax charges may be impacted …by any adoption or implementation of the current draft EU Directive and proposal in relation to the Common Consolidated Corporate Tax Base “CCCTB” which seeks to alter the existing system of allocating a group’s taxable profits between different territories.”

Italy

The Italian tax rate of 31.4% consists of a corporate income tax of 27.5% (called IRES) and a regional tax of 3.9% (IRAP)[7]. Corporate tax was reformed significantly in 2004 and the headline rates were reduced from levels of around 41% in 2000, although the calculation of taxable profit was also changed so the comparison is not like-for-like.

Several banks have benefitted from “substitute tax” rules

In Italy a “substitute tax” may be paid to increase the tax base of certain assets following corporate restructuring activity such as mergers and demergers. The higher tax base of the assets creates tax amortisation which lowers future taxable profit. Companies therefore pay a cash amount upfront (a tax rate between 12% and 16%) to reduce tax charges in future. For example, Intesa Sanpaolo recently reported a €1.1bn tax credit in Q3 2011 results, because it paid €1.07bn to gain future tax amortisation of €2.17bn.

Robin Hood tax on energy and utilities

Italy added a surtax (known as Robin Hood tax) of 5.5% to the IRES rate applicable to the energy sector in 2008. In 2009, this surtax was increased to 6.5%, and earlier in 2011 it was announced that the surtax would temporarily be raised to 10.5% over 2011–2013. The increase to 10.5% was approved in September 2011, but is to be applied retrospectively to the 2011 financial year. The temporary changes also widened the scope of the surtax which now also applies to regulated utilities and renewables companies.

Netherlands

Netherlands reduced corporate tax rate to 25% in 2011

The Netherlands corporate tax rate was reduced from 25.5% in 2010 to 25.0% in 2011. The rate has fallen sharply over recent years (from 34.5% to 29.6% in 2004 and to 25.5% in 2007).

The Netherlands offers some specific tax regimes for certain types of income such as financial income and income derived from some intangible assets. It is therefore fairly common for groups listed in other countries to have Netherlands financing or holding company subsidiaries. The Netherlands’ large number of tax treaties with other countries is helpful for minimising tax in this type of structure.

Innovation tax rate of 5% for qualifying income

Furthermore, the Netherlands recently introduced an “innovation tax” rule so that a tax rate of 5%[8] will apply to all income derived from innovative activities which result from qualifying research & development projects (self-developed intangible assets). KPN recently achieved a significant reduction in its effective tax rate as a result (see page 84).

As a result of the tax changes in 2007, Netherlands rules on tax losses are relatively restrictive. Companies can carry back tax losses 1 year and carry them forward for 9 years (prior to 2007, 3 year carry-back and unlimited carry-forward was allowed). In addition some restrictions on the deductibility of interest payments were introduced.

[7] The calculation of taxable profit differs for IRAP and IRES so the total 31.4% is only a guide. In addition IRAP may be varied slightly by regional authorities.

[8] Strictly an exemption of 80% of these profits from tax, ie 20% taxable at 25% = 5% rate.

Portugal

Recent increase in tax rate and restriction on use of tax losses

Portugal's overall tax rate for 2011 is 29%. This is made up of corporate tax at 25%, a local surtax of 2.5%, and a state surtax of 2.5%. Portugal's 2012 budget included a number of changes to the corporate tax regime which will largely take effect from 1 January 2012. The state surcharge, which was introduced in 2011, has been increased to 5% for profits in excess of €10m for 2012 and 2013. This will therefore increase the Portuguese corporate tax rate to 31.5%.

Portugal, like France and Spain, has placed restrictions on the utilisation of carry-forward losses. From 2012, only 75% of taxable profit in each fiscal year may be offset by carried forward losses. Up to 2011, there was no limit on the profits which could be relieved. The restriction also applies to companies taxed as domestic tax groups. The carry-forward period will be extended from four to five years for tax losses generated from 1 January 2012.

Spain

The Spanish corporate tax rate is 30% (having been reduced over 2006-2008 from 35% to 30%).

Spain recently restricted the use of tax loss carry-forwards to relieve profits. Tax losses may only offset 50% of taxable income (for companies with turnover in excess of €60m), while previously there was no restriction on the level of profits that could be offset. As compensation for this restriction, Spain have extended the period over which losses can be carried forward from 15 to 18 years.

Acquisitive companies in Spain benefitted from tax deductible goodwill

From 2002 until 2009, acquisitive Spanish companies benefitted from tax rules which allowed goodwill arising on foreign acquisitions to be amortised for tax purposes over 20 years. In most countries, goodwill is not tax deductible. Therefore, Spanish acquirers were able to pay a higher price than potential acquirers in other countries. Companies which benefitted from this tax law included Iberdrola (which acquired Scottish Power), Ferrovial (acquisition of BAA), Santander (acquisition of Abbey National and Alliance & Leicester), and Telefónica (acquisition of O2).

The European Commission announced in October 2009 that this tax provision was contrary to EU law, and was no longer permitted for acquisitions since 21 December 2007. However, companies which made acquisitions prior to December 2007 continue to benefit from this tax treatment. This benefit has been reduced as part of temporary tax regime changes made by the Spanish government in August 2011. Formerly, 5% of goodwill could be deducted from taxable profits each year. This rate has been reduced to 1% over the period 2011-2013.

Switzerland

Swiss tax rates generally low

The effective corporate tax rate in Switzerland is relatively low, ranging from 12.5%-24.5%[9] and consisting of federal, cantonal and communal taxes. Tax rates are higher in cities such as Zurich and Geneva and lower in some cantons such as Zug. For companies based in Zurich the rate is usually around 21% and in Geneva the rate can reach 24.5%. However there are concessions for certain types of companies (such as holding companies), so that in some cases much lower tax rates are available. The Swiss tax authorities may negotiate and agree favourable advance rulings with companies. As a result international companies commonly locate some subsidiaries in Switzerland to optimise tax structures, or may consider relocating to Switzerland altogether in some cases.

[9] Note tax payments are tax deductible which means that effective rates are lower than the published statutory rates.

Swiss companies in our sample had a median tax rate over 2008-2010 of 20%, consistent with the low official tax rates.

UK

UK reducing corporate tax rate to 23% by 2014/15

The UK has continued to reduce the corporate tax rate. From a 30% tax rate in 2006, it now stands at 26% in 2011/12, with further reductions planned to 25% in 2012/13, 24% in 2013/14, and 23% in 2014/15[10]. This introduces some volatility into tax rates for companies with large deferred tax assets or liabilities on balance sheet, as they have to be remeasured at the new rate (ie companies with DTAs have a P&L charge, those with DTLs a P&L income). Deferred tax balances are re-measured when the new rate is "enacted or substantively enacted" in law.

Some UK companies have moved tax residency

Several UK companies have moved their tax residency out of the UK in recent years. Some examples are shown in Figure 4. We believe this has mostly been driven by UK tax rules on "controlled foreign companies" (see below), rather than the headline corporate tax rate. Recently, some of these companies have suggested they may return to UK for tax purposes, apparently reassured by proposed changes to these rules since the change of government in 2010, for example WPP Group.

Figure 4. UK listed companies moving tax residence out of UK, 2008-2011

Company	RIC	New tax residency	Date announced
WPP PLC	WPP.L	Ireland	Sep-08
Wolseley PLC	WOS.L	Switzerland	Sep-10
Shire Pharmaceuticals	SHP.L	Ireland	Apr-08
UBM plc	UBM.L	Ireland	Apr-08
Informa plc	INF.L	Switzerland	May-09
Regus	RGU.L	Luxembourg	Aug-08
Henderson Group Plc	HGGH.L	Ireland	Aug-08
Charter International PLC	CHTR.L	Ireland	Aug-08
Beazley PLC	BEZG.L	Ireland	Feb-09
Brit Insurance	Private Equity	Netherlands	Nov-09

Source: Company reports, CIRA

It has also been proposed that Northern Ireland should be able to vary its corporate tax rate, which could allow it to compete more effectively with Ireland's lower tax rate.

New Patent Box rules a positive for Pharmaceuticals sector

The UK published new draft tax legislation on 6 December 2011 with three changes which may be material for some UK companies. Firstly, new Patent Box rules are expected to be phased in from April 2013, which will allow companies to elect to have profits attributable to patents to be taxed at 10% rather than the normal rate of corporate tax (similar rules apply in several other European countries eg Belgium and the Netherlands). The CIRA Pharmaceuticals team recently highlighted the potentially positive earnings impact (see page 76).

Secondly, the government has proposed new Controlled Foreign Company (CFC) rules. The CFC rules mean that a UK company may be taxed in the UK on undistributed income arising from subsidiaries (or other controlled company) in lower tax jurisdictions. The intention is to stop companies deferring tax payment through use of offshore subsidiaries in low tax jurisdictions. The CFC rules do not apply if the controlled company carries on a genuine business in the lower tax jurisdiction. The new legislation will change the tests for determining if the CFC rules apply and will be finalised next year.

[10] UK corporate tax rates are set for the tax year April-March, so companies with December year-ends will apply tax rates of 26.5% in 2011, 25.25% in 2012, 24.25% in 2013 and 23.25% in 2014.

Thirdly, new rules will apply to asset-backed contributions to pension funds. Some UK companies have achieved significant tax savings from injecting corporate assets such as property into their pension schemes; in some cases it seems a double deduction was obtained both for the initial asset contribution and the subsequent cash payments. The draft legislation aims to address this.

Sector issues

In this section of the report we have reviewed each sector, highlighting companies with unusual tax rates or particular tax issues, and in most cases using one or more companies as a case study. We have incorporated input from CIRA European analysts in each sector, and include an analyst directory in Appendix 6 on page 122.

Conclusions from sector reviews

We have noted a number of recurring issues across several sectors.

Low tax rates given geographic exposure

Lower than expected tax rates at Ahold, Experian, HeidelbergCement, Reed Elsevier, WH Smith and Wolters Kluwer

We have noted that many European companies report tax rates which differ markedly from the expected geographic weighted tax rate, in particular several companies with large US exposure. Companies highlighted include **Ahold**, **Experian, HeidelbergCement**, **Randstad**, **Reed Elsevier, WH Smith** and **Wolters Kluwer**. While the reasons for the differences are sometimes not well explained, we suspect that in some cases this may relate to tax planning measures such as tax efficient group financing or transfer pricing to move profits to lower tax jurisdictions. Such companies may be at more risk of challenges from tax authorities, or the lower rates not being sustainable.

Large DTAs/tax losses

DTAs can be valuable, by indicating reduced cash tax payments in future, but they are also some of the less reliable numbers in company accounts: typically management judgement is required in assessing DTAs, particularly those arising from tax losses. Companies with large off balance sheet DTAs may have potential valuation upside (eg CIRA Metals & Mining team have highlighted the case of **Salzgitter**).

Companies with DTAs often experience volatile reported tax charges, as DTAs may be written up or down as business forecasts change. This is particularly true when there is economic uncertainty, as now.

Banks with large DTAs on balance sheet include Banco Popolare, Banca MPS, KBC, Natixis, UniCredit and Commerzbank…

DTAs are particularly important in the Banks sector, where at present DTAs may often be included as part of banks' capital – a deterioration in business performance may create an extra pro-cyclical effect on capital due to DTA write-downs. Banks with large DTAs on balance sheet include **Banco Popolare**, **Banca MPS**, **KBC**, **Natixis**, **UniCredit** and **Commerzbank**.

…and, aside from banks, companies with large DTAs on balance sheet include ArcelorMittal and Fiat

Outside the Banks sector, companies with large DTAs on balance sheet include **ArcelorMittal** and **Fiat**, while companies with large off balance sheet DTAs include **Alcatel-Lucent**, **Deutsche Post**, **Cable & Wireless Worldwide**, **Metro**, and **Salzgitter**. We list companies with large on-balance sheet DTAs in Appendix 5 on page 120.

Tax minimisation strategies

Tax planning benefitting Randstad, UBM, WH Smith

It is hard to identify which companies have aggressive tax management strategies: companies which are transparent about their tax planning, such as **Randstad**, are in a small minority. **UBM** and **WH Smith** are also relatively open with analysts that they make use of extensive tax planning, without providing specific details.

An obvious starting point is companies with lower than expected tax rates, such as those identified above. We have also noted some companies with subsidiaries in tax efficient locations, such as **Ahold**. Other companies have reported significant litigation with tax authorities, such as **Vodafone**.

Benefits from tax incentives

QinetiQ, GSK, Lanxess, Tate & Lyle, KPN benefitting from special incentives or agreements

Some companies have achieved significantly reduced tax rates due to specific tax incentives. These include **QinetiQ** (lower tax due to UK R&D incentives), **GlaxoSmithKline**, **Lanxess** and **Tate & Lyle** (tax incentives from investing in Singapore), and **KPN** (Dutch innovation tax facilities). Achieving a lower tax rate is clearly beneficial for shareholders, although there may be some risk if tax rules change in future.

Tax position affected by M&A

M&A tax benefits at Experian, Pearson, Reed Elsevier, Salzgitter, and many Spanish companies.

Some companies have achieved lower tax rates due to M&A. For example, they may have acquired tax losses (eg **Salzgitter**) or benefitted from tax deductible goodwill (eg **Acciona**, **Experian**, **Ferrovial**, **Gas Natural**, **Iberdrola**, **Pearson**, **Reed Elsevier, Santander**, **and Telefonica**). CIRA analysts note that **HeidelbergCement's** tax rate fell significantly after its acquisition of Hanson.

Tax losses can be attractive to a potential acquirer, but most countries have rules which may disallow tax losses on change of ownership if certain criteria (such as continuing in the same business) are not met. Thin capitalisation rules may also be important in leveraged acquisitions. This is clearly a complex area.

Sector differences in tax rate

Surtaxes in oil & gas and utilities sectors

Some sectors suffer higher tax rates, most notably the **integrated oil companies**, due to specific additional surtaxes. However, this seems to be spreading, for example the recent application of the "Robin Hood" tax to Italian **utilities**. In contrast most real estate companies we cover benefit from low tax regimes (eg REITs), and R&D intensive industries such as **pharmaceuticals** benefit from certain tax incentives.

Some sectors seem higher risk

Higher tax risk in telecoms, pharma, leisure, media, business services, banks

Some sectors appear to have higher risk of challenges from the tax authorities. These include transfer pricing challenges in sectors with large intangible assets, such as **pharmaceuticals**, and disputes (eg over tax losses) in the **telecoms** sector. Other sectors with potentially higher than average tax risk include **leisure**, **media** (particularly professional publishers), **business services**, and **banks**.

Lack of transparency in tax disclosures

A recurring problem we have had in this report is the lack of transparency in tax disclosures. Few companies communicate the reasons for their tax rate differing from the statutory rate (even when the difference is large) in a way that helps investors to forecast tax charges. In addition, meaningful specific discussion about tax risks, or discussion of the company's tax planning, is rare.

A note on methodology for sector reviews

For each sector, we have shown the reported tax rates over 2006-2010, 5 year average, and forecast reported tax rates for 2011 and 2012. The average 2006-2010 rate for each company is calculated as total tax/total pre-tax profit for the five years, rather than an average of the annual rates. The average and median rates for the sector are simple unweighted averages of the tax rates.

Tax rates can be distorted by losses in recent years

As we have focused on reported (rather than "adjusted") profits and tax, the tax rates are volatile and not always meaningful. We have therefore tended to focus on sector median (rather than mean) tax rates. Many tax rates have been particularly distorted due to large losses over recent years. Nevertheless, when combined with sector analysts' insights, we believe we have been able to highlight a number of relevant anomalies and issues.

Equity method of accounting for associates & JVs distorts reported tax rates

Associate (or joint venture) income is a common reason for apparently unusual tax rates. Associate income[11], or joint venture income using the equity accounting method, is presented in the income statement net of tax and therefore there is usually no tax cost within the tax line on this type of income. Typically, a company with large associate income will have an apparently low tax rate. The tax rate should be calculated excluding the associate income to clarify the underlying rate and we have highlighted some companies where this is important. However, our sector tables are on a reported basis without any adjustment for associate income.

Except where otherwise indicated, the information used in this report is primarily based on companies' annual report disclosures, as the tax information provided is more comprehensive in annual reports than in quarterly results or interim financial statements. Of course, this means that some information may have become outdated.

Reading the tax notes in annual reports

Companies are required to provide certain tax information in their accounts. Unhelpfully, this can be scattered around the annual report: in a note relating to the P&L tax charge, a different note relating to tax assets or liabilities in the balance sheet, the cash flow statement (or cash flow note), the front section of the annual report, etc. For each of the company case studies we have reviewed this information (combined with other information such as discussions with the sector analyst or company presentations).

Focus on tax reconciliation table

In particular we have analysed the tax reconciliation in the accounts: companies are required to provide a table which reconciles the accounting profit before tax multiplied by the tax rate (either the domestic tax rate of the home country or a geographic weighted rate) to the tax expense. IAS 12 states this reconciliation should "enable users…to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in future." Unfortunately, in our experience, many tax reconciliations do not achieve this aim, for example due to insufficient explanations of the reconciling items (eg "income not taxable" without any explanation of the nature of the income and whether it may recur), insufficient granularity, netting off of items, large "other" line, or unexplained weighted tax rate. We have provided examples of these in the report.

When analysing a company's tax position we recommend reviewing the following:

- **P&L tax rate**

We have reviewed the P&L tax rate on a reported basis and also, where highlighted by the company, on an adjusted basis. We have compared this to the expected geographic weighted tax rate and highlighted apparent inconsistencies. We have also compared the implied geographic weighted tax rate indicated by the tax reconciliation – in some cases these are substantially different from the expected geographic weighted rate.

[11] Ie income from an investment with "significant influence" but not control, typically from a 20%-50% holding.

- **Cash tax rate**

We have highlighted various cases where the cash tax rate persistently differs substantially from the P&L tax rate. This often occurs when a company has tax losses.

- **Deferred tax balances**

We have highlighted where a company has particularly material deferred tax amounts on balance sheet, which may indicate the cash tax trend in future. We have particularly focused on deferred tax assets arising from tax losses, as the capitalisation of these assets often requires significant management judgement. IAS 12 also requires companies to disclose any unrecognised DTAs, which may represent potential valuation upside (for example see Salzgitter on page 67).

- **Disclosed tax risks**

Tax risks can include disputes with the tax authorities, which seem more common in some sectors such as telecoms and pharmaceuticals.

Aerospace & Defence

Issues include DTAs on tax losses and pensions, volatility from financial instruments, tax incentives

Tax issues in the Aerospace & Defence sector include:

- Volatility in reported profits and tax rates due to gains/losses on financial instruments used for hedging purposes
- Deferred tax assets arising on pension deficits
- Tax losses
- Tax incentives relating to Research & Development

Finmeccanica relatively high tax rate

Overall the Aerospace & Defence team does not see this sector as having particular tax issues, although **QinetiQ** is highlighted for its low underlying tax rate mainly arising from R&D tax credits. **Finmeccanica** has a relatively high tax rate, mainly reflecting Italy's corporate tax rate which is higher than the European average.

Figure 5. Tax rates of European Aerospace & Defence coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
BAE Systems	BAES.L	UK	28%	30%	27%	414%	32%	34%	28%	30%
Chemring Group	CHG.L	UK	31%	32%	29%	27%	25%	28%	26%	26%
Cobham	COB.L	UK	28%	28%	24%	25%	20%	25%	25%	25%
EADS	EAD.PA	Netherlands	69%	34%	31%	23%	30%	30%	35%	32%
Finmeccanica	SIFI.MI	Italy	19%	38%	37%	34%	36%	32%	33%	37%
Meggitt Plc	MGGT.L	UK	26%	15%	17%	23%	20%	21%	25%	25%
MTU Aero Engines	MTXGn.DE	Germany	41%	14%	9%	32%	37%	27%	33%	33%
QinetiQ	QQ.L	UK	22%	7%	17%	4%	82%	28%	20%	20%
Rheinmetall AG	RHMG.DE	Germany	25%	30%	27%	-13%	24%	29%	27%	27%
Rolls Royce	RR.L	UK	30%	20%	28%	26%	26%	25%	25%	25%
Safran	SAF.PA	France	84%	61%	138%	26%	6%	20%	26%	26%
Thales	TCFP.PA	France	21%	16%	17%	41%	58%	-3%	18%	23%
Average			**35%**	**27%**	**33%**	**55%**	**33%**	**25%**	**27%**	**27%**
Median			**28%**	**29%**	**27%**	**26%**	**28%**	**27%**	**26%**	**26%**

Source: DataStream, dataCentral, company annual reports, CIRA

QinetiQ

QinetiQ low tax rate mainly due to R&D tax relief

- QinetiQ's underlying P&L tax rate of 15%-19% is low relative to the apparent weighted average tax rate on its profits although the tax on reported profits is much less favourable (82% tax rate on 2010/11 profits, only 4% tax credit on 2009/10 losses).
- The low underlying tax rate is mainly due to UK Research & Development tax relief and therefore the sustainability of the low tax rate depends on continuing R&D payments from the UK government and the tax incentive remaining in place
- However, if the R&D benefit reduced, QinetiQ's UK profits could be sheltered by off-balance sheet tax losses of £189m (worth £49m)

QinetiQ's reported tax rate was 82% in the year to March 2011 and 4% (tax credit on losses) to March 2010, but the company quotes underlying effective rates of 19% and 15% respectively (Citi forecasts 20% for the years to March 2012 and March 2013). The difference between underlying and reported profits arises from "acquisition amortisation and specific non-recurring items"[12]. The tax credit on these items is small, we believe mainly because the company does not recognise any deferred tax credit on the UK located expenses, hence the distorted reported tax rate.

[12] This includes restructuring charges; pension curtailment gains; contingent payments on acquisition treated as remuneration; net inventory write-offs in respect of capitalised bid costs; impairment of tangible and intangible assets; gain/(loss) on M&A and divestments; and impairments of investments

Underlying tax rate of 19% compares to expected weighted average rate of around 34% based on geographic mix

QinetiQ's low disclosed underlying tax rate is mainly due to Research & Development tax relief in the UK. Cash tax payments have been volatile at £42.9m paid in the year to March 2011 and £1.5m received in the prior year. The effective underlying corporate tax rate seems particularly low given Citi estimates approximately 50% of profits are generated in the US[13] (which usually has an effective tax rate of approximately 40%), implying an expected geographic weighted tax rate for QinetiQ of around 34%.

Tax relief on R&D at 130%

In the UK, tax relief on allowable R&D costs is 130%, ie for each £100 spent on R&D, taxable income is reduced by £130. QinetiQ does not quantify the benefit of R&D tax relief because it is combined in the tax reconciliation line together with "non-taxable items" and (offsetting) "expenses not deductible for tax purposes".

In the year to March 2011, QinetiQ incurred R&D costs of £395m (vs £426m in 2009/10) of which £382m (£418m) was customer-funded work. If, for simplicity, we assume all the R&D costs occur in the UK and are eligible for tax relief, the resulting tax benefit would be £395m x 30% x 28% = £33m. (Probably coincidentally, this is similar to the £33.4m tax reconciliation line item containing R&D tax relief).

Figure 6. QinetiQ tax reconciliation, 2010-2011 (£m)

	2010 Before adjs*	2010 adjs*	2010 Total	2011 Before adjs*	2011 adjs*	2011 Total
Profit/(loss) before tax	85.7	-151.8	-66.1	114.6	-88.0	26.6
Tax on profit/(loss) before tax at UK statutory rate	**24.0**	**-42.5**	**-18.5**	**32.1**	**-24.7**	**7.4**
Effect of:						
Expenses not deductible for tax purposes, R&D relief and non-taxable items	-19.6	29.4	9.8	-33.4	22.0	-11.4
Utilisation of previously unrecognised tax losses of overseas subsidiaries	-0.1		-0.1	-0.3		-0.3
Current tax losses for which no deferred tax asset was recognised	6.1		6.1	17.5		17.5
Deferred tax impact of change in rates				2.5		2.5
Deferred tax in respect of prior years	-0.2		-0.2	-1.0		-1.0
Effect of different rates in overseas jurisdictions	2.7	-2.6	0.1	4.4	2.5	6.9
Taxation expense/(income)	**12.9**	**-15.7**	**-2.8**	**21.8**	**-0.2**	**21.6**

Source: Company annual reports. *Acquisition amortisation and specific non-recurring items

Low tax rate at risk if UK government reduces R&D spending, tax incentive changes, or if profits shift to US

The Citi Aerospace & Defence team notes that QinetiQ's R&D is largely funded by the UK government - £382m of the £395m total R&D spend is customer funded. QinetiQ benefits both from the UK government funding its R&D, but also from receiving an additional tax benefit. Therefore investors need to assess if the UK government is likely to continue subsidising QinetiQ's operations in this way, or if the tax legislation may change. If this situation could change, it might be appropriate to assume a more normal tax rate in future. In addition a shift of profits from the UK to the US could increase the tax rate materially.

Company states 1 year limit on DTA recognition

QinetiQ states that the effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any future tax legislation changes and the geographical mix of profits. The company notes that it has unused tax losses of £189m with indefinite carry-forward (we believe the losses are in the UK), but no deferred tax asset has been recognised, due to uncertainty over the timing of utilisation. These could be worth up to £49m at the current UK rate of 26%.

Off balance sheet DTA re UK losses could be further buffer protecting low tax rate

We understand from the company that it only recognises DTAs on UK losses if they are expected to be utilised within a year, although this is not entirely consistent with the IAS 12 requirements (IAS 12 does not mention a one year time limit). However, if QinetiQ benefits less from R&D credits in future, it might be that some of these losses could be utilised.

[13] Segment disclosure shows 30% of operating profit arises in US Services and a further 36% in Global Products, of which we think the majority is from the US.

Automobiles & Components

- Tax losses can be very material for this sector (eg **Fiat**, **GKN**) and affect reported P&L tax rates
- Other issues include tax treatment of pension deficits, tax depreciation of fixed assets, R&D, and volatility from financial instrument accounting (eg hedging instruments)
- Accounting for associate income can distort reported tax rates (eg **Renault**)

Reported tax rates in the Autos sector have been volatile in recent years, as shown below in Figure 7, mainly due to losses.

Figure 7. Tax rates of European Automobiles & Components coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Autoliv Inc.	ALV.N	Sweden	12%	34%	31%	-418%	26%	25%	28%	28%
BMW AG	BMWG.DE	Germany	30%	19%	6%	49%	33%	28%	33%	33%
Continental AG	CONG.DE	Germany	33%	31%	-7%	9%	48%	99%	30%	31%
Daimler AG	DAIGn.DE	Germany	18%	47%	39%	-15%	29%	41%	32%	32%
Faurecia	EPED.PA	France	-9%	-6%	-5%	-9%	30%	-16%	24%	24%
Fiat SpA	FIA.MI	Italy	30%	26%	21%	-131%	69%	38%	25%	30%
GKN Plc	GKN.L	UK	3%	1%	7%	20%	6%	0%	14%	18%
Landi Renzo	LR.MI	Italy	38%	38%	32%	25%	35%	34%	33%	33%
Michelin	MICP.PA	France	39%	28%	31%	50%	30%	33%	30%	30%
Peugeot SA	PEUP.PA	France	76%	28%	15%	30%	20%	700%	20%	22%
Piaggio & C SpA	PIA.MI	Italy	20%	42%	27%	36%	49%	36%	47%	47%
Pirelli	PECI.MI	Italy	-14%	31%	-18%	130%	38%	-133%	37%	36%
Porsche Automobil Holding SE	PSHG_p.DE	Germany	36%	28%	26%	18%	2%	22%	0%	0%
Renault SA	RENA.PA	France	8%	9%	21%	-5%	2%	12%	2%	3%
Scania AB	SCVb.ST	Sweden	31%	28%	26%	30%	27%	28%	29%	29%
Valeo SA	VLOF.PA	France	37%	36%	-35%	-118%	21%	55%	25%	25%
Volkswagen AG	VOWG.DE	Germany	-9%	37%	29%	28%	20%	25%	22%	24%
Volvo AB	VOLVb.ST	Sweden	20%	30%	29%	29%	28%	25%	28%	29%
Average			**22%**	**27%**	**15%**	**-13%**	**28%**	**58%**	**25%**	**26%**
Median			**25%**	**29%**	**23%**	**22%**	**29%**	**28%**	**28%**	**29%**

Source: DataStream, dataCentral, Company annual reports, CIRA

Fiat DTAs material to valuation

Fiat had on-balance sheet deferred tax assets of €1.7bn at Q3 2011 and DTLs of €1.3bn. Fiat disclosed a further €2.2bn of off-balance sheet DTAs (mainly relating to tax losses) in the 2010 annual report, which are potentially material to the valuation of a company with a market value of approximately €4.9bn.

Associate income can distort reported tax rate eg Renault

Renault's reported tax rate is distorted by the accounting for associate stakes, since associate income is reported net of tax but within profit before tax. Renault's associate income (mostly from its 43.4% stake in Nissan) represented over a third of its pre-tax income in 2010. This reduced Renault's apparent reported tax rate. Renault's reported tax rate has also been affected by a one-off €2bn gain on sale of Volvo shares in 2010, and increases in unrecognised deferred tax assets arising on tax losses in 2009 and 2010.

As a case study, we use **GKN** which exhibits lower than sector average P&L and cash tax rates.

GKN

GKN management targets cash tax rate below 20% (vs weighted average tax rate 32%)

- GKN's 2010 management tax rate of 11% was well below the expected geographic weighted tax rate of 32%
- GKN targets a continuing cash tax rate of below 20%

- The current low tax rate is mainly due to tax losses
- Near-term cash tax rate has also benefitted from an unusual pension funding arrangement accelerating cash tax deductions

GKN's expected geographic weighted tax rate, if profits were taxed at the statutory tax rates in the countries in which they arise, was 32% in 2010 and 31% in 2009. However, the actual reported P&L tax rate was 6% in 2010, the company's adjusted P&L tax rate (on "management profit") was 11%, the reported cash tax rate (cash tax/profit before tax) was 10% and the "management cash tax rate" was stated to be 13%. The company also guides that the cash tax rate is expected to continue at or below 20% as losses are utilised. All of the statutory disclosures relate to the reported tax rates, so we do not have enough information to reconcile fully the company's "management tax rates". The above rates are summarised in Figure 8.

Figure 8. Summary of GKN tax rate measures

	2009	2010
Expected geographic weighted tax rate	31%	32%
Reported P&L rate	20%	6%
Adjusted P&L tax rate on management profit	17%	11%
Reported cash tax rate	28%	10%
Management cash tax rate	29%	13%

Source: Company annual report

Tax losses have driven both low P&L and cash tax rate

The low 2010 P&L tax rate is largely due to the utilisation or recognition of previously unrecognised deferred tax assets in respect of tax losses mainly in the US, "due to increased confidence in the Group's ability to make future taxable profit to absorb brought forward tax deductions and the fact that certain profit making territories have benefitted from the use of tax deductions".

GKN currently has off-balance sheet deferred tax assets of £469m, of which £365m relate to tax losses, in addition to on balance sheet DTAs of £278m[14], of which £120m relate to tax losses. We believe the tax losses are mainly in the US and UK. In 2010 £92m of previously unrecognised DTAs were used or recognised. This can be seen in the tax reconciliation shown below in Figure 9. The existing off balance sheet DTAs would be used up after about 5 years at this rate, as discussed by the CIRA Autos team in *GKN Plc (GKN.L) - Gearing Up* (30 September 2011).

Figure 9. GKN tax reconciliation, 2006-2010 (£m)

	2006	2007	2008	2009	2010	Total
Profit before tax	182	199	-130	-54	345	542
Less share of post-tax earnings of joint ventures	-17	-24	-6	-21	-35	-103
Profit before tax excluding joint ventures	165	175	-136	-75	310	439
Tax calculated at standard UK corporate tax rate	**49**	**53**	**-39**	**21**	**-87**	**-3**
Differences between UK and overseas corporate tax rates	7	5	-10	2	8	12
Non-deductible and non-taxable items	-1	-8	11	-3	-11	-12
Utilisation of previously unrecognised tax losses and other assets	-9	-16	-44	1	20	-48
Other changes in unrecognised deferred tax assets	-21	-28	80	-41	72	62
Changes in tax rates		-8	-2	2	-2	-10
Deferred tax (credit)/charge in respect of post-employment obligations	-6	-3	-5			-14
Net movement on provision for uncertain tax positions	-15	4		25	-27	-13
Adjustments in respect of prior years	1	2	-1	8	7	17
Total tax charge for the year	**5**	**1**	**-10**	**15**	**-20**	**-9**

Source: Citi Investment Research and Analysis

[14] Before netting off DTLs

Cash tax rate also benefitting from complicated pension funding arrangement

We think that the current low cash tax rate is due to the utilisation of tax losses, and to a complicated arrangement in 2010 to make an asset contribution to the UK pension scheme.

In March 2010 GKN transferred assets worth £535m (UK properties and a licence over GKN trademarks, together with associated rental and royalty rights) to a limited partnership, which is consolidated by GKN. GKN also gave cash of £331m to the pension scheme, which was immediately used to acquire an interest in the limited partnership. The pension scheme's partnership interest entitles it to an income of £600m (£30m for 20 years) with a present value of £331m. This present value is recognised as a pension plan asset, thus reducing the IAS 19 pension deficit, and the pension scheme's interest in the partnership is shown as a minority interest on GKN's consolidated balance sheet.

This means that the £331m of cash (and £535m of assets) is still consolidated on GKN's balance sheet, but GKN obtains a UK cash tax deduction over 4 years for the £331m initial cash payment, worth approximately £86m based on an average UK tax rate of 26% over the 4 years. GKN also expects to get a further £269m (£600m - £331m) tax deduction over the next 20 years (worth approximately £65m). However, GKN would ultimately have received this tax deduction anyway when pension contributions were made to close the pension deficit, and this complicated scheme has therefore – we assume[15] - merely accelerated the timing of the tax benefit.

GKN's new structure has reduced the reported pension deficit (by £331m pre tax) although the offsetting accounting entry is the increase in minority interest (representing the pension scheme's claim on the consolidated assets of the group) – and therefore there is no net gain for shareholders in respect of the pension deficit.

Similarly the lower cash tax rate from the structure is bringing forward the cash tax deduction which would have been available on contributions to the pension deficit. Investors should not therefore assume the low cash tax rate is sustainable after the 4 year upfront tax deduction has been realised.

DTAs valuation is not straightforward

We also think investors should be careful in valuing the deferred tax assets. As we noted above, GKN currently has DTAs on balance sheet of £171m (£278m before netting off DTLs) and off balance sheet of £469m. These are summarised in Figure 10 below:

Figure 10. GKN recognised and unrecognised DTAs

		Of which:				Of which:		
FY	On BS DTAs	Tax losses	Pensions	Other	Off BS DTAs	Tax losses	Pensions	Other
2010	278	120	111	47	469	365	66	38
2009	165	45	74	46	631	439	149	43

Source: Company annual report.

Of these, £111m on balance sheet and £66m off balance sheet relate to pension deficits which some investors probably already include in valuation net of tax. The other DTAs may be valued separately or included implicitly by forecasting a lower cash tax rate for some years. As the off-balance sheet DTA relating to tax losses is unlikely to be used in the very near term (and may never be realised), we believe the potential value should be discounted to reflect the delay and uncertainty.

[15] We understand that some UK companies have tried to achieve additional tax savings from asset-backed contributions to pension schemes but this is likely to be addressed by proposed new legislation in 2012.

Banks

Tax assets can be a significant part of banks' tangible book and Tier 1 capital

Tax issues in the Banks sector include:

- Significant tax rate volatility in recent years. We expect this will continue for some banks
- Tax losses are highly material to valuation of some banks eg **UBS**.
- DTAs can be a material component of book value and regulatory capital, so recognition of DTAs should be scrutinised.
- A deterioration in economic conditions may lead to DTA write-downs
- Basel III will exclude DTAs relying on future profitability from Core Tier 1 capital

Volatile tax rates in recent years

Figure 11 shows the reported tax rates for European banks covered by Citi. This illustrates the volatility of tax charges across the sector in recent years. In addition, it highlights the relatively high tax rates suffered by Italian banks (forecast tax rates typically in the high 30s or 40s).

Figure 11. Tax rates of European Banks coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
ATEbank	AGBr.AT	Greece	33%	22%	-94%	3%	-12%	-96%	7%	20%
Banco BPI	BBPI.LS	Portugal	25%	24%	23%	15%	-2%	18%	-62%	2%
Banco Espirito Santo	BES.LS	Portugal	24%	19%	16%	16%	6%	16%	14%	29%
Banco Popolare	BAPO.MI	Italy	32%	44%	25%	46%	-46%	34%	15%	49%
Banco Popular Espanol	POP.MC	Spain	37%	31%	27%	27%	27%	31%	-13%	20%
Banco Santander	SAN.MC	Spain	25%	21%	17%	11%	24%	20%	29%	29%
Banesto	BTO.MC	Spain	42%	31%	28%	28%	25%	31%	24%	29%
Piraeus Bank SA	BOPr.AT	Greece	18%	17%	15%	28%	297%	20%	48%	4%
Bankinter SA	BKT.MC	Spain	34%	25%	25%	26%	27%	27%	26%	28%
Barclays PLC	BARC.L	UK	27%	28%	13%	24%	25%	24%	34%	27%
BBVA SA	BBVA.MC	Spain	29%	24%	22%	20%	22%	24%	19%	18%
Banco de Sabadell SA	SABE.MC	Spain	43%	20%	5%	8%	18%	21%	-20%	20%
BNP Paribas SA	BNPP.PA	France	26%	25%	12%	28%	30%	26%	30%	30%
Banca Popolare di Milano	PMII.MI	Italy	37%	40%	61%	53%	-246%	49%	42%	43%
CaixaBank SA	CABK.MC	Spain				2%	2%	2%	8%	17%
Commerzbank	CBKG.DE	Germany	25%	23%	115%	1%	-10%	46%	-3%	23%
Credit Agricole SA	CAGR.PA	France	23%	5%	-6%	14%	34%	17%	39%	33%
Credit Suisse	CSGN.VX	Switzerland	17%	9%	38%	21%	23%	8%	29%	25%
Danske Bank A/S	DANSKE.CO	Denmark	27%	23%	59%	68%	44%	33%	51%	28%
Deutsche Bank	DBKGn.DE	Germany	28%	26%	33%	4%	41%	22%	30%	31%
DNB NOR ASA	DNB.OL	Norway	20%	14%	27%	37%	23%	23%	28%	23%
Erste Bank	ERST.VI	Austria	22%	20%	31%	23%	22%	22%	-43%	24%
Greek Postal Savings Bank SA	GPSr.AT	Greece	19%	14%	-9%	52%	533%	37%	26%	26%
HSBC Holdings PLC	HSBA.L	UK	25%	17%	37%	7%	29%	23%	18%	22%
Intesa Sanpaolo	ISP.MI	Italy	32%	31%	-56%	20%	36%	24%	10%	38%
KBC	KBC.BR	Belgium	22%	22%	21%	8%	4%	22%	21%	24%
Lloyds Banking Group PLC	LLOY.L	UK	32%	17%	-5%	-107%	146%	5%	18%	25%
Marfin Popular Bank PCL	MRBr.AT	Cyprus	17%	15%	15%	22%	22%	17%	11%	13%
Banca Monte dei Paschi di Siena SpA	BMPS.MI	Italy	39%	43%	1,008%	70%	26%	13%	40%	47%
National Bank of Greece SA	NBGr.AT	Greece	26%	14%	18%	23%	31%	20%	11%	20%
Natixis	CNAT.PA	France	27%	6%	21%	44%	13%	77%	27%	30%
Nordea	NDA1V.HE	Sweden	18%	20%	21%	25%	27%	22%	27%	26%
Postbank	DPBGn.DE	Germany	26%	13%	16%	119%	56%	-8%	29%	33%
Raiffeisen Bank Intl	RBIV.VI	Austria	14%	21%	25%	22%	9%	17%	18%	23%
Royal Bank of Scotland Group PLC	RBS.L	UK	29%	21%	6%	14%	-159%	-11%	194%	32%
Skandinaviska Enskilda Banken AB	SEBa.ST	Sweden	19%	20%	19%	65%	23%	23%	21%	23%
Svenska Handelsbanken AB	SHBa.ST	Sweden	24%	26%	22%	26%	27%	25%	26%	26%
Societe Generale	SOGN.PA	France	28%	15%	31%	-39%	26%	24%	28%	29%
Standard Chartered PLC	STAN.L	UK	26%	26%	27%	32%	28%	28%	30%	29%
Swedbank AB	SWEDa.ST	Sweden	23%	22%	21%	-10%	25%	29%	21%	23%
Unione Banche Italiane	UBI.MI	Italy	38%	41%	54%	46%	69%	45%	-88%	49%
UBS	UBSN.VX	Switzerland	19%	-45%	25%	17%	-5%	33%	15%	15%
UniCredit Group	CRDI.MI	Italy	23%	28%	9%	30%	24%	23%	-25%	38%
Average			**26%**	**20%**	**42%**	**23%**	**32%**	**21%**	**19%**	**26%**
Median			**26%**	**22%**	**22%**	**23%**	**25%**	**23%**	**21%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Many banks have large tax losses and deferred tax assets following the credit crisis. In some cases these are reported on balance sheet, while in other cases they are mainly off-balance sheet, depending on the expected future profitability of the bank, the location of the tax losses, and possibly the bank's accounting conservatism.

Figure 12 and Figure 13 show those European banks with the largest gross DTAs and net DTAs relative to market cap. We also include the off-balance sheet DTAs.

Figure 12. European banks with largest Gross (including off balance sheet) DTAs relative to market cap, as at 31 December 2010 (m)

Name	Country	Curr	Mkt cap (m)	On BS DTAs	Of which: tax losses	Off BS DTAs	DTLs	Gross DTAs	Net DTAs	Gross on BS DTAs as % mkt	Gross DTAs as % mkt
Banco Popolare	Italy	EUR	1,635	2,414	11	nd	573	2,414	1,841	148%	148%
Greek Postal Savings Bank SA	Greece	EUR	160	221	16	nd	50	221	172	138%	138%
Piraeus Bank SA	Greece	EUR	340	417	31	nd	161	417	256	123%	123%
Banca Monte dei Paschi di Siena SpA	Italy	EUR	3,688	4,114	26	nd	105	4,114	4,009	112%	112%
Commerzbank[1]	Germany	EUR	7,665	3,567	1,676	4,307	222	7,874	7,652	47%	103%
ATEbank	Greece	EUR	442	446	0	nd	4	446	442	101%	101%
Banco BPI	Portugal	EUR	488	427	10	14	31	441	409	87%	90%
UBS	Switzerland	CHF	43,532	9,522	8,929	24,112	97	33,634	33,537	22%	77%
KBC[1]	Belgium	EUR	3,582	2,367	960	333	123	2,700	2,577	66%	75%
UniCredit Group	Italy	EUR	15,310	11,286	1,281	nd	4,372	11,286	6,914	74%	74%
Banca Popolare di Milano	Italy	EUR	737	420	21	nd	121	420	299	57%	57%
Natixis	France	EUR	6,568	3,361	nd	nd	312	3,361	3,049	51%	51%
Credit Suisse[2]	Switzerland	CHF	27,513	10,651	4,989	2,264	1,646	12,915	11,269	39%	47%
Credit Agricole SA	France	EUR	11,990	5,220	973	nd	1,220	5,220	4,000	44%	44%
Banesto	Spain	EUR	2,558	1,051	270	nd	61	1,051	990	41%	41%
Unione Banche Italiane	Italy	EUR	2,745	1,073	0	nd	552	1,073	521	39%	39%
Deutsche Bank[1]	Germany	EUR	27,959	8,341	2,826	1,788	2,307	10,129	7,822	30%	36%
Royal Bank of Scotland Group PLC	UK	GBP	23,988	6,373	4,274	2,008	2,142	8,381	6,239	27%	35%
Banco Santander	Spain	EUR	49,553	17,089	5,547	nd	4,312	17,089	12,777	34%	34%
Societe Generale	France	EUR	14,672	4,867	nd	nd	530	4,867	4,337	33%	33%

Source: Company annual reports, Reuters, CIRA. Market data as of 2 December 2011. [1] Companies disclosed amount of tax loss carry-forwards against which no DTA was recognised. We applied the domestic effective tax rate to calculate off balance sheet DTAs. [2]Credit Suisse did not attribute the valuation allowance across deferred tax elements. We have assumed all of valuation allowance relates to tax loss DTAs.

Figure 13. European banks with largest Net (including off balance sheet) DTAs relative to market cap, as at 31 December 2010 (m)

Name	Country	Curr	Mkt cap (m)	On BS DTAs	Of which: tax losses	Off BS DTAs	DTLs	Gross DTAs	Net DTAs	Net on BS DTAs as % mkt	Net DTAs as % mkt
Banco Popolare	Italy	EUR	1,635	2,414	11	nd	573	2,414	1,841	113%	113%
Banca Monte dei Paschi di Siena SpA	Italy	EUR	3,688	4,114	26	nd	105	4,114	4,009	109%	109%
Greek Postal Savings Bank SA	Greece	EUR	160	221	16	nd	50	221	172	107%	107%
ATEbank	Greece	EUR	442	446	0	nd	4	446	442	100%	100%
Commerzbank[1]	Germany	EUR	7,665	3,567	1,676	4,307	222	7,874	7,652	44%	100%
Banco BPI	Portugal	EUR	488	427	10	14	31	441	409	81%	84%
UBS	Switzerland	CHF	43,532	9,522	8,929	24,112	97	33,634	33,537	22%	77%
Piraeus Bank SA	Greece	EUR	340	417	31	nd	161	417	256	75%	75%
KBC[1]	Belgium	EUR	3,582	2,367	960	333	123	2,700	2,577	63%	72%
Natixis	France	EUR	6,568	3,361	nd	nd	312	3,361	3,049	46%	46%
UniCredit Group	Italy	EUR	15,310	11,286	1,281	nd	4,372	11,286	6,914	45%	45%
Credit Suisse[2]	Switzerland	CHF	27,513	10,651	4,989	2,264	1,646	12,915	11,269	33%	41%
Banca Popolare di Milano	Italy	EUR	737	420	21	nd	121	420	299	41%	41%
Banesto	Spain	EUR	2,558	1,051	270	nd	61	1,051	990	39%	39%
Credit Agricole SA	France	EUR	11,990	5,220	973	nd	1,220	5,220	4,000	33%	33%
Societe Generale	France	EUR	14,672	4,867	nd	nd	530	4,867	4,337	30%	30%
Deutsche Bank[1]	Germany	EUR	27,959	8,341	2,826	1,788	2,307	10,129	7,822	22%	28%
Lloyds Banking Group PLC	UK	GBP	17,475	4,164	6,572	685	247	4,849	4,602	22%	26%
Royal Bank of Scotland Group PLC	UK	GBP	23,988	6,373	4,274	2,008	2,142	8,381	6,239	18%	26%
Banco Santander	Spain	EUR	49,553	17,089	5,547	nd	4,312	17,089	12,777	26%	26%

Source: Company annual reports, Reuters, CIRA. Market data as of 2 December 2011. [1] Companies disclosed amount of tax loss carry-forwards against which no DTA was recognised. We applied the German effective tax rate to calculate off balance sheet DTAs. [2] Credit Suisse did not attribute the valuation allowance across deferred tax elements. We have assumed all of valuation allowance relates to tax loss DTAs.

Several banks have experienced significant volatility in reported tax charges due to deferred tax recognition. For example, **Commerzbank** reported a 2010 tax rate of -10%, mainly due to recognition or utilisation of previously unrecognised tax losses, whereas in 2009 it reported minimal (1%) tax income on a large loss, due to tax losses which were not recognised. Similarly **UBS** reported a tax rate of -5% in 2010.

We expect some banks will continue to experience volatile tax charges as deferred tax assets are re-assessed, either positively or negatively. Recently (in Q3 results), **Raiffeisen Bank** highlighted the potential re-assessment of its DTAs from tax losses as a result of the deteriorating outlook for its Hungarian business. We use UBS as a case study below.

Basel III will deduct DTAs from Tier 1 capital

There has been much debate about the correct treatment of deferred tax assets in banks' regulatory capital. At present DTAs are included within Tier 1 capital in many countries. However, Basel III rules will require deduction from Common Tier 1 equity of DTAs that "rely on future profitability" (ie arising from tax losses or unused tax credits) while DTAs arising from temporary differences may have limited recognition (capped at 10% of banks' common equity). Deferred tax liabilities can only be netted off DTAs for capital purposes if they relate to taxes levied by the same tax authority and offsetting is permitted, in which case the DTLs and DTAs would be netted off on the balance sheet under IFRS anyway. These new capital rules will be subject to transitional arrangements between 2013 and 2018.

We believe that the Basel III approach is sensible, as deferred tax assets cannot be realised on demand, and they depend on future profitability (which may be very uncertain at times of economic stress), so it is more prudent to exclude them from core regulatory capital.

UBS

- UBS highlights tax as a key risk factor
- Tax rate of -5% in 2010; company says additional recognition of DTAs in H2 2011 may produce 2011 tax rate below 20%
- On balance sheet DTA of CHF 9.5bn and off balance sheet DTA of CHF 24.1bn (as of Q4 2010) is clearly material for valuation. UBS is unusual amongst banks in the size of off-balance sheet DTA and the company recently highlighted potential upside
- In recent years the tax rate was lowered by prior year adjustments, but UBS highlights "final determinations on audits by tax authorities" as a risk

UBS reported a tax rate of -5% in 2010, 17% in 2009, and 25% in 2008. From the tax reconciliation (Figure 14), it is clear the treatment of tax losses has been a major swing factor in the tax rate.

UBS recently highlighted potential upside from CHF 18bn of DTAs on tax losses

UBS highlighted tax as a key "risk factor" in the 2010 annual report, specifically that "the effects of taxes on our financial results are significantly influenced by changes in our deferred tax assets and final determinations on audits by tax authorities". UBS had on-balance sheet deferred tax assets of CHF 9.5bn and off-balance sheet DTAs of CHF 24.1bn at end-2010. The unrecognised DTAs related mainly to tax losses, of which the majority arises in the US and the remainder mainly in the UK. UBS highlighted the potential upside from unrecognised DTAs at its recent investor day[16], and disclosed it has DTAs arising from tax losses of CHF 8.2bn on-balance sheet and CHF 18.1bn off-balance sheet as of Q3 2011. UBS stated that "the potential to recognize additional deferred tax assets remains significant". The company also noted that its expected profitability based on its revised strategy "continues to support the level of DTAs recognized on the balance sheet".

[16] See slide 12 of Finance presentation at UBS 17 November 2011 investor day.

The assessment of DTAs is clearly material to valuation of UBS, which has total equity (including minority interest) of CHF 51.9bn at the end of 2010. On balance sheet DTAs represent 18% of equity, while shareholders' equity could increase up to 46% if all the off balance sheet DTAs were recognised.

The company states that deferred tax assets have been assessed on future profitability assumptions over a 5 year time horizon "adjusted to take into account the recognition criteria of IAS 12". It remeasures DTAs annually in Q3.

UBS's Q3 2011 results showed a tax credit (of CHF 40m), and benefitted from a CHF 413m write-up of US DTAs. The company has stated it expects the Q4 2011 tax rate will be below 20%, "reflecting an additional benefit representing the remaining quarter of the 2011 deferred tax assets re-measurement effects". The 2010 annual report noted that the effective tax rate will be "highly sensitive" both to performance and new business plan forecasts. Our analysts forecast a tax rate of 15% for 2011 and 2012, and UBS have guided that the full year tax rate will be below 20%.

Understanding UBS' tax reconciliation

Figure 14. UBS tax reconciliation, 2008-2010 (CHFm)

	2008	2009	2010	Total
Operating profit/(loss) from continuing operations before tax	-27,758	-2,561	7,455	-22,864
Domestic	3,269	4,871	5,999	14,139
Foreign	-31,027	-7,433	1,456	-37,004
Income tax expense / (credit) at Swiss statutory tax rate	**-6,107**	**-551**	**1,603**	**-5,055**
Applicable tax rates differing from Swiss statutory rate	-7,056	-1,636	-49	-8,741
Tax effects of losses not recognised	7,412	1,188	275	8,875
Previously unrecorded tax losses now utilised	-10	-79	-1,225	-1,314
Non-taxable and lower taxed income	-773	-932	-889	-2,594
Non-deductible expenses and additional taxable income	897	1,012	1,985	3,894
Adjustments related to prior years	-490	-65	-258	-813
Change in deferred tax valuation allowances	-692	552	-1,820	-1,960
Other items	-17	69	-3	49
Income tax expense / (credit) from continuing operations	**-6,836**	**-442**	**-381**	**-7,659**

Source: Company annual reports, Citi Investment Research and Analysis

- **Applicable tax rates differing from Swiss statutory rate** – in 2008 and 2009, UBS made very large losses in its foreign businesses, and therefore the (on average) higher than Swiss tax rates in other countries, particularly the US, would be expected to increase the tax credit arising. However, in 2010, foreign businesses only contributed a relatively small profit so the swing factor from foreign tax rates was lower, although (as the net effect was still a positive) we assume UBS was still probably loss making in the higher tax jurisdictions

- **Tax effects of losses not recognised** – in 2008, UBS did not recognise deferred tax assets for all tax losses incurred. UBS did not put a figure on these tax losses, but this had the impact of reducing the tax credit by CHF 7.4bn.

- **Previously unrecorded tax losses now utilised** and **changes in deferred tax valuation allowances** – this is the reverse effect as losses are utilised or deferred tax assets newly recognised, which has reduced the tax charge by approx CHF 3bn in 2010. Note that UBS uses the US GAAP terminology "valuation allowances" to refer to deferred tax assets which have not been recognised on balance sheet.

- **Non-taxable and lower taxed income** – this has reduced the tax rate consistently over the last three years. Presumably some financial income is tax free or taxed at lower rates, but it would be helpful for the company to disclose more about this.

- **Non-deductible expenses and additional taxable income** – this increases the tax rate and was particularly significant in 2010 (increasing tax expense by CHF 2bn). In other words, UBS either has some income which is not recognised under IFRS but is considered income by the tax authorities, and/or some expenses which can never be deducted for tax purposes (for example these could include fines, penalties or litigation provisions in some cases).

- **Adjustments relating to prior years** – over the last 3 years these adjustments have reduced the tax charge. Note that UBS specifically mentions "final determinations on audits by tax authorities" as a risk factor for the stock. Banks, particularly investment banks and those which operate in many tax jurisdictions, tend to have highly complicated tax affairs which may be subject to prolonged investigation or negotiation with tax authorities in many countries.

Building Materials & Housebuilders

- Deferred tax assets, particularly arising on tax losses, and judgments around recoverability of these, can be very significant
- Range of effective tax rates, partly reflecting tax locations, but also business mix internationally
- In some cases, prior year tax settlements are very material

Figure 15. Tax rates of European Building Materials & Housebuilders coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Barratt Developments	BDEV.L	UK	30%	36%	31%	28%	-20%	26%	27%	26%
Bellway PLC	BWY.L	UK	29%	21%	26%	19%	25%	26%	26%	25%
Berkeley Group Holdings PLC	BKGH.L	UK	29%	29%	28%	28%	31%	29%	31%	28%
Bovis Homes Group PLC	BVS.L	UK	30%	30%	25%	27%	24%	31%	27%	28%
Buzzi Unicem	BZU.MI	Italy	37%	35%	28%	27%	59%	31%	26%	27%
CRH PLC	CRH.L	Ireland	24%	25%	23%	20%	19%	23%	17%	21%
Geberit AG	GEBN.VX	Switzerland	24%	24%	18%	23%	14%	20%	15%	16%
Grafton Group PLC	GRF_u.L	Ireland	13%	13%	10%	1%	-150%	5%	21%	19%
HeidelbergCement AG	HEIG.DE	Germany	29%	16%	33%	1,311%	10%	18%	22%	23%
Holcim Ltd	HOLN.VX	Switzerland	28%	21%	23%	24%	28%	24%	29%	28%
Howdens	HWDN.L	UK	79%	-20%	31%	27%	34%	28%	31%	31%
Italcementi Group	ITAI.MI	Italy	29%	28%	35%	30%	24%	29%	21%	32%
Lafarge SA	LAFP.PA	France	28%	26%	20%	20%	22%	24%	26%	26%
Marshalls PLC	MSLH.L	UK	30%	28%	-38%	68%	20%	31%	12%	20%
Persimmon PLC	PSN.L	UK	30%	29%	20%	5%	25%	38%	27%	27%
Redrow PLC	RDW.L	UK	30%	29%	29%	29%	47%	26%	28%	28%
Rockwool	ROCKb.CO	Denmark	32%	26%	31%	39%	35%	30%	33%	33%
Saint Gobain	SGOB.PA	France	35%	38%	31%	45%	32%	35%	29%	29%
SIG PLC	SHI.L	UK	30%	30%	79%	18%	5%	65%	57%	29%
Taylor Wimpey PLC	TW.L	UK	30%	-413%	4%	8%	407%	7%	30%	28%
Titan Cement Co SA	TTNr.AT	Greece	31%	19%	-0%	23%	14%	20%	12%	20%
Travis Perkins PLC	TPK.L	UK	28%	29%	30%	26%	28%	28%	28%	27%
Wienerberger AG	WBSV.VI	Austria	21%	19%	22%	11%	14%	30%	11%	16%
Wolseley PLC	WOS.L	UK	25%	49%	5%	-12%	28%	332%	27%	26%
Average			**30%**	**7%**	**23%**	**77%**	**32%**	**40%**	**26%**	**26%**
Median			**29%**	**27%**	**26%**	**25%**	**25%**	**28%**	**27%**	**27%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Taylor Wimpey and Redrow have sizeable DTAs

Deferred tax assets, primarily arising from tax losses, are material for some UK housebuilders (see Figure 16). For example, **Taylor Wimpey** has had a very volatile reported tax charge, reporting an exceptional tax credit of £300m in 2010 due to newly recognised DTAs on UK losses, and £73.6m in 2009 from recognising DTAs on the UK pension deficit and US tax losses. For Taylor Wimpey, DTAs on balance sheet are now £372.4m (20% of shareholders' equity) and off balance sheet are further DTAs of £377.2m. Accounting judgements on recognition of DTAs are therefore very material to Net Asset Value, which remains a key driver of valuation for the sector.

Figure 16. Deferred tax assets (DTAs) of UK housebuilders as % of reported book value (£m)

Company	RIC	LYE	Reported BV	DTAs on balance sheet	DTAs as % of BV	Of which: tax losses	DTAs off balance sheet
Barratt Developments	BDEV.L	06/11	2,930	175	6%	157	6
Bellway	BWY.L	07/11	1,073	4	0%	0	nd
Berkeley Group	BKGH.L	04/11	934	19	2%	0	nd
Bovis Homes Grp	BVS.L	12/10	711	5	1%	0	0
Persimmon	PSN.L	12/10	1,744	39	2%	0	44
Redrow	RDW.L	06/11	459	64	14%	61	0
Taylor Wimpey	TW.L	12/10	1,823	372	20%	300	377

Source: Company reports

Similarly **Redrow** has DTAs on balance sheet of £64m (at June 2011), representing 14% of shareholders' equity, and no unrecognised DTAs. Our analyst notes that much of these DTAs will not be recoverable for at least 3 years.

As a case study amongst the building material groups we have reviewed HeidelbergCement due to its reported weighted average tax rate, which appears low given its business mix.

HeidelbergCement

- HeidelbergCement reports a low weighted average tax rate of 16.3% in 2010 despite earning 58% of revenues in NW Europe and North America – the tax rate of the group changed after the acquisition of Hanson which our analysts believe had an aggressive approach to tax management
- The profit mix seems skewed to lower tax regions
- The weighted average tax rate has fallen from 30.7% in 2007 to 16.3% in 2010
- Company has some off-balance sheet DTAs due to tax losses

We highlight HeidelbergCement due to its lower tax rate than would be expected for its geographic mix. It earns 58% of revenues in NW Europe and North America. Based on its revenue mix, we would expect its geographic weighted corporate tax rate to be 30%.

The company's profit (EBIT) mix is notably skewed towards lower tax regions, with higher margins reported in Eastern Europe and Asia, and lower margins reported in the US and Europe. It is unclear if this reflects tax planning measures (eg transfer pricing arrangements) or whether these regions are generally much more profitable. Based on the profit mix, the expected tax rate is 28%. These calculations are shown in Figure 17.

Figure 17. HeidelbergCement weighted average 2010 tax rate implied by revenue and EBIT geographical splits (€m)

	Western & Northern Europe	North America	Asia-Pacific	Eastern Europe-Central Asia	Africa-Mediterranean Basin	Group Services	Interco Elimination	Total
Revenue	3,811	3,033	2,609	1,138	938	709	-476	11,762
Revenue split %	31%	25%	21%	9%	8%	6%		100%
EBIT	407	188	586	203	121	20	-94	1,431
EBIT split %	27%	12%	38%	13%	8%	1%		100%
Assumed tax rate for region	29%	39%	26%	23%	29%	29%		
Corporate tax rate implied by revenue split								**30%**
Corporate tax rate implied by EBIT split								**28%**

Source: Company annual report, IMF, KPMG, CIRA. Note: We have not attributed a tax rate to Interco Elimination figures.

The company discloses (in its tax reconciliation) a weighted average tax rate of 16.3% in 2010 and 13.7% in 2009. This has fallen from a weighted tax rate of 22.8% in 2008 and 30.7% in 2007 (see Figure 18).

Figure 18. HeidelbergCement reported weighted average tax rate

	2006	2007	2008	2009	2010
Reported weighted average tax rate	30.0%	30.7%	22.8%	13.7%	16.3%

Source: Company annual report.

HeidelbergCement tax rate may be affected by Hanson acquisition in 2007

It is unclear how much of the sharp tax rate reduction since 2007 arises from the German tax reform of 2008, how much from the Hanson acquisition in 2007, and how much from other factors. Our analysts believe that Hanson had an aggressive approach to tax management and so Heidelberg may have adopted some of these tax strategies. Even allowing for the profit skew, we find it hard to reconcile the tax rates. The actual tax rate (based on profit pre goodwill impairment) was 10% in 2010 and -47% in 2009 (primarily due to a significant credit from prior tax years of €166m). Interestingly, the company reported a much higher tax rate in H1 2011 of 56%, due to non-capitalised DTAs on tax losses in North America. It also reported much higher cash tax payments in H1 2011. It will be interesting to see if the previously low tax rates are sustained in future.

As shown in the tax reconciliation below, the 2010 reported tax rate was reduced by the effect of previously unrecognised tax loss carry-forwards. HeidelbergCement has on balance sheet DTAs for tax losses and credits of €536m, plus unrecognised DTAs of €597m. The company states that the recoverability of losses is considered until 2015 when assessing DTAs. However, the company also has recognised overall net DTLs of €824m, mainly arising from fixed assets, perhaps indicating the company is receiving accelerated tax depreciation on some fixed assets.

Figure 19. HeidelbergCement tax reconciliation, 2009–2010 (€m)

	2009	2010	Total
Profit / (loss) before tax	-15	599	585
Impairment of goodwill	-421	-24	-444
Profit before tax and impairment of goodwill	406	623	1,029
Theoretical tax expense	**-56**	**-102**	**-157**
Changes to the theoretical tax expense due to:			
Tax-free earnings (+) and non deductible expenses (-)	95	4	99
Effects from loss carry-forwards	1	37	38
Not recognised deferred tax assets	-18	-14	-32
Tax increase (-), reduction (+) for prior years	166	2	168
Changes in tax rate	2	13	16
Tax (charge) / credit on income	**190**	**-60**	**130**

Source: Company annual reports

Business Services

- Diverse sector with some potential for tax planning
- Some companies have low tax rates given geographic mix eg **Experian**
- **Randstad** has been open about its use of tax efficient group financing

Figure 20. Tax rates of European Business Services coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Adecco	ADEN.VX	Switzerland	21%	28%	30%	11%	30%	27%	23%	30%
Aggreko PLC	AGGK.L	UK	37%	35%	35%	31%	30%	33%	29%	28%
Amadeus	AMA.MC	Spain	28%	14%	25%	27%	18%	22%	32%	31%
Babcock	BAB.L	UK	19%	18%	18%	16%	10%	16%	18%	22%
Berendsen	BRSN.L	UK	29%	19%	30%	26%	35%	27%	27%	27%
Bunzl PLC	BNZL.L	UK	32%	32%	31%	31%	29%	31%	28%	29%
Bureau Veritas	BVI.PA	France	28%	25%	25%	25%	28%	26%	27%	27%
Capita Group PLC	CPI.L	UK	28%	27%	27%	27%	24%	26%	27%	27%
CPP Group	CPPG.L	UK		29%	32%	31%	31%	31%	31%	31%
De La Rue	DLAR.L	UK	32%	32%	33%	29%	7%	28%	26%	25%
Edenred	EDEN.PA	France		34%	33%	517%	48%	46%	33%	33%
Electrocomponents	ECM.L	UK	34%	33%	31%	31%	31%	32%	31%	30%
Experian	EXPN.L	Ireland	21%	19%	16%	3%	19%	15%	29%	27%
Filtrona PLC	FLTR.L	UK	34%	34%	34%	37%	31%	34%	30%	29%
G4S	GFS.L	UK	29%	26%	27%	25%	23%	26%	26%	25%
Hays	HAYS.L	UK	30%	29%	30%	78%	29%	31%	33%	33%
HomeServe	HSV.L	UK	32%	32%	-54%	30%	28%	37%	25%	25%
Intertek	ITRK.L	UK	25%	25%	26%	27%	27%	26%	32%	29%
Michael Page Group	MPI.L	UK	33%	31%	30%	41%	33%	32%	33%	33%
MITIE	MTO.L	UK	31%	30%	28%	28%	25%	28%	24%	25%
Premier Farnell	PFL.L	UK	32%	28%	28%	28%	28%	29%	28%	29%
Randstad	RAND.AS	Netherlands	13%	28%	118%	-52%	9%	8%	31%	30%
Regus	RGU.L	UK	-6%	13%	23%	23%	91%	16%	20%	26%
Rentokil	RTO.L	UK	23%	22%	32%	26%	335%	31%	24%	28%
Rexam PLC	REX.L	UK	28%	33%	29%	50%	31%	29%	32%	30%
Securitas	SECUb.ST	Sweden	42%	62%	28%	30%	30%	35%	29%	28%
Serco	SRP.L	UK	26%	28%	27%	26%	27%	27%	28%	27%
SGS	SGSN.VX	Switzerland	25%	25%	23%	25%	26%	25%	26%	26%
Smurfit Kappa Group	SKG.I	Ireland	-7%	2%	-145%	-108%	45%	308%	38%	28%
WS Atkins	ATKW.L	UK	305%	26%	18%	20%	20%	25%	23%	23%
Xchanging plc	XCH.L	UK	30%	37%	28%	33%	-22%	80%	32%	32%
Average			**33%**	**28%**	**22%**	**38%**	**37%**	**38%**	**28%**	**28%**
Median			**29%**	**28%**	**28%**	**27%**	**28%**	**28%**	**28%**	**28%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Business Services is a diverse sector and it is hard to generalise about the tax issues faced, however some of the more international groups appear to have used significant tax planning opportunities, particularly relating to financing structures. We have looked at **Randstad** and **Experian** in more depth.

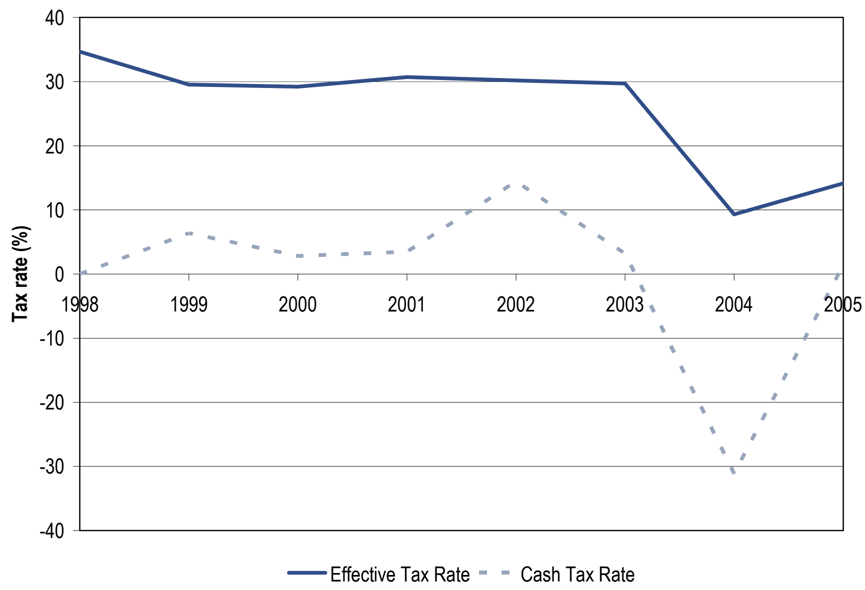
Randstad

- Company has been relatively transparent by informing investors about the use of tax efficient group financing, tax transparent entities, etc
- P&L tax costs have remained low over 2006-2010 but cash tax has been much higher than in the past, mainly due to IFRS intangibles amortisation not being deductible for cash tax purposes

Rare example of transparency about tax

Randstad gave a presentation to analysts/investors in 2006 to explain its tax strategy and the reasons for its historically low cash tax rate. This highlighted the company's declining and relatively low effective tax rate, and very low cash tax rate over 1998-2005 (Figure 21). This is a rare example of transparency in tax matters. Randstad's tax affairs form an interesting case study because of the details provided about tax planning, and also because of the relatively volatile tax position, and increased cash tax, in recent years.

Figure 21. Randstad effective and cash tax rate, 1998-2005



Source: Company report

Benefits from Belgian and Dutch tax rules

Randstad's tax planning methods have largely focused on tax efficient group financing, exploiting aspects of the Belgian and Dutch tax codes. Firstly, Randstad transferred its corporate treasury centre from Amsterdam to Brussels in 2006 to make use of the Belgian notional interest deduction on equity (see page 10). This means it has been able to lend money from Belgium to other parts of the group internationally, reducing the tax paid in other countries but with the tax receipts only taxable at a low effective rate in Belgium. Similarly, Randstad has financed US businesses with a loan from Belgium to a US limited partnership[17]. The loan interest payable from the US is tax deductible at the effective US rate (39%) but the interest receipt is not taxed in Belgium. The company helpfully explained this tax efficient financing is classified as a permanent difference and reported as "tax exempt income" in the tax reconciliation in the accounts.

Tax deferral in the past due to use of LPs and KGs

Randstad's cash tax rate has also been affected by the use of tax transparent entities in the US and Germany (limited partnership and Kommanditgesellschaft respectively). As transparent entities (which are "looked through" for Dutch tax purposes), any losses are offset against Dutch taxable profits, but any subsequent profits are also taxable in the Netherlands.

[17] Limited partnerships are sometimes transparent to some tax authorities, which can sometimes mean that companies can achieve a "double dip" interest deduction (ie get a tax deduction for the interest in two jurisdictions).

After tax amortisation of acquisition goodwill, these businesses were loss making (for tax purposes) for several years (at least up to and including 2005), which reduced tax payable in the Netherlands, but a deferred tax "recapture obligation" was accrued to reflect the tax payable on profits in future. As a result the P&L tax rate was not affected but cash taxes were reduced. The group also benefitted economically because, as well as the deferral of tax payment, the losses were deducted when the Netherlands tax rate was higher (34.5%) but profits are taxable at the current lower rate (25%). Furthermore, the recapture obligation relating to the US was reassessed in 2008 and the company now confirms that Dutch corporate tax will only be payable when dividends from these operations are received in the Netherlands, rather than on US profits as was the case before. This resulted in a release of €186m of deferred tax liability relating to recapture obligation.

Cash tax rate now much higher than P&L tax rate

Interestingly, when we look at the Randstad effective tax rates (P&L and cash) since 2005, the P&L tax rate has on average remained low, but the average cash tax rate, although volatile, has been much higher than in the 1998-2005 period (Figure 22).

Figure 22. Randstad reported P&L tax and cash tax rates, 2006–2010 (€m)

	2006	2007	2008	2009	2010	Total
Profit before tax	414.4	539.5	-102.6	44.4	318.0	1,214
P&L tax (charge)/credit	-54.1	-154.6	121.0	23.2	-29.5	-94
P&L tax rate	**13%**	**29%**	**118%**	**-52%**	**9%**	**8%**
Cash tax (paid)	-105.6	-153.0	-205.4	85.6	-102.9	-481
Cash tax rate	**25%**	**28%**	**-200%**	**-193%**	**32%**	**40%**

Source: Company annual reports, CIRA

The difference between cash and P&L tax rates seems to arise mainly due to acquisition intangibles being amortised under IFRS but not for tax purposes and to a lesser extent because the P&L tax charge has been reduced by various one-off items (eg reassessment of deferred tax at new tax rates, the release of the recapture obligation, and recognition of previously unrecognised DTAs on tax losses) (Figure 23[18]). Importantly, in 2010, the current tax charge was much higher than the total P&L tax charge, due to a significant deferred tax credit. This arose mainly on the recognition of DTAs on tax losses and also on temporary differences. The increase in DTAs on tax losses was mostly due to improved outlook in the US, resulting in expectations of greater utilisation of tax losses, which gave a tax gain of €60m.

Figure 23. Randstad tax reconciliation, 2005–2010, using proforma figures for 2008-2010

	2005	2006	2007	2008	2009	2010
Income tax rate of the company's country of domicile	31.5%	29.6%	25.5%	25.5%	25.5%	25.5%
Effect of income tax rates in other (non-domestic) jurisdictions	1.1%	3.1%	4.9%	3.5%	-1.4%	3.6%
Weighted average applicable tax rate	**32.6%**	**32.7%**	**30.4%**	**29.0%**	**24.1%**	**29.1%**
Tax-exempt income	-0.8%	-3.1%	-1.9%	-6.1%	-27.8%	-1.3%
Changes in statutory applicable tax rates and effects prior years	-4.4%	-8.6%	2.5%	0.0%	-1.0%	-0.6%
Change in valuation of deferred tax assets and other	-13.3%	-7.9%	-2.3%	0.3%	17.8%	-10.2%
Average effective tax rate	**14.1%**	**13.1%**	**28.7%**	**23.2%**	**13.1%**	**17.0%**

Source: Company annual reports, CIRA

[18] Note that in this Figure we have used proforma/adjusted profits and tax figures for 2008-2010, giving a normalized tax rate of 17% in 2010 compared to 9% based on reported figures.

In 2010, Randstad noted several other factors impacting tax rates, including the higher apparent French tax rate due to a change in French business tax which meant that taxes previously included as operating expenses (above the PBT line) are now classified in the tax line under IFRS. Other factors included the lower relative weight of tax synergies due to improved profitability, and changes in legislation in respect of non-deductible expenses.

Higher underlying P&L tax rate in 2011

The future P&L tax rate may be significantly affected by the prospects for recovery of tax losses resulting in deferred tax remeasurements. However, the cash tax rate may continue to be higher than the P&L charge. Randstad has guided to a 2011 full year tax rate of 29%-32% on underlying profits, noting the impact of geographic mix due to higher growth in higher tax countries and the lower impact of the tax efficient structure as the results improve.

Experian

- Low tax rate (19% in 2011, 14% over five years) given geographic mix
- Cash tax rate also low
- Receives cash tax benefit from tax deductible goodwill

Tax rate of 14% since de-merger

Experian is another example of a company with a low reported tax rate which is hard to reconcile to the profit mix. Over 2007-2011, the P&L tax rate averaged just 14%.

Figure 24. Experian tax reconciliation, 2007-2011 (years to March) ($m)

	2007[1]	2008	2009	2010	2011	Total
Profit before tax	394	549	578	661	679	2,861
Add: tax expense on share of profit of associates	9	6	2			17
Adjusted profit before tax	403	555	580	661	679	2,878
Profit before tax multiplied by UK corporate tax rate	**121**	**167**	**162**	**185**	**190**	**825**
Effects of:						
Adjustments in respect of prior years	-11	-32	-31	7	-22	-89
Income not taxable	-10	-24	-25	-30	-23	-112
Expenses not deductible	39	45	53	38	74	249
Utilisation/adjustment in respect of previously unrecognised tax losses	-16	10	1	-105	-58	-168
Tax expense on share of profits of associates	-9	-6	-2			-17
Effect of different tax rates in non-UK businesses	-34	-63	-74	-78	-42	-291
Disposal of business	-3					-3
Other adjustments	-9					-9
Reduction in future rate of UK corporation tax					10	10
Group tax charge/(credit)	**68**	**97**	**84**	**17**	**129**	**395**
Effective tax rate	**17%**	**18%**	**15%**	**3%**	**19%**	**14%**

Source: Company annual reports, CIRA. Note: [1] The 2007 results were materially impacted by the costs of de-merger.

But expected tax rate of 36% based on geographic mix

According to Experian's tax reconciliation (Figure 24), there are several factors which have contributed to the low tax rate since spin-off. The largest is the effect of different tax rates in non-UK businesses, which lowered the average tax rate a full ten percentage points. Experian has been tax resident in Ireland since it was de-merged. However, Experian earns less than 1% of its revenue in Ireland and therefore we do not think that the low Irish tax rate alone can be the main explanation for Experian's tax rate. In the year to March 2011, Experian reported a tax rate of 19%. Based on Experian's geographic profit mix, we would expect a tax rate of 36% (Figure 25).

Figure 25. Experian weighted average 2011 tax rate implied by PBT geographical splits ($m)

	North America	Latin America	UK & Ireland	EMEA/ Asia Pacific	Central	Total
Profit before tax (PBT)	610	235	212	53	-137	973
PBT split %	55%	21%	19%	5%		100%
Assumed tax rate for region	40%	34%	28%	29%		
Corporate tax rate implied by PBT split						**36%**

Source: Company annual report, IMF, KPMG, CIRA. Note: North America based on USA tax rate (99.8% of reported region revenue), Latin America based on Brazil (99.0%), and UK & Ireland based on UK (98.8%). We have not attributed a tax rate to Central figures.

Significant P&L and cash tax benefit from utilisation of tax losses

Prior year adjustments have lowered the tax rate in five of the last six years, while Experian notes that many of these relate to historic tax issues retained by the company following the de-merger. In the last two years, adjustments relating to previously unrecognised tax losses have also lowered the tax rate significantly. There is potential for this to continue since in addition to $117m of DTAs relating to tax losses, the group also had further unrecognised DTAs of $289m relating to tax losses at March 2011. Indeed, in H1 2011/12 Experian reported a further one-off tax credit of $36m relating to tax loss utilisation.

The tax reconciliation also shows significant “income not taxable” and “expenses not deductible” but with no further information about these items. Experian has guided analysts towards a P&L tax rate of 24% (based on benchmark PBT). Benchmark PBT excludes the impact of the amortisation of acquired intangibles, fair value remeasurements and exceptional items.

Interestingly, Experian’s cash tax rate has also been very low. Since 2006/07, the cash tax paid has been $375m on profits before tax of $2.9bn, a 13% rate (Figure 26).

Figure 26. Experian adjusted P&L and cash tax rate, 2007-2011 (years to March) ($m)

	2007	2008	2009	2010	2011	Total
Adjusted profit before tax	403	555	580	661	679	2,878
P&L tax charge/(credit)	68	97	84	17	129	395
P&L tax rate	**17%**	**17%**	**14%**	**3%**	**19%**	**14%**
Cash tax paid	121	79	39	48	88	375
Cash tax rate	**30%**	**14%**	**7%**	**7%**	**13%**	**13%**

Source: Company annual reports, CIRA

The cash tax rate remained low in H1 2011/12 at 9.3% of benchmark PBT, and the company has guided for a full year cash tax rate of 12%-15% in 2011/12. Tax deductible goodwill amortisation is stated as the main reason for this low rate, with the company noting that it benefits from tax deductible goodwill on some acquisitions (for example Serasa in Brazil). Experian notes that the Brazilian tax authorities are challenging the deduction of goodwill amortisation for tax purposes, although the company does not expect this to result in a liability.

Chemicals

- Relatively few issues in this sector currently
- Shift towards emerging markets may lower tax rates
- Tax loss carry-forwards can be material to valuation

The Chemicals team does not perceive too many issues with their sector. Reported tax rates mainly reflect expected differences due to headquarter locations (eg lower rates on average for most of the Swiss groups). The development of business in emerging markets may help continue downward pressure on effective tax rates.

Rhodia acquisition may affect Solvay tax position materially

Solvay recently acquired Rhodia (consolidated from Q4 2011), which has €1.4bn of unrecognised DTAs, of which over €0.8bn arises from tax losses in France and the UK with unlimited loss carry-forward. It will be interesting to see if Solvay capitalises any of these DTAs on acquisition, and the impact on Solvay's P&L and cash tax rates. The company has provided an update on this as part of Q3 2011 results. As a result of the recent changes to tax law in France (as discussed on page 10), Solvay will not be able to fully offset Rhodia's profits against tax loss carry-forwards. As a result, Solvay is now guiding for a tax rate of above 30% from 2012 onwards compared to previous guidance of around 28%.

Figure 27. Tax rates of European Chemicals coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
L'Air Liquide SA	AIRP.PA	France	29%	26%	24%	25%	26%	26%	26%	27%
Akzo Nobel NV	AKZO.AS	Netherlands	18%	27%	-33%	27%	19%	37%	30%	35%
Arkema	AKE.PA	France	60%	49%	41%	-104%	26%	51%	26%	25%
BASF SE	BASFn.DE	Germany	47%	38%	45%	46%	31%	40%	28%	32%
Clariant AG	CLN.VX	Switzerland	52%	48%	131%	-60%	21%	70%	29%	28%
Croda International PLC	CRDA.L	UK	63%	34%	32%	36%	33%	35%	33%	32%
DSM NV	DSMN.AS	Netherlands	25%	24%	24%	102%	25%	26%	18%	22%
Givaudan AG	GIVN.VX	Switzerland	19%	42%	28%	25%	22%	24%	21%	21%
Johnson Matthey PLC	JMAT.L	UK	29%	29%	31%	28%	29%	29%	28%	28%
K+S AG	SDFGn.DE	Germany	21%	35%	27%	23%	26%	25%	26%	27%
Lanxess	LXSG.DE	Germany	30%	35%	25%	-22%	23%	25%	23%	22%
Linde AG	LING.DE	Germany	26%	28%	23%	22%	24%	25%	23%	24%
Lonza Group AG	LONN.VX	Switzerland	21%	17%	12%	15%	14%	15%	16%	20%
Solvay SA	SOLB.BR	Belgium	20%	29%	24%	26%	-4%	24%	24%	31%
Symrise AG	SY1G.DE	Germany	24%	31%	33%	28%	25%	30%	24%	24%
Syngenta AG	SYNN.VX	Switzerland	20%	22%	18%	16%	16%	18%	20%	20%
Umicore NV/SA	UMI.BR	Belgium	16%	20%	34%	20%	18%	21%	19%	20%
Victrex PLC	VCTX.L	UK	31%	30%	29%	29%	28%	29%	27%	27%
Wacker Chemie AG	WCHG.DE	Germany	25%	33%	32%	2,358%	32%	34%	31%	33%
Yara International	YAR.OL	Norway	23%	22%	33%	-16%	25%	23%	18%	21%
Average			**30%**	**31%**	**31%**	**131%**	**23%**	**30%**	**24%**	**26%**
Median			**25%**	**30%**	**28%**	**25%**	**25%**	**26%**	**25%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Lanxess

- We believe that Lanxess' lower than average tax rate reflects its emerging market exposure and a recent construction of a new facility in Singapore, for which our analysts understand it will receive a 10 year zero tax rate

As a case study we use Lanxess due to its somewhat lower than average tax rate for a German company. As shown in the tax reconciliation (Figure 28), the main reconciling factor is differences between the German tax rate of 31.2% and the local tax rates the company experiences. We believe this is mainly due to lower rates in emerging markets to which the company has increasing exposure. More than a third of 2010 revenues arose in Asia and Latin America.

Figure 28. Lanxess tax reconciliation, 2009–2010 (€m)

	2009	2010	Total
Income before income taxes	32	493	525
Aggregated Lanxess income tax rate	31%	31%	31%
Expected tax expense	**-10**	**-154**	**-164**
Effects of:	18	52	70
Reduction in taxes due to tax-free income:			0
Utilisation of unrecognised loss carry-forwards	5	3	8
Other	7	8	15
Increase in taxes due to non-tax-deductible expenses	-10	-6	-16
Other tax effects	-3	-15	-18
Actual tax income (expense)	**7**	**-112**	**-105**
Effective tax rate	-22%	23%	20%

Source: Company annual reports, CIRA

Lanxess benefits from Singapore investment

In addition, Lanxess has made an investment of €400m in a new butyl rubber plant in Singapore. We understand the company has received a 10-year, zero tax rate as a result of this investment.

Lanxess also has some off balance sheet DTAs, mainly due to tax losses, amounting to €79m. The company notes that most of its off balance sheet DTAs will not be utilised for 5 years, implying this is the company's assessment cut-off.

Diversified Financials

- Relatively few tax issues
- Tax rates reflect geographic exposure
- Typical asset manager tax rates around 25%, approximately 2% benefit from tax losses in some cases

The Diversified Financials team does not see any significant tax issues in this sector. Tax rates are usually dependent on home jurisdiction, for example Swiss groups have lower rates on average.

Tax rates reflect geographic mix

For a few UK asset managers, tax rates differ from "normal" due to the geographies in which they operate. For example, **Man Group** benefits from significant profits booked in Switzerland, whereas **ICAP** suffers from significant profits booked in the U.S.

Many asset managers have brought forward tax losses, which can reduce cash tax payments.

3i has a very low tax rate due to its investment trust status.

Figure 29. Tax rates of European Diversified Financials coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
3i Group Plc	III.L	UK	0%	1%	-0%	3%	2%	7%	-1%	1%
Aberdeen Asset Management	ADN.L	UK	19%	-29%	23%	36%	15%	14%	26%	26%
Ashmore Group	ASHM.L	UK	30%	28%	28%	26%	23%	26%	25%	24%
BME	BME.MC	Spain	33%	31%	28%	27%	29%	30%	29%	30%
EFG International	EFGN.S	Switzerland	12%	11%	12%	5%	3%	45%	8%	12%
F&C Asset Management Plc	FCAM.L	UK	26%	28%	25%	-115%	30%	41%	28%	27%
GAM Holding Ltd	GAMH.S	Switzerland	27%	25%	25%	1%	81%	15%	20%	20%
Gottex Fund Management Holdings Ltd	GFMN.S	Switzerland	12%	10%	10%	-5%	52%	9%	1%	11%
Hargreaves Lansdown PLC	HRGV.L	UK	30%	30%	29%	29%	27%	29%	26%	25%
Hellenic Exchange Holding SA	EXCr.AT	Greece	33%	26%	27%	46%	46%	33%	25%	31%
Henderson Group Plc	HGGH.L	UK	15%	10%	-22%	6%	-1%	10%	-71%	24%
ICAP PLC	IAP.L	UK	42%	40%	35%	35%	21%	35%	38%	37%
IG Group	IGG.L	UK	31%	31%	29%	28%	459%	36%	26%	25%
ING Groep NV	ING.AS	Netherlands	19%	14%	48%	31%	26%	15%	25%	27%
Intermediate Capital Group	ICP.L	UK	36%	33%	-10%	23%	31%	36%	34%	33%
International Personal Finance Plc	IPF.L	UK	33%	31%	28%	26%	33%	30%	29%	28%
Investec PLC	INVP.L	UK	26%	24%	23%	21%	13%	21%	20%	22%
Julius Baer Gruppe AG	BAER.VX	Switzerland	26%	19%	19%	18%	19%	20%	18%	19%
Jupiter Fund Management	JUP.L	UK		24%	2%	-20%	23%	24%	26%	25%
Man Group PLC	EMG.L	UK	15%	18%	40%	20%	20%	21%	17%	17%
Provident Financial PLC	PFG.L	UK	31%	30%	28%	30%	29%	29%	26%	25%
Schroders PLC	SDR.L	UK	25%	24%	44%	34%	24%	27%	24%	25%
Tullet Prebon	TLPR.L	UK	33%	35%	32%	30%	24%	30%	29%	30%
Vontobel	VONN.S	Switzerland	14%	17%	18%	9%	15%	15%	16%	16%
Average			**24%**	**21%**	**22%**	**14%**	**43%**	**25%**	**19%**	**23%**
Median			**26%**	**24%**	**26%**	**24%**	**24%**	**27%**	**25%**	**25%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Engineering

- Tax rates largely reflect home jurisdictions and geographic exposures
- Deferred tax assets arising from tax depreciation, pension deficits and tax losses can be material
- Reported tax rates may be volatile due to one-off items

Companies in the Engineering sector report a range of tax rates, reflecting varying geographic exposures and home jurisdiction tax rates.

We use **Invensys** as a case study below.

Figure 30. Tax rates of European Engineering coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
ABB Ltd	ABBN.VX	Switzerland	29%	15%	25%	24%	27%	23%	27%	28%
Alstom	ALSO.PA	France	24%	25%	25%	24%	22%	25%	23%	23%
Atlas Copco AB	ATCOa.ST	Sweden	28%	30%	24%	24%	26%	26%	25%	26%
Balfour Beatty	BALF.L	UK	46%	-12%	35%	28%	39%	28%	28%	33%
Bodycote PLC	BOY.L	UK	6%	21%	31%	6%	26%	17%	27%	28%
Carillion	CLLN.L	UK	11%	14%	6%	14%	12%	12%	16%	17%
Charter International PLC	CHTR.L	UK	12%	19%	20%	20%	18%	18%	20%	19%
CIR - Compagnie Industriali Riunite SpA	CIRX.MI	Italy	29%	33%	36%	-2%	9%	25%	5%	5%
Cookson Group PLC	CKSN.L	UK	42%	29%	45%	-93%	20%	36%	26%	27%
Electrolux AB	ELUXb.ST	Sweden	31%	28%	44%	25%	25%	28%	25%	27%
Ellaktor	HELr.AT	Greece	58%	38%	21%	43%	75%	43%	-753%	51%
Fenner	FENR.L	UK	30%	29%	29%	18%	29%	29%	31%	31%
Fiat Industrial	FI.MI	Italy				-7%	34%	218%	40%	40%
FLSmidth	FLS.CO	Denmark	-20%	31%	31%	19%	32%	23%	30%	30%
Frigoglass	FRIr.AT	Greece	29%	27%	31%	25%	27%	28%	24%	25%
GEA Group	G1AG.DE	Germany	26%	31%	24%	23%	24%	26%	26%	25%
Husqvarna AB	HUSQb.ST	Sweden	31%	30%	27%	17%	15%	25%	14%	20%
IMI PLC	IMI.L	UK	31%	31%	34%	29%	30%	31%	29%	28%
Invensys PLC	ISYS.L	UK	14%	16%	13%	14%	17%	15%	22%	24%
Keller Group	KLR.L	UK	32%	35%	32%	30%	35%	33%	27%	27%
MAN SE	MANG.DE	Germany	27%	34%	30%	-16%	30%	34%	28%	29%
METKA	MTKr.AT	Greece	26%	26%	23%	32%	29%	28%	27%	30%
Metso Oyj	MEO1V.HE	Finland	3%	30%	29%	32%	30%	24%	31%	31%
Morgan Crucible Co PLC	MGCR.L	UK	20%	21%	25%	28%	29%	24%	30%	30%
Nexans	NEXS.PA	France	16%	30%	38%	76%	24%	28%	30%	30%
Philips Electronics NV	PHG.AS	Netherlands	11%	14%	311%	22%	26%	20%	36%	28%
Prysmian SpA	PRY.MI	Italy	38%	22%	18%	25%	30%	25%	88%	26%
RHI	RHIV.VI	Austria	12%	12%	10%	15%	0%	9%	26%	19%
Rotork	ROR.L	UK	32%	31%	29%	30%	29%	30%	29%	29%
Sandvik AB	SAND.ST	Sweden	27%	26%	26%	25%	26%	26%	28%	28%
Schneider Electric SA	SCHN.PA	France	28%	27%	24%	24%	24%	26%	24%	30%
Senior	SNR.L	UK	16%	19%	24%	21%	22%	21%	25%	24%
Siemens AG	SIEGn.DE	Germany	25%	23%	35%	37%	29%	29%	28%	28%
SKF AB	SKFb.ST	Sweden	31%	33%	31%	26%	30%	31%	30%	31%
Smiths Group	SMIN.L	UK	21%	23%	26%	21%	23%	23%	30%	30%
Spirax-Sarco	SPX.L	UK	33%	32%	31%	32%	30%	31%	31%	31%
Vestas Wind System	VWS.CO	Denmark	31%	34%	28%	28%	34%	30%	28%	28%
Weir Group PLC	WEIR.L	UK	24%	29%	30%	28%	28%	28%	28%	28%
Average			**24%**	**25%**	**34%**	**20%**	**27%**	**31%**	**8%**	**27%**
Median			**27%**	**28%**	**29%**	**24%**	**27%**	**26%**	**27%**	**28%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Invensys

- Invensys reports a tax rate lower than the UK rate, despite a geographic mix which we would expect to result in a higher tax rate
- Tax rate is reduced by recurring prior year adjustments and previously unrecognised DTAs
- Invensys has a large unrecognised DTA (£582m DTA on income tax losses/pension/other, unspecified value relating to capital losses of £6.2bn)
- Invensys also discloses its ongoing tax litigation claim for compensation which has been referred to the European Court of Justice, but does not quantify the potential benefit

Invensys reports a persistently lower than statutory tax rate, despite a geographic mix which would be expected to result in a higher rate, as illustrated by the tax reconciliation shown below:

Figure 31. Invensys tax reconciliation, 2007-2011 (years to March) (£m)

	2007	2008	2009	2010	2011	Total
Profit/(loss)before tax:						
- Continuing operations	99	199	165	179	222	864
- Discontinued operations	124	177	-11	-3	-7	280
Total profit/(loss)before tax	223	376	154	176	215	1,144
Tax at the UK corporate income tax rate	**67**	**113**	**43**	**49**	**60**	**332**
Adjustments in respect of prior years	-7	-9	-8	-16	-5	-45
Net taxable profit on sale of business	-36					-36
Non taxable loss/(profit) on sale of business		-51	3			-48
Current year losses and other temporary differences not recognised	-1	-7	-7	8	10	3
Expenses not deductible for tax purposes	9	4	5	-17	-6	-5
Tax effect of utilisation of tax losses	-15	-23	-18	-6	-27	-89
Recognition of carried forward losses in current year	-11	-1	-4	-1	-6	-23
Differences in effective overseas tax rates	8	5	7	8	11	39
Tax relating to the disposal of APV	0	9	0	0	0	9
Total income tax expense	**14**	**31**	**21**	**25**	**37**	**128**
Effective tax rate	14%	16%	13%	14%	17%	15%

Source: Company annual report.

Recurring prior year adjustments

Figure 31 shows that the company has repeatedly had lower tax rates due to prior year adjustments and due to tax losses not previously recognised. The company gives no further information about the prior year adjustments so it is impossible to assess if these are likely to continue in future or whether they will remain positive in reducing the tax charge. We note that Invensys last year appointed its auditor Ernst & Young to undertake both global tax compliance services (in place of various accounting firms and in-house functions) and to rationalise the group's number of legal entities. It is possible these activities may affect the settlement of outstanding tax matters for the group.

Off balance sheet DTAs of £582m

The company's tax rate is also lowered by recurrent new recognition of previously unrecognised DTAs. Invensys has only very limited on balance sheet DTAs (£46m reported on balance sheet) but has unrecognised DTAs of £370m arising from income tax losses of £1,183m and a further unrecognised DTA of £212m relating to pension deficits and other items. It is hard to assess the value of these off-balance sheet DTAs totaling £582m. The company gives no specific insights into its DTA recognition policy.

Invensys also has unrecognised capital losses of £6,247m, only available for offset against future capital gains, for which the unrecognised DTA has not been quantified. Our analysts do not expect these capital losses to be utilised and therefore attribute no value to them.

Boilerplate annual report disclosure does not provide guidance on future tax rates

Despite the continuing lower tax rate, Invensys does not give any guidance on the future tax rate in its 2010 annual report, simply stating that "the group is subject to several factors which can affect the tax charge including the levels and mix of profitability in different jurisdictions and the availability of tax losses". CIRA forecast tax rates are 22% and 24% for the years ending March 2012 and 2013 respectively, in line with management commentary. The increasing tax rates reflect in part expected profit growth in countries where the existing tax losses cannot be utilised.

Unclear if litigation case could give material tax upside

Invensys discloses that it is involved in ongoing tax litigation as it is trying to claim compensation for past payment of advance corporation tax (abolished in the UK in 1999) and liabilities to corporation tax arising from dividends from non-UK subsidiaries. This has been referred to the European Court of Justice and may take several years to complete. The company says it is "not possible to predict the amounts and final outcome with any reasonable certainty. Therefore no contingent asset has been recognised in the Group Financial Statement". IAS 37 anyway does not permit contingent assets to be recognised[19], although where an inflow of economic benefits is probable, the contingent asset should be disclosed together with an estimate of the financial effect if practicable. Based on this disclosure, it is not possible to assess how material the compensation could be.

[19] IAS 37 (*Provisions, Contingent Liabilities and Contingent Assets*), paragraph 31.

Food and HPC

- Few tax issues for this sector (relatively stable tax rates for most companies)
- Fewer opportunities for tax planning than in some other sectors
- Growing exposure to emerging markets may affect tax rates in future

Our analysts see few tax issues with the Food Manufacturing and HPC sectors. Most report tax (both P&L and cash tax) at the expected rates, and most are in the normal tax rate range with **Beiersdorf** a little higher than average (eg low 30s rather than mid 20s range). This is shown in Figure 32.

Figure 32. Tax rates of European Food and HPC coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Associated British Foods PLC	ABF.L	UK	27%	22%	27%	23%	26%	25%	29%	29%
Beiersdorf	BEIG.DE	Germany	22%	31%	31%	35%	41%	31%	33%	35%
Danone	DANO.PA	France	20%	30%	28%	21%	23%	24%	26%	26%
Greggs	GRG.L	UK	33%	29%	31%	30%	28%	30%	26%	26%
Henkel	HNKG_p.DE	Germany	26%	25%	24%	29%	26%	26%	27%	27%
Lindt & Sprungli	LISN.S	Switzerland	28%	27%	25%	26%	24%	26%	25%	25%
L Oreal Group	OREP.PA	France	20%	24%	26%	27%	29%	25%	28%	28%
Nestle	NESN.VX	Switzerland	24%	25%	11%	26%	29%	21%	26%	26%
Premier Foods	PFD.L	UK	19%	51%	8%	15%	12%	13%	-7%	-31%
Reckitt Benckiser	RB.L	UK	23%	22%	24%	25%	26%	25%	28%	26%
Tate and Lyle	TATE.L	UK	36%	44%	17%	138%	20%	22%	16%	18%
Unilever NV	UNc.AS	Netherlands	24%	22%	26%	26%	25%	25%	25%	25%
Average			**25%**	**29%**	**23%**	**35%**	**26%**	**24%**	**24%**	**22%**
Median			**24%**	**26%**	**25%**	**26%**	**26%**	**25%**	**26%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Nestle tax rate higher than average for a1 Swiss company

Nestle's tax rate is relatively high for a Swiss company (forecast tax rate approximately 26%, vs normal Swiss tax rates of 20%-22%) but this reflects its global sales, with costs largely matched to sales, and perhaps relatively limited opportunities for tax planning.

Tate & Lyle benefitting from Singapore investment

There may be some opportunity for companies' tax rates to fall as emerging market exposure grows. **Tate & Lyle** has achieved a low rate of tax (CIRA analyst estimates an underlying rate of around 19%) due to investing in a plant in Singapore and being granted a multi-year zero tax rate there.

Premier Foods volatile tax rate

Premier Foods' reported tax rate has been volatile, due to a variety of factors (non deductible exceptional items, repeated prior year tax adjustments, adjustments relating to changes to tax legislation and rates, etc). The company pays little cash tax.

Food Retail

- Tax rates are surprisingly variable across the sector given its relatively straightforward nature
- Geographic mix of profits is important
- Some companies have tax rates which appear significantly different from expected geographic weighted average, eg **Ahold**, **Metro**

More complicated tax issues than expected

One might expect tax risk to be relatively low in the food retail sector, for example due to the cash-based nature of the business and fewer intangible assets than some industries. Nevertheless, the CIRA Food Retail team has highlighted a number of anomalies where the reported tax rates are surprisingly different from the expected weighted average tax rate.

Figure 33. Tax rates of European Food Retail coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Ahold	AHLN.AS	Netherlands	9%	20%	23%	15%	25%	19%	24%	25%
Booker	BOK.L	UK	59%	18%	17%	17%	17%	22%	19%	21%
Carrefour	CARR.PA	France	29%	29%	34%	58%	59%	37%	28%	28%
Casino Guichard Perachon	CASP.PA	France	34%	28%	26%	24%	22%	27%	30%	31%
Delhaize	DELB.BR	Belgium	37%	34%	31%	31%	30%	32%	31%	31%
Colruyt	COLR.BR	Belgium	33%	33%	31%	32%	29%	32%	30%	30%
Guyenne et Gascogne	GUYG.PA	France	5%	5%	9%	12%	16%	9%	16%	16%
Jeronimo Martins	JMT.LS	Portugal	20%	20%	21%	20%	21%	20%	21%	22%
Metro AG	MEOG.DE	Germany	32%	36%	30%	51%	43%	38%	36%	35%
Morrison (Wm)	MRW.L	UK	33%	9%	30%	30%	28%	26%	29%	28%
Sainsbury	SBRY.L	UK	32%	31%	31%	25%	24%	28%	26%	26%
Tesco	TSCO.L	UK	31%	25%	28%	27%	25%	27%	26%	25%
Average			**29%**	**24%**	**26%**	**28%**	**28%**	**26%**	**26%**	**26%**
Median			**32%**	**26%**	**29%**	**26%**	**25%**	**27%**	**27%**	**27%**

Source: dataCentral, DataStream, Company annual reports, CIRA

In particular, **Ahold** has a much lower tax rate (CIRA forecast around 25% for 2011 and 2012) than would be expected given its high proportion of US sales and profits. Conversely, **Metro** has a significantly higher than expected tax rate (Citi forecast high 30s for 2011-12). We look at both cases in detail below.

Tesco's future tax rate may be affected by prior year adjustments, changes in UK rates affecting DTLs, and off-balance sheet DTAs

We note that **Tesco's** future tax rate may be affected by several factors. Firstly, Tesco's tax reconciliation has included (usually significant) prior year adjustments every year for at least the last decade with little explanation, and we assume this may continue.

Secondly, Tesco has £1.6bn of deferred tax liabilities relating to property, mainly due to accelerated tax depreciation. The net DTL is approximately £1bn. Tesco's P&L tax rate will be reduced slightly in the coming years as the UK corporate tax rate falls to 23% by 2014 and the net deferred tax liability is recalculated at the lower rate.

Finally, Tesco has not recognised a DTA for £1.2bn of tax losses (associated DTA could be up to £300-£500m depending on tax rate) due to the unpredictability of future profit streams. We assume a significant proportion of these losses arise in the US. As Tesco has not capitalised the associated DTA, but might be able to capitalise some in future if profitability improves in previously loss making territories, this may reduce Tesco's tax rate in future and also make it harder to forecast.

Ahold

- Low tax rate of 25% is surprising given geographic mix (estimated weighted tax rate of 33% based on approximately 50% of profits in US)
- Tax reconciliation suggests actual weighted tax rate is lower
- Limited information, but low tax attributed to US and nature of some group subsidiaries may suggest active tax planning to reduce US taxable profits

Ahold's tax rate of 25% in 2010 and 15% in 2009 is low vs simple weighted average calculation of 33%

Ahold's tax rate is surprisingly low given the group's US exposure, at 25.2% in 2010 and 14.6% in 2009. Our analysts forecast 24% in 2011 and 25% in 2012. We show a simple calculation of the expected tax rate of 33% based on the geographic mix of operating profits as disclosed in the 2010 accounts.

Figure 34. Ahold weighted average tax rate implied by EBIT geographical split (€m)

	USA	Netherlands	Other Europe	Corporate Centre	Total
EBIT	714	688	10	-76	1,336
EBIT split %	51%	49%	1%		100%
Assumed tax rate for region	40%	26%	29%		
Corporate tax rate implied from split					**33%**

Source: Company annual report, IMF, KPMG, CIRA. Note: We have not attributed a tax rate to Corporate Centre.

Figure 35. Ahold tax reconciliation, 2009–2010 (€m)

	2009		2010		Total	
	€m	%	€m	%	€m	%
Income before income taxes	1,014		1,077		2,091	
Income tax expense at statutory tax rates	**-259**	**25.5%**	**-275**	**25.5%**	**-534**	**25.5%**
Adjustments to arrive at effective income tax rates:						
Rate differential (local rates versus the statutory rate of the Netherlands)	-12	1%	25	-2%	13	-1%
Deferred tax income due to changes in tax rates	12	-1%	4	-0%	16	-1%
Deferred tax income related to recognition of deferred tax assets - net	101	-10%			101	-5%
Reserves, (non-)deductibles, and discrete items	10	-1%	-25	2%	-15	1%
Total income taxes	**-148**	**15%**	**-271**	**25%**	**-419**	**20%**

Source: Company annual reports

Ahold disclosures show geographic weighted tax rate of 23% in 2010, 27% in 2009

However, the company's tax reconciliation in 2010, starting with a Netherlands statutory tax rate of 25.5%, indicates that the geographic weighted average tax rate was lower than the Netherlands rate (adjusting for "rate differential" of -2.3%), at 23.2%. For 2009, the implied average rate was 26.7% (adding "rate differential" of 1.2%).

Tax reconciliation provides little explanation

We do not find the tax reconciliation very helpful for investors. Some explanation of the tax rate differential would be helpful. In addition, the line "reserves, (non-) deductibles, and discrete items" may combine many possible reconciling items and we find it unhelpful without further information (eg we do not know if the reported impact is the net of significant positive and negative factors).

Ahold not paying much tax in US

It appears that the low overall tax rate is probably explained by the group not paying much tax in the US. The tax note reports the current tax and deferred tax charges associated with the US and if we compare these to the estimated US pre-tax profit (attributing corporate charges and net interest paid relative to US share of pre corporate charges operating profit) we calculate low US tax rates of approximately 9% (current taxes) and 15% (total tax including deferred tax). This calculation is shown below in Figure 36.

Figure 36. Ahold segmental EBIT and tax rate calculation 2010 (€m)

	Netherlands	United States	Other Europe	Total
EBIT	714	688	10	1,412
Split %	**51%**	**49%**	**1%**	**99%**
Corporate Centre charges	-38	-37	-1	-76
Net financial expense	-131	-126	-2	-259
Pre tax profit	545	525	8	1,077
Current income taxes	169	48	4	221
Current income tax rate	**31%**	**9%**	**52%**	**21%**
Deferred income taxes	10	33	7	50
Total income taxes	179	81	11	271
Total income tax rate	**33%**	**15%**	**144%**	**25%**

Source: Citi Investment Research and Analysis

One possible issue is that the company has some tax losses in the US. This would reduce current US tax payable and, if the associated DTAs were not previously recognised on balance sheet, could also reduce the total tax attributed to the US (although this should be obvious in the tax reconciliation). Ahold only recognises DTAs arising from tax credits/losses of €113m. However in total it has operating and capital loss carry-forwards of €4,057m, of which €3,065m relates to US state taxes to which a rate of 6.4% applies (ie the associated off-balance sheet DTA could be valued at €196m). We note that, in 2009, Ahold's total tax charge was reduced by €101m from recognising DTAs, as shown in Figure 35.

In our view, the most likely reason for Ahold's overall stated low tax rate, and the low tax attributed to the US business, is international tax planning by the group.

Ahold's annual report (page 120) lists a number of subsidiaries including:

Ahold Finance USA LLC, Amsterdam
Ahold Financial Services LLC, Carlisle, Pennsylvania, US
Ahold Information Services, S. Carolina, US
Ahold International Sarl, Zug, Switzerland
Ahold Lease USA, Boston, US
Ahold Licensing Sarl, Geneva, Switzerland
Ahold Insurance NV, Curacao (Netherlands Antilles)
Ahold Finance Company NV, Curacao (Netherlands Antilles) – Swiss branches

We suspect Ahold has undertaken significant tax planning

Noting the existence of these subsidiaries (and their locations), a possible way for companies to lower US taxable profits would be by charging intra-group costs such as interest charges, lease charges, licensing fees for intellectual property, captive insurance charges, etc. The associated income (interest income, licence fees income, etc) could be routed through low tax vehicles such as Netherlands Finance companies or Swiss companies (for example Zug is generally considered a low-tax Swiss canton and it may be open to negotiating specific arrangements with large companies). We have no evidence to suggest Ahold is doing this, but methods such as this would seem consistent with the reported tax outcome. We should note that it is not at all unusual for large international groups to have such subsidiaries.

The important issue for shareholders is whether the low tax rate is sustainable, and whether the group may face significant tax risk from its tax planning arrangements.

Metro

- Relatively high tax rates – 43% in 2010, 51% in 2009, and forecast rate in the mid 30's
- This is not due to geographic mix – exposure to Eastern Europe lowers the average tax rate and this is confirmed in the published tax reconciliation
- Probably due to tax losses in parts of the German business, which cannot be offset against other German profits, and for which near-term realisation is not expected

Geographic mix should lower tax rate

Metro's tax rate, in contrast to Ahold's, is surprisingly high given its geographic mix of business. Given the company's Eastern Europe exposure (42% of 2010 EBIT), we would expect a weighted average rate well below the German tax rate, approximately 25% (Figure 37). Most East European countries have tax rates of 20% or below.

Figure 37. Metro weighted average 2010 tax rate implied by revenue and EBIT geographical splits (€m)

	Germany	Western Europe ex Germany	Eastern Europe	Asia/ Africa	Consolidation	Total
Revenue	26,156	21,550	16,880	3,338	-666	67,258
Revenue split %	39%	32%	25%	5%		100%
EBIT	399	888	920	5	-1	2,211
EBIT split %	18%	40%	42%	0%		100%
Assumed tax rate for region	29%	28%	19%	26%		
Corporate tax rate implied by revenue split						**26%**
Corporate tax rate implied by EBIT split						**25%**

Source: Company annual report, IMF, KPMG, CIRA. Note: We have not attributed a tax rate to Consolidation.

High reported and forecast tax rates

However, Metro reported a P&L tax rate of 42.6% in 2010 and 50.5% in 2009, and our analysts forecast a tax rate in the high 30s for the next two years. This is shown in the tax reconciliation (Figure 38). The company states that, excluding special items relating to the efficiency programme, Shape 2012, the effective tax rates for 2010 and 2009 would have been 37.9% and 40.8% respectively.

Figure 38. Metro tax reconciliation, 2009–2010 (€m)

	2009	2010	Total
Earnings before taxes	1,050	1,630	2,680
Expected income tax expenses	**321**	**498**	**819**
Effects of differing national tax rates	-62	-137	-199
Tax expenses and income relating to other periods	-12	49	37
Non-deductible business expenses	75	90	165
Effects of not recognised or impaired deferred taxes	180	182	362
Additions and reductions for local taxes	26	38	64
Tax holidays	-13	-33	-46
Other deviations	16	7	23
Income tax expense	**531**	**694**	**1,225**
Effective tax rate	51%	43%	19%

Source: Company annual reports

The tax reconciliation shows that the geographic weighted tax rate is lower than the German rate at 22% in 2010 and 25% in 2009 (adjusting for "effects of differing national tax rates"). Geographic mix is therefore not the reason for Metro's high reported tax rate. The tax reconciliation highlights two main factors increasing the tax charge – "effects of not recognised or impaired deferred taxes" and "non-deductible business expenses".

Non-deductible expenses increase tax charge

There is no further information about the non-deductible business expenses, although it appears some of this relates to the Shape 2012 programme. In our experience, most restructuring charges and write-downs have associated deferred tax credits (although they will often not impact current tax immediately) so we find this slightly surprising, and generally the level of non-deductible expenses seems rather high.

Off-balance sheet German tax losses are major factor in high overall tax charges

The other reconciling item is unrecognised or impaired deferred tax assets. Metro has tax losses of €6,488m relating to corporate tax and €6,839m relating to business tax (both mainly in Germany) for which no DTA has been recognised, as "short-term realisation is not expected". We estimate the associated DTA could amount to approximately €2bn, although this is not clear. The tax losses have increased in 2010, suggesting that some German subsidiaries are still loss making.

So it seems the main reason for the overall higher tax rate is that some German parts of the business are loss-making, with no significant profitability expected in the near term. The company does not explain why the German losses can not be utilised against the German profits of other parts of the business. We note also that, of the taxes paid by the group over the last two years, about a third was in Germany, compared to Germany representing only about 19% of EBIT. We think this is consistent with the German business containing a mix of loss making and profitable businesses.

More information needed to assess the likely long-term effective tax rate

We would find it helpful if Metro disclosed more information about the German tax position to help us assess whether the German losses will persist in the medium/long term (implying the tax rate will remain high) or whether it is reasonable to assume a more normalised tax rate in future.

General Retail

- Tax losses can be a problem in this sector, and may be "trapped" in certain subsidiaries or countries, eg **Kesa** and **Dixons**
- Joint venture accounting can distort apparent tax rates, eg **Carphone Warehouse**
- **WH Smith's** lower than expected tax rate driven by recurring prior year adjustments

The CIRA General Retail team does not see particularly high tax risk in this sector. Although some companies report tax rates which appear to differ significantly from the expected rate (Figure 39), in most cases the explanations are straightforward.

Figure 39. Tax rates of European General Retail coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
adidas Group	ADSGn.DE	Germany	31%	32%	29%	32%	30%	30%	28%	29%
ASOS Plc	ASOS.L	UK	28%	31%	29%	28%	31%	29%	34%	26%
N Brown	BWNG.L	UK	28%	28%	33%	27%	24%	28%	24%	24%
Carphone Warehouse	CPW.L	UK	25%	25%	13%	-0%	200%	-1%	2%	3%
Debenhams Plc	DEB.L	UK	30%	27%	21%	31%	27%	27%	25%	24%
Dixons Retail PLC	DXNS.L	UK	69%	-33%	-39%	42%	-9%	-77%	49%	49%
Dunelm	DNLM.L	UK	35%	31%	30%	29%	28%	30%	27%	26%
Fourlis Holdings	FRLr.AT	Greece	43%	29%	27%	40%	42%	34%	34%	30%
Geox SpA	GEO.MI	Italy	27%	31%	29%	41%	36%	32%	36%	35%
Halfords Group Plc	HFD.L	UK	29%	29%	28%	30%	28%	29%	27%	26%
Hennes & Mauritz AB	HMb.ST	Sweden	32%	29%	28%	26%	25%	28%	26%	26%
HMV Group PLC	HMV.L	UK	25%	28%	28%	29%	161%	30%	-8%	26%
Home Retail Group	HOME.L	UK	37%	31%	-5%	28%	28%	47%	27%	25%
Inchcape PLC	INCH.L	UK	18%	24%	50%	31%	30%	28%	26%	27%
Inditex	ITX.MC	Spain	25%	24%	20%	24%	25%	24%	23%	25%
Jumbo Babyland	BABr.AT	Greece	29%	26%	25%	22%	23%	25%	28%	26%
Kesa Electricals PLC	KESA.L	UK	34%	37%	-37%	42%	49%	67%	35%	35%
Kingfisher PLC	KGF.L	UK	26%	33%	129%	34%	28%	33%	28%	28%
Marks and Spencer Group PLC	MKS.L	UK	30%	27%	28%	26%	23%	27%	25%	24%
Next Group PLC	NXT.L	UK	31%	29%	30%	28%	27%	29%	26%	25%
Safilo SpA	SFLG.MI	Italy	43%	42%	170%	-8%	84%	-167%	50%	45%
Signet Jewelers Ltd	SIG.L	UK	35%	35%	-21%	32%	33%	53%	35%	36%
Smith WH PLC	SMWH.L	UK	21%	22%	22%	22%	22%	22%	19%	20%
Sports Direct International Plc	SPD.L	UK	41%	36%	320%	27%	30%	38%	29%	29%
Statoil Fuel and Retail	SFRET.OL	Norway		46%	-36%	2%	18%	12%	25%	25%
Yoox	YOOX.MI	Italy		-61%	33%	44%	39%	41%	43%	42%
Average			**30%**	**25%**	**38%**	**27%**	**42%**	**19%**	**28%**	**28%**
Median			**30%**	**29%**	**28%**	**28%**	**28%**	**29%**	**27%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Some tax losses cannot be used despite overall group profitability

For example, **Kesa** and **Dixons** have "trapped" tax losses which have increased the effective tax rates. This can occur when a subsidiary in one country is loss-making and these losses cannot be offset against profits in another country. We use Kesa as a case study below.

In most cases it is not possible to use "tax consolidation" or use "group relief" techniques to share losses generated in different countries. **Marks & Spencer** (M&S) challenged this principle with a tax case taken to the European Court of Justice (ECJ) in December 2005, in which it won only a limited victory. M&S wished to use the tax losses from subsidiaries in Belgium, France and Germany against UK taxable profits. The ECJ concluded that the losses could only be offset against profits in another country if the company could prove that the losses could never be used in the country in which they were generated. In most situations this rules out using the losses cross-border.

Carphone Warehouse appears to have a very low tax rate (CIRA forecast 2% for year ending March 2012). However, this is simply due to the vast majority of Carphone's profits having arisen from two joint ventures. The JVs are accounted for using the equity method, so the after-tax JV profit is included in the P&L above the tax line, distorting the apparent tax rate.

WH Smith's low tax rate is harder to understand, and we use this as a case study below.

WH Smith

- Tax rate consistently below UK statutory rate
- Recurring prior year adjustments, which consistently lower tax charges
- Lower rate expected to continue in medium term

WH Smith low tax rate expected to be sustained in the medium term

WH Smith has a tax rate which is consistently below the UK statutory rate. The company states "We expect the effective tax rate to remain below the UK standard rate over the medium term. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities".

The company's tax reconciliation appears very straightforward. The main reconciling item each year is generally "adjustment in respect of prior years". We show the tax reconciliation for 2005-2011 in Figure 40.

Figure 40. WH Smith tax reconciliation, 2005–2011 (year to August) (£m)

	2005	2006	2007	2008	2009	2010	2011	Total
Profit before tax from continuing operations	30	32	76	76	82	89	93	478
Tax on profit from continuing operations at UK corporate tax rate	**12**	**15**	**20**	**22**	**23**	**25**	**25**	**142**
Tax effect of items that are not deductible or not taxable	1	2	1	2	-1	1	3	9
Depreciation for which no tax relief is available	1							1
Tax rate differential				1				1
Deferred tax charge in relation to retirement benefit obligation adjustments			3					3
Utilisation of tax losses		-13						-13
Adjustment in respect of prior years	-3	-7	-8	-8	-4	-6	-8	-44
Tax charge - continuing operations	**11**	**-3**	**16**	**17**	**18**	**20**	**20**	**99**
Effective tax rate[1]	37%	-9%	21%	22%	22%	22%	22%	21%

Source: Company annual reportc. [1]The tax reconciliations for 2005 and 2006 reconcile only the current tax charge, not the total charge.

Recurring prior year adjustments

As Figure 40 shows, prior year adjustments have occurred for several years and have resulted in a tax rate consistently below the standard rate. The company tells us that this has been achieved by a suite of tax planning measures that have been implemented and agreed upon by the UK tax authorities HM Revenue & Customs (HMRC). In addition, there are a number of schemes that have been implemented but not yet agreed with HMRC and have been fully provided against. WH Smith says it has visibility on the schemes that have a high certainty of acceptance by HMRC, where provisions are likely to be released in the future. For this reason, WH Smith has guided the effective tax rate to below the UK standard rate over the medium term.

Kesa

- Much higher tax rate than average for European retailers
- This is due to a combination of exposure to France, which has a relatively high tax rate, and unrelieved tax losses, particularly in Spain in recent years

Reported tax rates in 40s, adjusted tax rates in high 30s

Kesa reports a high tax rate of 49% in the year to April 2011 (42% in 2009/10), and an "adjusted" tax rate (on adjusted profit) of 39% (36%), which is high relative to its geographic exposure. Revenues arose mainly in France (49%), UK (31%), and some other European countries, while operating profits arose overwhelmingly in France.

The tax reconciliation indicates that the geographic weighted tax rate should be around 36%, and even this seems quite high given a 2010/11 French tax rate of around 34.4%.

Figure 41. Kesa tax reconciliation, 2010–2011, years to April (€m)

	2010	2011	Total
Profit on ordinary activities before income tax	77.8	60.7	138.5
Profit on ordinary activities multiplied by UK corporation tax rate	**21.8**	**17.0**	**38.8**
Adjustments in respect of foreign tax rates	3.8	7.0	10.8
Adjustments in respect of joint ventures and associates	-0.7	-0.6	-1.3
Expenses not deductible for tax purposes	4.9	2.1	7.0
Other permanent differences	-7.4	-7.2	-14.6
Exceptional items not deductible for tax purposes	0.6	0.4	1.0
Losses not recognised as deferred tax asset (unrelieved tax losses)	8.9	7.7	16.6
Change in corporation tax rates	0	2.4	2.4
Adjustments to tax in respect of prior years	1.0	0.7	1.7
Impact of changes in foreign exchange rates	-0.1	0.5	0.4
Total income tax expense	**32.8**	**30.0**	**62.8**

Source: Company annual reports

Tax losses in Spain cannot be relieved against profits elsewhere

One recurring feature of the tax reconciliation for several years has been "losses not recognised as deferred tax asset (unrelieved tax losses)". Kesa is profitable in France and some other established businesses (eg Vanden Borre in Belgium), but is currently loss-making in the UK (the Comet business which Kesa has announced it will dispose of) and has been persistently loss-making in the developing businesses (comprising businesses in Italy, Turkey, and Spain). The company helpfully notes that the losses not recognised in 2010 and 2011 principally arise in Darty Spain.

According to the 2011 Annual Report, the group did not recognise DTAs of €59m in respect of €205m losses, of which €70m losses arose in the UK. Of the remainder, €17m losses expire within 5 years (probably Darty Italy or Darty Turkey, as both these countries have 5 year time limits on losses) and the other losses expire within 15 years (probably mainly Darty Spain – Spain has a 15 year time limit on loss carry-forward). Spanish taxable profits will also be reduced slightly until 2024 by tax-deductible goodwill (unrecognised asset of €13m). As a result of the planned disposal of Comet and re-assessment of its carrying value, Kesa took an exceptional P&L tax charge of €42.5m in respect of DTAs in the recent half year results.

Effective tax rates could be reduced in future if profits are generated in Spain and other currently loss making countries.

One other notable point from the tax reconciliation is that "other permanent differences" reduced the tax charge materially in 2010 and 2011, but no further information has been provided.

Insurance

- Insurance tax is particularly complicated
- Potential for significant tax planning opportunities in some cases
- Some low tax rates in the sector reflect underwriting via Bermuda zero-tax subsidiaries (eg **Catlin**, **Amlin**)

Insurance tax is complex

The taxation of insurance companies, particularly life insurance companies, is undoubtedly complex. Partly due to this, insurance companies probably have more tax planning opportunities. Life company taxation differs by jurisdiction and by product line.

New tax regime for UK life insurance companies

UK life company taxation follows what is called the I-E regime, which differentiates between taxes on policyholder business and shareholder business. Life fund taxation is usually at a lower rate (i.e 21%) than the shareholder rate. A new tax regime for UK life insurance companies is currently being developed[20]; this is necessary because tax rules are based on regulatory (FSA) returns, which will change with the implementation of Solvency II regulatory capital requirements.

Based on our sample, the insurance sector has lower than average tax rates, although the rates vary significantly as shown in Figure 42. None of our sector coverage has a medium term forecast tax rate significantly above 30%.

Figure 42. Tax rates of European Insurance coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Admiral Group	ADML.L	UK	30%	30%	28%	27%	27%	28%	28%	28%
Aegon NV	AEGN.AS	Netherlands	18%	17%	-2%	144%	8%	9%	21%	28%
Allianz SE	ALVG.DE	Germany	20%	25%	24%	11%	27%	22%	28%	28%
Amlin Plc	AML.L	UK	22%	21%	34%	11%	14%	18%	18%	18%
Aviva PLC	AV.L	UK	33%	16%	120%	28%	35%	16%	26%	24%
AXA SA	AXAF.PA	France	26%	23%	-204%	27%	24%	22%	28%	25%
Catlin Group Ltd	CGL.L	Bermuda	6%	11%	77%	8%	6%	8%	13%	13%
Jardine Lloyd Thompson Group PLC	JLT.L	UK	33%	24%	31%	29%	21%	27%	28%	29%
Lancashire Holdings	LRE.L	Bermuda	0%	0%	0%	1%	2%	1%	0%	0%
Delta Lloyd	DLL.AS	Netherlands	16%	3%	16%	27%	25%	13%	-669%	25%
Assicurazioni Generali SpA	GASI.MI	Italy	27%	28%	31%	23%	31%	28%	30%	30%
Hannover Ruckversicherungs AG	HNRGn.DE	Germany	30%	6%	291%	27%	24%	27%	15%	26%
Hiscox Ltd	HSX.L	UK	19%	19%	33%	13%	15%	18%	15%	15%
Irish Life & Permanent PLC	IPM.I	Ireland	21%	6%	24%	-1%	17%	22%	23%	15%
Legal & General	LGEN.L	UK	15%	10%	48%	32%	37%	8%	24%	24%
Mapfre SA	MAP.MC	Spain	30%	29%	28%	28%	26%	28%	27%	27%
Munich Re	MUVGn.DE	Germany	32%	17%	47%	33%	22%	29%	-1%	30%
Prudential Plc	PRU.L	UK	58%	34%	81%	56%	31%	30%	27%	29%
Resolution	RSL.L	UK			0%	-2%	14%	5%	28%	24%
RSA Insurance Group	RSA.L	UK	26%	4%	22%	24%	25%	20%	24%	24%
Sampo Oyj	SAMAS.HE	Finland	28%	26%	22%	22%	16%	23%	13%	13%
SCOR	SCOR.PA	France	24%	22%	-15%	-15%	8%	8%	24%	23%
Standard Life PLC	SL.L	UK	51%	10%	85%	63%	53%	36%	20%	20%
Swiss Re	SRENH.VX	Switzerland	22%	20%	36%	31%	35%	22%	23%	23%
Zurich Financial Services AG	ZURN.VX	Switzerland	31%	24%	-17%	29%	28%	23%	29%	28%
Average			**25%**	**17%**	**34%**	**27%**	**23%**	**20%**	**-6%**	**23%**
Median			**26%**	**20%**	**28%**	**27%**	**24%**	**22%**	**24%**	**24%**

Source: dataCentral, DataStream, Company annual reports, CIRA

[20] For details see Life Insurance Companies: A New Corporate Tax Regime, dated 5 April 2011 published by HM Revenue & Customs (available at www.hmrc.gov.uk).

In some cases, tax jurisdiction can have a large impact. For example, **Catlin Group** has a disclosed effective tax rate of 6.3% (8.3% in 2009). It states that "Under current Bermuda law neither the Company nor its Bermuda subsidiaries are required to pay any taxes in Bermuda on their income or capital gains. Both the Company and its Bermuda subsidiaries have received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 2016." Similarly, **Amlin** has a low effective tax rate due to its Bermuda subsidiary which pays no corporate tax.

As a case study, we have taken **Legal & General**.

Legal & General

- Slightly lower than expected P&L tax rate and low cash taxes in recent years
- Significant DTAs utilised since 2008

L&G has slightly lower than expected tax rate; cash tax rates may increase as DTAs utilised

Legal & General has a slightly lower than expected tax rate. It has also paid low levels of cash tax in recent years, but this is probably mainly due to significant deferred tax assets utilised since 2008. In 2010 the gross DTA was £495m and the net DTA £139m. In 2008 the gross DTA was £988m and the net DTA £729m, with a further off balance sheet DTA of £58m.

It is interesting to note that income tax expense has to be apportioned between policyholders' returns and equity holders' profits. For some types of income, the rate applied to policyholders is the UK standard rate, in other cases the effective equity holders' rate is used. Therefore the calculation of the effective tax rate may be particularly important as it has economic consequences for shareholders and policyholders.

The tax reconciliation is shown in Figure 43. The lower effective tax rate is partly due to prior year adjustments, and partly due to differences between taxable and accounting investment gains. We would expect both types of adjustments to be quite common amongst insurance companies. There is no further information provided about the main adjustments.

Figure 43. Legal & General tax reconciliation, 2009–2010 (£m)

	2009	2010	Total
Profit from continuing operations before income tax attributable to equity holders of the Company	1,074	1,092	2,166
Equity holders' income tax expense calculated at the UK corporate tax rate	**301**	**306**	**607**
Effects of:			
Disallowable expenditure for tax purposes		8	8
Capital allowances for the year in excess of depreciation		-2	-2
Non taxable income such as dividends	-4	-3	-7
Adjustments in respect of prior years' tax	-8	-26	-34
Differences between taxable and accounting investment gains	-36	-16	-52
Higher rate of tax on profits taxed overseas	7	10	17
Lower tax on Shareholder Retained Capital (SRC) investment return	-33	-7	-40
Impact of reduction in UK Corporate tax rate		5	5
Other	3	-3	0
Income tax expense attributable to equity holders	**230**	**272**	**502**
Income tax expense relating to policyholder returns	165	215	380

Source: Company annual reports, CIRA

Leisure

- Significant tax issues in the Leisure sector
- Higher than average tax risk
- Tax losses can be material to valuation, reducing cash tax rates and making P&L tax rates more volatile
- Bookmakers can reduce tax rates substantially by using low-tax jurisdictions for online gambling business
- **Ladbrokes'** 2010 settlement with tax authorities (£262m P&L tax income and £80m cash rebate) highlights materiality and uncertainty of tax issues

The Leisure sector has a number of tax issues, partly depending on sub-sectors. Home territories are also important, with French and Italian companies having notably higher forecast tax rates than UK and Irish companies.

Figure 44. Tax rates of European Leisure coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Accor SA	ACCP.PA	France	38%	20%	31%	-86%	-3,267%	50%	30%	30%
Autogrill SpA	AGL.MI	Italy	41%	38%	32%	67%	50%	44%	42%	41%
Compass Group	CPG.L	UK	19%	29%	30%	29%	27%	27%	26%	26%
Enterprise Inns	ETI.L	UK	22%	14%	10%	45%	184%	11%	27%	26%
Greene King	GNK.L	UK	26%	16%	27%	22%	9%	19%	25%	24%
Intercontinental Hotels Group Plc	IHG.L	UK	-23%	5%	18%	425%	27%	-11%	27%	28%
Intralot SA	INLr.AT	Greece	28%	21%	28%	26%	32%	26%	29%	28%
JD Wetherspoon	JDW.L	UK	24%	34%	44%	33%	24%	31%	29%	28%
Kuoni Reisen Holding	KUNN.S	Switzerland	17%	14%	13%	90%	42%	19%	50%	28%
Ladbrokes	LAD.L	UK	20%	15%	16%	16%	-159%	-5%	15%	15%
Lottomatica Spa	LTO.MI	Italy	98%	46%	26%	40%	60%	44%	34%	36%
Marston's	MARS.L	UK	28%	13%	19%	23%	10%	19%	23%	24%
Mitchells & Butlers	MAB.L	UK	11%	79%	26%	140%	34%	65%	27%	26%
OPAP SA	OPAr.AT	Greece	30%	26%	27%	37%	35%	31%	33%	30%
Paddy Power	PAP.L	Ireland	17%	17%	16%	13%	13%	15%	14%	15%
Punch Taverns	PUB.L	UK	9%	19%	56%	-0%	-7%	28%	27%	26%
The Restaurant Group	RTN.L	UK	49%	31%	32%	23%	29%	31%	29%	28%
Sodexo	EXHO.PA	France	34%	34%	34%	34%	32%	33%	35%	35%
Spirit Pub Company	SPRTC.L	UK		21%	18%	12%	28%	20%	26%	25%
Thomas Cook Group	TCG.L	UK	23%	21%	10%	63%	101%	31%	41%	41%
TUI Travel Plc	TT.L	UK		55%	0%	69%	-152%	-39%	32%	34%
Whitbread PLC	WTB.L	UK	39%	38%	54%	23%	18%	34%	25%	27%
William Hill	WMH.L	UK	30%	25%	20%	33%	20%	24%	19%	20%
Average			**25%**	**27%**	**25%**	**51%**	**-122%**	**24%**	**29%**	**28%**
Median			**26%**	**21%**	**26%**	**33%**	**27%**	**27%**	**27%**	**28%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Tax losses are a common issue across the sector

Tax losses are a common theme, reducing cash tax rates and sometimes P&L tax rates, depending on the capitalisation of the associated DTA. P&L tax rates also tend to be much lumpier and less predictable depending on initial non-capitalisation or changes to capitalisation of these DTAs.

For example, **Thomas Cook** has DTAs of £281m (198% of market cap) on balance sheet, mainly from tax losses and a pension deficit, as well as further tax losses in the UK and Germany of £1,427m for which no DTA has been recognised. The company recently announced a deferred tax asset write-down of £94m in 2011 full year results.

Punch and Spirit pay little cash tax

Punch Taverns and **Spirit Pub Company** (recently demerged) have significant tax losses which are material for valuation. Both companies are not expected to pay material cash tax for the next couple of years, according to CIRA forecasts. Punch's 2010 annual report also discloses capital losses of £2.6bn, for which no DTA has been recognised.

Enterprise Inns has substantial deferred tax liabilities on balance sheet (£537m, mainly relating to fixed assets) and the reported P&L tax rate may benefit from re-measurement of DTLs as the UK corporate tax rate falls (as well as from the underlying benefit of the lower tax rate).

UK listed bookmakers have low tax rates

The UK listed bookmakers (**Ladbrokes**, **William Hill**, **Paddy Power**) have quite low tax rates (CIRA 2012 forecast rates 15%-20%). This partly reflects lower corporate tax on online gambling businesses, which are incorporated in Gibraltar in the cases of William Hill and Ladbrokes. Paddy Power benefits from Ireland's low (12.5%) corporate tax rate. We use Ladbrokes as a case study below.

We note that the UK government recently announced new online gambling proposals[21] which could require online gambling to be regulated where the customer bet takes place rather than whether the company is located. This would potentially bring this business into the scope of UK gross profit tax, reducing these companies' EPS. However the gross profit tax is reported as an operating cost for the bookmakers and does not affect the tax line of the income statement.

Ladbrokes

- Lower than expected underlying tax rate, like the other bookmakers
- Probably partly reflects use of Gibraltar subsidiary for online business
- 2010 tax settlement (£262m P&L tax income, £80m cash receipt)

Underlying tax rate of 15%-20%

Ladbrokes has a relatively low underlying tax; the company quoted an effective tax rate excluding one-off and non-trading items of 18.4% in 2010 and 15% in 2009. CIRA forecasts a tax rate of 17% and 16% in 2011 and 2012 respectively.

The reported rate has been much more volatile, mainly due to one-off factors and prior year tax settlements. In April 2010 the company reached a settlement with the UK tax authorities (HMRC) covering outstanding items in respect of tax years to 2007, which results in a P&L tax credit of £262m (see tax reconciliation - Figure 45) and a cash receipt of £80m.

Figure 45. Ladbrokes tax reconciliation, 2009-2010 (£m)

	2009	2010	Total
Accounting profit before income tax	121	92	213
Tax at UK statutory income tax rate	**34**	**26**	**60**
Lower effective tax rates on overseas earnings	-12	-5	-17
Recognition of tax losses	-7		-7
Non-deductible expenses	22	22	45
Adjustments in respect of prior periods*	-262	-29	-291
Other	-3	3	1
Income tax (credit)/expense	**-228**	**18**	**-210**

Source: Company annual reports. *In 2010, the adjustment in respect of prior periods of £262.2 million includes £261.9 million as a result of the HMRC tax settlement.

[21] For details see *UK Bookmakers Alert* published by CIRA Leisure team on 14 July 2011.

Low rate seems inconsistent with geographic mix, but may be partly due to online business

The low underlying tax rate initially seems surprising given that, in 2010, 85% of revenues arose from UK customers. However the tax reconciliation suggests that the company benefits from a significantly lower geographic weighted rate (approximately 17% in 2010). We believe this partly results from online business (now accounting for over 30% of operating profit) which can be channeled through low tax jurisdictions eg Gibraltar or Ireland. Ladbrokes has two principal Gibraltar subsidiaries and two principal Irish subsidiaries (the group also has shops in Ireland). However, the company does not explain the reason for the low tax rate in the annual report or refer to the tax status of the online business.

Interestingly the 2009 annual report, signed in February 2010, did not mention a possible settlement with HMRC, although this was agreed in April 2010 (and we assume had been in negotiation for a long time). Given the materiality (£262m P&L income equating to 22% of current market cap), we think that if a positive settlement was thought probable, it should have been disclosed in the 2009 annual report. We assume that some of the pre-2007 tax issues related to Ladbrokes' past ownership of Hilton hotels outside the US (sold in 2006).

In our view, the low underlying tax rate, use of low tax jurisdictions, and arguably sub-optimal tax disclosure, may point to higher than average tax risk. On the other hand, the recent tax settlement addressing "substantially all" outstanding items up to 2007 should reduce the tax risk, and future growth in the online business may reduce effective tax rates further. Overall it seems probable that Ladbrokes can maintain relatively low effective tax rates.

Luxury Goods

- Potential opportunities for tax planning but limited disclosure about tax
- Luxury Goods team expects tax rates to fall further due to favourable changes in geographic mix

Geographic mix can be beneficial

The CIRA Luxury Goods team highlights that some groups benefit from relatively low tax rates, probably due to Swiss headquarters location or operations, and favourable geographic mix with a significant proportion of sales to relatively low tax jurisdictions (eg Hong Kong, Singapore, Dubai). The team also expects that corporate tax rates may be reduced as the proportion of sales to Asia increases over time.

Unfortunately, most Luxury Goods companies provide limited information about tax in their annual reports.

Figure 46. Tax rates of European Luxury Goods coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Burberry Group PLC	BRBY.L	UK	29%	31%	68%	50%	28%	33%	27%	27%
Folli Follie Group	HDFr.AT	Greece	27%	38%	25%	39%	32%	32%	24%	24%
Luxottica Group SpA	LUX.MI	Italy	35%	35%	33%	34%	36%	35%	35%	35%
LVMH	LVMH.PA	France	28%	27%	28%	30%	31%	29%	30%	30%
Hugo Boss Group	BOSG_p.DE	Germany	28%	27%	24%	24%	24%	26%	24%	24%
PPR	PRTP.PA	France	26%	20%	34%	39%	28%	28%	28%	28%
Richemont	CFR.VX	Switzerland	17%	17%	15%	14%	17%	16%	17%	17%
Swatch Group AG	UHR.VX	Switzerland	21%	20%	17%	20%	23%	20%	22%	22%
Tod's SPA	TOD.MI	Italy	41%	38%	33%	32%	32%	35%	32%	32%
Average			**28%**	**28%**	**31%**	**31%**	**28%**	**28%**	**26%**	**26%**
Median			**28%**	**27%**	**28%**	**32%**	**28%**	**29%**	**27%**	**27%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Media

- Wide range of tax rates reported
- International businesses have considerable tax planning opportunities, particularly professional publishers (**Reed Elsevier**, **Wolters Kluwer**, **Pearson**), but this increases tax risk
- Some UK media companies (**UBM**, **WPP**, **Informa**) have changed tax residency
- Intangible assets can have significant impact on tax
- Several companies have potentially valuable tax losses (eg **Havas**, **UBM**) which can reduce cash and P&L tax rates

The media sector has a number of tax issues, and media companies report a wide range of tax rates. The companies with primarily domestic exposure (newspapers and other local consumer publishing, national TV, etc) tend, unsurprisingly, to have tax charges which closely reflect national tax rates. Some Italian companies suffer surprisingly high tax rates (40%-50%).

Figure 47. Tax rates of European Media coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Aegis Group PLC	AEGS.L	UK	30%	31%	29%	30%	39%	31%	30%	27%
Antena 3	A3TV.MC	Spain	27%	27%	12%	-18%	17%	21%	19%	16%
British Sky Broadcasting	BSY.L	UK	32%	416%	45%	26%	26%	35%	26%	25%
Blinkx Plc	BLNX.L	UK		2%	5%	4%	-24%	11%	30%	33%
Daily Mail & General Trust PLC	DMGOa.L	UK	20%	14%	118%	24%	-26%	-104%	29%	28%
Eniro AB	ENRO.ST	Sweden	24%	20%	-15%	-162%	3%	-7%	7%	21%
GfK Holding AG	GFKG.DE	Germany	24%	22%	27%	20%	33%	26%	27%	27%
Gruppo Editoriale l'Espresso SpA	ESPI.MI	Italy	28%	41%	72%	88%	47%	47%	45%	50%
Havas SA	EURC.PA	France	30%	30%	28%	26%	24%	27%	23%	24%
Independent News & Media PLC	INME.I	Ireland	22%	23%	1%	-24%	-12%	45%	69%	21%
Informa PLC	INF.L	UK	22%	20%	21%	-10%	21%	15%	22%	23%
ITV PLC	ITV.L	UK	24%	27%	7%	-216%	6%	6%	23%	23%
JCDecaux	JCDX.PA	France	32%	31%	30%	37%	32%	32%	31%	30%
Johnston Press PLC	JPR.L	UK	27%	9%	15%	23%	-118%	23%	22%	23%
Lagardere Groupe	LAGA.PA	France	21%	15%	3%	43%	26%	17%	33%	33%
M6 Metropole Television	MMTP.PA	France	33%	34%	29%	32%	36%	33%	36%	36%
Mediaset SpA	MS.MI	Italy	35%	38%	18%	32%	36%	33%	31%	31%
Mediaset Espana SA	TL5.MC	Spain	30%	28%	11%	-847%	-0%	23%	17%	15%
Arnoldo Mondadori Editore	MOED.MI	Italy	42%	40%	35%	45%	53%	42%	48%	50%
Pearson PLC	PSON.L	UK	2%	29%	31%	31%	23%	24%	23%	26%
Grupo Prisa	PRS.MC	Spain	-39%	9%	31%	48%	100%	20%	30%	30%
ProSiebenSat.1 Media	PSMG_p.DE	Germany	37%	61%	-83%	35%	26%	44%	29%	29%
Publicis Groupe SA	PUBP.PA	France	30%	30%	29%	26%	28%	29%	28%	28%
Reed Elsevier PLC	REL.L	UK	-67%	-158%	-55%	-50%	-7%	-65%	20%	23%
Schibsted	SBST.OL	Norway	8%	28%	-27%	34%	14%	19%	32%	32%
Seat Pagine Gialle SpA	PGIT.MI	Italy	48%	43%	-256%	174%	-19%	-177%	129%	99%
Stroer Out-of-Home Media AG	SAXG.DE	Germany	16%	-23%	-1,489%	115%	-0%	-25%	32%	33%
Television Francaise 1 SA	TFFP.PA	France	35%	30%	21%	13%	24%	26%	34%	33%
Trinity Mirror PLC	TNI.L	UK	27%	-226%	20%	31%	8%	-155%	35%	35%
UBM plc	UBM.L	UK	-11%	17%	19%	312%	14%	-18%	16%	16%
Wolters Kluwer NV	WLSNc.AS	Netherlands	21%	23%	18%	3%	19%	19%	18%	18%
WPP PLC	WPP.L	Ireland	31%	30%	33%	26%	24%	29%	26%	26%
Yell Group PLC	YELL.L	UK	13%	33%	-11%	33%	30%	-85%	31%	31%
Average			**20%**	**24%**	**-37%**	**-1%**	**15%**	**1%**	**32%**	**30%**
Median			**27%**	**28%**	**19%**	**26%**	**23%**	**23%**	**29%**	**28%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Reported tax rates have been volatile and distorted in recent years by various one-off factors. In many cases reported (IFRS) profits are significantly below the "adjusted" profits presented by companies, due to the high level of intangible asset amortisation and other acquisition-related costs in this sector.

Companies with broader international exposure (professional publishers and advertising agencies) have relatively low effective tax rates, particularly given significant US exposure in most cases. This probably reflects much greater tax planning opportunities. It is likely that groups can move taxable profits to lower tax jurisdictions through financing structures, charges for intellectual property, etc.

UBM, WPP and Informa left the UK

Since 2008, both **UBM** and **WPP** have moved tax residency to Ireland, although the parent companies are registered in Jersey. WPP notes however that the Irish non-trading corporate tax rate of 25% (rather than the lower 12.5% rate for trading income) is applicable to WPP plc. **Informa** changed its domicile to Zug, Switzerland and its registered office is also in Jersey. Press reports[22] have suggested all three companies may consider returning tax residency to the UK in the light of recent proposed changes to UK corporate tax rules, specifically those relating to "controlled foreign companies" (CFCs).

UBM typically has a P&L tax rate in the mid teens, and 10%-15% cash tax rate. The company attributes these rates to careful tax planning (eg use of inter-company loans). The company believes these tax rates to be sustainable in the medium-term, subject to changes in geographic mix (eg increasing emerging market sales). UBM has off-balance sheet DTAs of £212m, mainly arising from tax losses. Any utilisation of these unrecognised DTAs would reduce future P&L and cash tax charges. UBM had an exceptional P&L tax credit of £135m in 2009, due to the settlement of outstanding tax disputes (in one case dating back to a disposal in 1998). The agreement of the outstanding tax matters resulted in a cash payment of £46.5m in 2010.

Havas has €609m DTAs, mostly off-balance sheet, hence low tax rate

Of the advertising agencies, **Havas** has reported a surprisingly low tax rate for the last three years (falling from 28% in 2008 to 24% in 2010, with CIRA estimates of 23% in 2011 and 24% in 2012), despite the relatively high French corporate tax rate. According to the company's tax reconciliation, this is almost entirely due to "Change in unrecognized deferred tax assets". We assume this means recognising or using previously unrecognised DTAs, mainly relating to tax loss carry-forwards. Havas has total gross DTAs (on and off balance sheet) of €609m, of which €472m (approximately 35% of market cap) are unrecognised. The company usually uses a 5 year time horizon for recognising DTAs. The media team notes that the tax losses might have significant value for a possible acquirer.

ITV low cash tax rate may have been helped by pension special purpose vehicle

ITV has relatively low cash tax due to utilisation of tax losses and cash contributions to the pension deficit. In 2010 ITV created a pension funding Scottish Limited Partnership (similar to GKN's, see page 23) which probably resulted in accelerated cash tax deductions for some years, although the annual report does not comment on this.

The professional publishers, **Wolters Kluwer**, **Reed Elsevier** and **Pearson** report low tax rates despite their geographic exposure to the (relatively high tax) US. Pearson's P&L tax rate is in the mid-20s, but its cash tax rate is considerably lower (around 15%). The CIRA Media team notes that this benefits Enterprise Free Cash Flow and hence valuation, and that this cash tax benefit is expected to be sustained

[22] Eg Financial Times, "Corporate tax reforms persuade WPP to return", 24 March 2011

in the medium term. The Media team believes the lower cash tax rate is mainly due to tax-deductible goodwill from asset acquisitions, although this is not disclosed in the company's annual report. We look at both Wolters Kluwer and Reed Elsevier in more detail below.

Wolters Kluwer

- Lower than expected tax rate
- Significant impact of intragroup financing suggests tax efficient structuring

Wolters Kluwer tax rate surprisingly low given US/European business

95% of Wolters Kluwer's sales arise in Europe and North America. The company does not disclose a profit analysis by region. Based on the disclosed revenue split, we estimate an expected weighted tax rate of 34%. Yet the company disclosed a "normative income tax rate" of 29% in 2010 and just 5% in 2009 (see Figure 48).

Figure 48. Wolters Kluwer tax reconciliation, 2009–2010

	2009		2010		Total	
	€m	%	€m	%	€m	%
Profit before tax	113		353		466	
Normative income tax expense	**6**	**5%**	**104**	**29%**	**110**	**24%**
Intragroup financing activities	-36	-32%	-36	-10%	-72	-15%
Impairments	70	62%			70	15%
Tax exemption on results on disposals	2	2%			2	0%
Substitute tax Italy	-32	-28%			-32	-7%
Non-deductible costs and other items	-7	-6%	-2	-1%	-9	-2%
Taxation on income in statement of income	**3**	**3%**	**66**	**19%**	**69**	**15%**

Source: Company annual reports

Wolters' accounts show "intragroup financing activities" reduce tax charge dramatically

The tax rate actually incurred was 19% in 2010 and 3% in 2009. The main reconciling factors were "intragroup financing activities" which reduced the tax charge dramatically in both 2010 and 2009. In 2009, impairment charges increased the reported tax rate, due to the lack of tax or deferred tax credit associated with a goodwill impairment charge.

Also in 2009 there was a significant tax credit of €32m arising from "substitute tax in Italy". Following changes to Italian tax law, portions of certain previously non-tax deductible intangible assets (in this case publishing rights) became tax deductible, in return for an upfront payment. Wolters Kluwer reported that this would result in additional tax benefits of €67 million over 2009-2017, in return for an upfront payment of €34 million to the Italian tax authorities in July 2009. This means that Wolters Kluwer should benefit from a lower cash tax rate in future.

Wolters Kluwer discloses a calculation of the "benchmark tax rate" (shown in Figure 49). This calculation shows the tax rate based on an adjusted pre-tax profit figure, excluding intangible amortisation, impairment, restructuring costs, etc. (This makes a large difference: in 2010 "ordinary" pre-tax profit was €599m vs reported pre-tax profit of €353m[23]). The company calculates a benchmark tax rate of 26% in 2010 and 24% in 2009. Interestingly, this calculation attributes a tax rate of around 35% to the "non benchmark costs".

[23] For discussion of such profit measures, see our report *Adjusted Earnings*, dated 8 November 2010.

Figure 49. Wolters Kluwer – company calculation of benchmark tax rate (€m)

	2009	2010
Income tax expense	3	66
Tax benefit on amortisation and impairments	93	62
Tax benefit on result of disposals	12	0
Tax benefit on non-benchmark costs	28	25
Tax on Ordinary Income (F)	**136**	**153**
Ordinary net income	427	444
Adjustment for non-controlling interests	2	2
Ordinary income before tax (G)	**565**	**599**
Benchmark tax rate (F/G) (%)	**24%**	**26%**

Source: Company annual report

This calculation also makes it somewhat easier to understand the overall tax rate. If we take the benchmark tax of €153m in 2010 and add the intragroup financing benefit of €36m, the resulting tax rate of 31.5% is close to the anticipated weighted tax rate.

We also note that over the last two years, the cash tax paid has been higher than the reported P&L tax expense (cash €162m for 2009-2010, vs P&L €69m), but well below the "benchmark" tax charge (€289m) – which may perhaps indicate that the tax authorities' views of Wolters profitability is closer to the reported (IFRS) profit than the adjusted "ordinary" figure.

Given the limited information it is hard to assess Wolters Kluwer's tax position, but it is possible the group is using significant tax structuring indicated by the low tax rate and the large impact of intragroup financing. In addition, the reported tax rates are somewhat distorted by the reported profits being far lower than the adjusted profit figures which the company and market tends to focus on. Overall we assume Wolters Kluwer's tax risk is relatively high.

Reed Elsevier

- Lower than expected tax rate, and low "average applicable rate" difficult to understand
- Possible benefit from tax-deductible goodwill on past acquisitions

Reed claims "applicable tax rate" of 15% in 2010, 9% in 2009

Similar to Wolters Kluwer, Reed Elsevier has a low reported P&L tax rate (16% in 2010, 9% in 2009) relative to its geographic exposure. The tax reconciliation in the annual report (Figure 50) suggests the "average applicable rate" was 15% in 2010 and 9% in 2009.

Figure 50. Reed Elsevier tax reconciliation, 2009-2010 (£m)

	2009	2010	Total
Profit before tax	435	768	1,203
Tax at average applicable rates (2009: 9%, 2010: 15%)	**41**	**118**	**159**
Tax on share of results of joint ventures	-6	-7	-13
Prior year credits on disposals	-34	-7	-41
Non deductible goodwill impairment	19		19
Non deductible loss on disposals		10	10
Net tax on share based remuneration	10	2	12
Non deductible amounts and other items	10	4	14
Tax expense	**40**	**120**	**160**
Tax expense as a percentage of profit before tax	9%	16%	13%

Source: Company annual reports, CIRA

We find this low average applicable rate hard to understand. We estimate a geographic weighted average rate of 34% shown in Figure 51. It would be helpful if the annual report disclosed the basis for calculating the average applicable rate.

Figure 51. Reed weighted average 2010 tax rate implied by revenue geographical splits (€m)

	North America	UK	Netherlands	Rest of Europe	Rest of the World	Total
Revenue	3,213	907	620	825	490	6,055
Revenue split %	53%	15%	10%	14%	8%	100%
Assumed tax rate for region	39%	28%	26%	29%	27%	
Corporate tax rate implied by revenue split						**34%**

Source: Company annual report, IMF, KPMG, CIRA

The other aspects of the tax reconciliation are unremarkable. There is a small adjustment for JVs, which are accounted for using the equity method.

Reed also provides adjusted profit figures which exclude amortisation of intangible assets and some one-off items. The company states the effective tax rate on adjusted profit before tax was 22.7% in 2010 (22.9% in 2009). Unfortunately, it does not provide details of this calculation, although we can estimate it based on the disclosed calculations of adjusted pre-tax profit and adjusted net income (Figure 52 and Figure 53). However, these raise more questions.

Figure 52. Reed calculation of adjusted pre-tax profit (£m)

	2009	2010
Profit before tax	**435**	**768**
Amortisation of acquired intangible assets	368	349
Impairment of acquired intangible assets and goodwill	177	0
Exceptional restructuring costs	182	57
Acquisition related costs	48	50
Reclassification of tax in joint ventures	8	9
Disposals and other non operating items	61	46
Adjusted profited before tax	**1,279**	**1,279**

Source: Company annual report

Figure 53. Reed calculation of adjusted net income (£m)

	2009	2010
Profit attributable to parent company shareholders	**391**	**642**
Amortisation of acquired intangible assets	411	337
Impairment of acquired intangible assets and goodwill	136	0
Exceptional restructuring costs	133	37
Acquisition related costs	33	30
Disposals and other non operating items	-22	37
DT credits on acquired intangibles not expected to crystallise in the ST	-100	-100
Adjusted profit attributable to parent company shareholders	**982**	**983**

Source: Company annual report

According to these two reconciliations, the amortisation of acquired intangible assets has little associated tax credit (eg £349m gross vs £337m net in 2010; in 2009 the net of tax amortisation was actually higher than the gross of tax amortisation!). This is surprising as such amortisation charges usually have an associated deferred tax credit. Yet the company also makes an adjustment in net income for “deferred tax credits on acquired intangible assets not expected to crystallise in the near term” (£100m in 2010 and 2009). The company also comments that the effective tax rate “includes the benefit of tax amortisation where available on acquired goodwill and intangible assets” as this “more closely aligns with cash tax costs over the long term”, but this is not shown explicitly in the adjusted net income calculation. In our view, this comment implies that Reed, like Pearson, is benefitting from tax-deductible goodwill on some past acquisitions.

Overall it is hard to understand why the adjusted effective tax rate is significantly higher than the effective tax rate on reported profits.

Reed also paid very low cash tax of £9m in 2010 (£120m in 2009) based on the cash flow statement. The company’s calculation of free cash flow shows a payment of £101m (£214m in 2009), before cash tax relief/repayments arising from restructuring and acquisition integration.

Finally, we note that for the purposes of calculating directors’ remuneration, EPS is adjusted for “tax rate anomalies (deferred tax)”.

Metals & Mining

- Wide range of applicable tax rates, partly reflecting geographic mixes
- International groups may have significant tax planning opportunities, such as tax efficient use of intragroup financing (eg **ArcelorMittal**, **Glencore**)
- Tax losses can be potentially material to valuation (eg **Salzgitter**, **ArcelorMittal**)
- More “other taxes” than other sectors (eg mining duties) and some special tax arrangements (eg **Centamin Egypt’s** zero tax rate)

Tax rates range from 0 to mid 40s

Overall the metals & mining sector has a wide range of tax rates, for example forecast rates for 2011-12 range from 0% at Centamin Egypt and 3%-11% at Glencore through to 32%-33% at Hochschild and 42%-45% at First Quantum Materials (see Figure 54).

Figure 54. Tax rates of European Metals & Mining coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
African Barrick Gold Plc	ABGL.L	UK		-349%	-13%	56%	28%	11%	30%	30%
Anglo American PLC	AAL.L	UK	28%	31%	33%	28%	28%	29%	26%	29%
Antofagasta PLC	ANTO.L	UK	23%	23%	20%	22%	29%	24%	32%	29%
Aquarius Platinum Ltd	AQP.L	South Africa	24%	32%	16%	52%	141%	34%	28%	28%
ArcelorMittal	ISPA.AS	Netherlands	15%	20%	10%	102%	-80%	-2%	3%	15%
BHP Billiton PLC	BLT.L	UK	34%	32%	45%	34%	23%	31%	31%	31%
Centamin Egypt Limited	CEY.L	Australia	0%	0%	10%	1%	0%	0%	0%	0%
European Goldfields Limited	EGUq.L	Canada	40%	16%	143%	-41%	-1%	13%	2%	22%
Ferrexpo PLC	FXPO.L	UK	18%	17%	17%	12%	15%	16%	18%	20%
Fresnillo Plc	FRES.L	Mexico	30%	32%	43%	22%	27%	28%	28%	25%
First Quantum Minerals Ltd	FQM.L	Canada	26%	22%	63%	27%	112%	41%	42%	45%
Gem Diamonds	GEMD.L	UK	90%	40%	4%	28%	33%	-13%	34%	32%
Glencore	GLEN.L	Switzerland			18%	19%	-38%	38%	3%	11%
Hochschild Mining Plc	HOCM.L	UK	45%	31%	130%	31%	24%	31%	33%	32%
Kloeckner & Co	KCOGn.DE	Germany	14%	26%	17%	23%	5%	15%	48%	23%
Lonmin PLC	LMI.L	UK	32%	42%	27%	-19%	49%	44%	25%	25%
New World Resources	NWRR.L	Netherlands		20%	26%	-10%	12%	23%	24%	19%
Norsk Hydro ASA	NHY.OL	Norway	68%	25%	15%	70%	43%	62%	33%	28%
Nyrstar NV	NYR.BR	UK		-18%	2%	24%	19%	3%	19%	22%
Petropavlovsk PLC	POG.L	UK	29%	27%	42%	27%	64%	36%	25%	28%
Randgold Resources Ltd	RRS.L	UK	31%	32%	34%	20%	17%	24%	11%	13%
Rio Tinto PLC	RIO.L	Australia	27%	25%	46%	29%	27%	30%	30%	33%
Salzgitter AG	SZGG.DE	Germany	19%	31%	33%	22%	39%	27%	32%	33%
Sidenor SA	SID.AT	Greece	6%	19%	32%	-27%	12%	26%	36%	24%
Talvivaara Mining Company	TALV.L	Finland	0%	-102%	173%	27%	-32%	19%	29%	26%
ThyssenKrupp AG	TKAG.DE	Germany	35%	34%	27%	21%	18%	33%	33%	33%
Vedanta Resources Plc	VED.L	UK	27%	27%	24%	18%	24%	24%		
voestalpine AG	VOES.VI	Austria	23%	21%	13%	-2%	26%	20%	22%	22%
Xstrata PLC	XTA.L	UK	40%	28%	25%	36%	25%	29%	26%	26%
Zanaga Iron Ore Company	ZIOC.L	UK					0%	0%	0%	0%
Average			**24%**	**6%**	**36%**	**22%**	**23%**	**23%**	**23%**	**23%**
Median			**27%**	**25%**	**26%**	**23%**	**24%**	**25%**	**28%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Tax rates generally in the sector are affected by geographic exposure, though the effective tax rate can be materially different from the expected level, perhaps due to tax efficient structures in some cases. In some cases reported tax rates reflect special tax arrangements.

Centamin Egypt pays no tax, but once its cumulative revenue exceeds its cumulative operating costs, capex and exploration costs, the Egyptian State entity EMRA will take a share of profits. In the first two years of such sharing EMRA

receives 40% of those profits, in the next two years it receives 45% and thereafter it receives 50% of profits.

Glencore benefits from Swiss tax residency and possibly tax efficient financing

Glencore has a low tax rate for the sector (forecast rate 3% for 2011 and 11% for 2012). This partly reflects its tax residency in the village of Baar in canton Zug in Switzerland. The company quotes its Swiss income tax rate (in the tax reconciliation) at 16.0% in 2010 (15.8% in 2009), which is fairly low even for Switzerland. Glencore also has a number of financing subsidiaries in Bermuda, Luxembourg, UAE, Netherlands, and a Limited Liability Company in the US. We assume this may indicate the tax efficient use of intragroup financing. Glencore's apparent tax rate is also distorted by significant associate income.

To illustrate some of the issues in this sector, we use Salzgitter and ArcelorMittal as two case studies.

Salzgitter

- Salzgitter has material off-balance sheet DTAs (end-2010), which could be worth up to €650m (27% of market cap)
- Company recently announced €100m tax benefit in 2011 results following re-alignment of group structure
- CIRA Metals & Mining team believes more benefit could be crystallised in future

Salzgitter suffered a relatively high tax rate of 39% in 2010. Although the tax reconciliation provides a fairly detailed breakdown (see Figure 55), the lack of narrative explanation makes it hard to understand the underlying reasons for the high tax rate.

Figure 55. Salzgitter tax reconciliation, 2009–2010 (€m)

	2009	2010	Total
Consolidated net income for the year before income tax	**-497**	**49**	**-448**
Expected income tax expenses (tax rate 30.2%)	-150	15	-135
Differences between tax rates	-5	4	-1
Effects of changes in statutory tax rates	-2	-1	-2
Tax credits	-1	0	-1
Tax-free income	-35	-43	-77
Badwill amortisation/goodwill write-down	6	0	6
Non-deductible tax expenses and other permanent differences	20	27	48
Temporary differences excluding deferred taxes	40	38	78
Adjustments in value of capitalised benefits	19	-15	4
Utilisation of benefits not previously capitalised	-4	-1	-5
Tax expenses and income unrelated to the reporting period	-7	-5	-12
Other deviations	8	-2	6
Actual income tax expenses	**-110**	**19**	**-91**

Source: Citi Investment Research and Analysis

It appears the largest reconciling items in both 2009 and 2010 were "tax free income", "temporary differences excluding deferred taxes" and "non-deductible tax expenses and other permanent differences". There is no further information about the "tax free income" or "non deductible tax expenses". We assume that the "temporary differences excluding deferred taxes" refers to differences for which no deferred tax assets were capitalised, perhaps new tax losses. (We note that the disclosed off-balance sheet DTAs increased during 2010).

Off-balance sheet DTAs worth up to €650m

Salzgitter reports capitalised DTAs from tax losses of €17m but discloses substantial off-balance sheet DTAs. These arise from German trade tax loss carry-forwards of €1,771m, German corporate income tax loss carry-forwards of €2,167m, other German temporary differences of €36m and foreign tax losses of €128m. As shown in Figure 56, we estimate a maximum value of about €650m (27% of market cap) although after allowing for discounting and uncertainty the true value must be less.

Figure 56. Salzgitter – estimate of maximum value of unrecognised DTAs at end 2010

Tax losses/temporary differences	Amount	Tax rate	Unrecognised DTA
German trade tax losses	1,771	14.4%	255
German corporate tax losses	2,167	15.8%	342
German temporary difference	36	30.2%	11
Foreign tax losses	128	30.0%	38
Total	**4,101**		**647**

Source: Company annual report, CIRA

Benefit of €100m from change in German group structure

The 2010 annual report stated in relation to the German tax losses that "the possibility of their use can be regarded as unlikely from a current standpoint". However, following a realignment of the group structure to combine all German subsidiaries into one group for tax purposes, Salzgitter recently announced that a €100m tax income would be booked in 2011 results. We assume the tax income results from additional recognition of DTAs or tax receivables arising on losses from Klöckner-Werke, which was acquired by Salzgitter in 2007, and we understand there should be a cash tax benefit in 2012.

ArcelorMittal

- Detailed tax reconciliation shows large impact of intragroup financing
- Tax losses of $33.2bn
- Higher than average tax risk given significant DTA capitalisation and possible use of tax planning measures

Arcelor's tax rate in recent years has seemed unusual, at about -80% in 2010 and +104% in 2009 (before adjusting for JV income), and an average of -2% over 2006-2010. However we believe this reflects the mix of profits and losses globally; generally the profits appear to have been generated in the lower-tax countries and the losses in higher-tax countries, though it is unclear if this is due to tax planning measures or whether this reflects underlying profitability in those countries. ArcelorMittal does not disclose a profit split by country, but based on the sales split by country we calculate an expected weighted tax rate of 30% (Figure 57).

Figure 57. ArcelorMittal weighted average 2010 tax rate implied by revenue geographical splits ($m)

	USA	Brazil	Other Americas	Germany	France	Spain	Other Europe	South Africa	Other Asia & Africa	Total
Revenue	9,305	3,887	5,601	5,709	4,973	3,905	16,488	2,519	8,634	61,021
Revenue split %	15%	6%	9%	9%	8%	6%	27%	4%	14%	100%
Assumed tax rate for region	40%	34%	31%	29%	33%	30%	23%	35%	26%	
Corporate tax rate implied by revenue split										**30%**

Source: Company annual report, IMF, KPMG, CIRA

Explanation of geographic weighted tax rate would be helpful

The tax reconciliation (Figure 58) indicates a geographic weighted tax rate of -93% in 2010 and +67% in 2009, and does not provide further explanation of this. However in other respects the tax reconciliation is more informative than most companies', due to both the detailed line items provided and explanatory text.

Figure 58. ArcelorMittal tax reconciliation, 2009–2010 ($m)

	2009	2010	Total
Income from associates and JVs (post tax)	56	451	507
Income (loss) before tax and income from associates and JVs	-4,261	1,856	-2,405
Tax expense (benefit) at statutory rates applicable to profits (losses)	**-2,875**	**-1,310**	**-4,185**
Effects of:			
Notional Interest Deduction	-931	-733	-1,664
Juros sobre o Capital Próprio ("JSCP")	-193	-51	-244
Interest recapture	6	554	560
Non tax deductible provisions	-131		-131
Tax deductible capital loss	-99		-99
Other permanent items	-29	-63	-92
Total permanent items	**-1,377**	**-293**	**-1,670**
Benefit arising from interest in partnership	-19		-19
Rate changes	-13	-190	-203
Net change in measurement of deferred tax assets	248	380	628
Effects of tax holiday	72	28	100
Effects of foreign currency translation	-521	-147	-668
Tax credits	-296	-141	-437
Other taxes	289	155	444
Others	60	39	99
Income tax expense (benefit)	**-4,432**	**-1,479**	**-5,911**
Effective tax rate	**104%**	**-80%**	**246%**
Effective tax rate, excluding income from associates and JVs	**103%**	**-105%**	**203%**

Source: Company annual reports

Intragroup financing has a significant impact on tax rate

Arcelor receives a substantial tax benefit (worth $733m in 2010, $931m in 2009) from the notional interest deduction in Belgium. This allows companies a tax deduction for a theoretical interest charge on equity funding, as discussed on page 10. Somewhat similarly, in Brazil the company benefits from tax rules treating a dividend payment up to a certain amount as tax deductible interest. On the other hand, in 2010, Arcelor's tax charge was increased by $554m relating to a specific Luxembourg tax rule disqualifying the tax deductibility of loan interest in certain circumstances. Clearly Arcelor's intragroup financing has a substantial impact on the group's overall tax rate.

Arcelor's tax charge was reduced in 2010 due to tax rate changes in Ukraine, Kazakhstan and Luxembourg. The net effect of unrecognised DTAs was to increase tax charges by $380m in 2010 ($248m in 2009). Tax credits of $141m in 2010 ($296m) mainly arise in Spain, mainly due to R&D and investment incentives. The remaining significant item in the tax reconciliation is "other taxes", such as withholding taxes on dividends, interest, royalties; mining duties and flat taxes; and taxes on distributed profits. We expect mining companies to suffer a higher level of these "other taxes" than companies in most other sectors.

Arcelor has $33bn of tax losses

Arcelor has tax losses carried forward of $33.2bn (of which $7.6bn have expiry dates), corresponding to a DTA of $9,889m (implying a 29.8% tax rate), of which $8,719m is on balance sheet (after offsetting some DTLs the balance sheet DTA is $6,603m). These losses arise primarily in Belgium, Luxembourg, Canada, Mexico, the Netherlands and the US. Arcelor's ability to capitalise DTAs in future could have an important impact on the P&L tax rate.

Arcelor paid cash taxes of $197m in 2010 and $340m in 2009.

It is hard to forecast Arcelor's P&L tax rate in future given the large number of moving parts and the global exposure. We also consider the group as having higher than average tax risk given the significant DTA capitalisation of losses and the possible use of tax planning measures (eg intragroup financing structures) as suggested by the tax reconciliation and the effective tax rate.

Oil & Gas

- Tax rates vary across the Oil & Gas sector; most integrated oils suffer a high tax rate, but some E&Ps and oil services companies have very low tax rates
- Some governments apply surtaxes to oil profits, and both Italy and the UK have increased energy specific tax rates in 2011
- Tax losses may be significant, particularly amongst E&P names

Figure 59. Tax rates of European Oil & Gas coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Afren	AFRE.L	UK	0%	0%	-1%	981%	47%	-278%	39%	49%
AMEC	AMEC.L	UK	8%	20%	32%	24%	9%	24%	23%	24%
BG Group	BG.L	UK	46%	43%	44%	44%	40%	43%	44%	45%
Bowleven	BLVN.L	UK	0%	0%	0%	0%	0%	0%	0%	0%
BP	BP.L	UK	40%	38%	41%	39%	16%	43%	35%	35%
CGGVeritas	GEPH.PA	France	36%	35%	24%	4%	-45%	44%	62%	34%
Cove Energy	COVE.L	UK	0%	0%	0%	0%	0%	0%	0%	0%
DNO International ASA	DNO.OL	Norway	63%	69%	-31%	1,063%	-37%	-221%	30%	22%
Eni	ENI.MI	Italy	52%	46%	50%	56%	55%	51%	55%	59%
EnQuest	ENQ.L	UK					51%	51%	91%	72%
ERG Group	ERG.MI	Italy	19%	36%	-1%	48%	-31%	16%	14%	40%
Galp Energia	GALP.LS	Portugal	19%	26%	21%	22%	27%	23%	27%	30%
Gulfsands Petroleum	GPX.L	UK	73%	49%	17%	0%	-0%	2%	0%	0%
Hellenic Petroleum S.A.	HEPr.AT	Greece	24%	25%	-72%	27%	37%	27%	23%	20%
Heritage Oil	HOIL.L	Jersey	0%	0%	0%	0%	-0%	-0%	0%	0%
Lamprell	LAM.L	Isle of Man	0%	0%	0%	0%	0%	0%	2%	3%
Motor Oil (Hellas)SA	MORr.AT	Greece	33%	27%	24%	31%	36%	30%	21%	20%
Neste Oil	NES1V.HE	Finland	26%	25%	24%	26%	23%	25%	28%	25%
OMV AG	OMVV.VI	Austria	23%	24%	34%	39%	38%	31%	28%	37%
Petrofac	PFC.L	UK	30%	27%	26%	19%	17%	21%	19%	20%
Petroplus Hldg AG	PPHN.S	Switzerland	25%	3%	7%	-11%	-331%	-52%	7%	10%
PGS	PGS.OL	Norway	35%	-2%	7%	23%	-636%	15%	33%	20%
Premier Oil	PMO.L	UK	57%	73%	65%	-41%	-29%	41%	-3%	44%
Royal Dutch Shell	RDSa.L	UK	41%	37%	48%	39%	42%	42%	48%	50%
Repsol	REP.MC	Spain	40%	40%	39%	41%	26%	36%	38%	38%
Saipem	SPMI.MI	Italy	29%	22%	23%	27%	28%	25%	28%	28%
Salamander Energy	SMDR.L	UK	-35%	75%	12%	-357%	-49%	-41%	75%	65%
Saras S.p.A.	SRS.MI	Italy	21%	32%	32%	39%	31%	28%	40%	40%
Seadrill	SDRL.OL	Bermuda	9%	-20%	-48%	8%	12%	8%	9%	10%
Soco International	SIA.L	UK	40%	43%	18%	45%	60%	42%	51%	50%
Statoil	STL.OL	Norway	66%	70%	76%	85%	72%	74%	67%	71%
Subsea 7	SUBC.OL	UK	24%	56%	33%	28%	33%	35%	32%	34%
Technip	TECF.PA	France	32%	38%	30%	52%	30%	35%	29%	30%
Total	TOTF.PA	France	57%	54%	56%	47%	49%	53%	53%	55%
Tullow Oil	TLW.L	UK	40%	54%	24%	9%	52%	37%	14%	40%
Valiant Petroleum	VPP.L	UK	0%	0%	33%	-51%	34%	211%	61%	62%
Average			**27%**	**30%**	**19%**	**67%**	**-8%**	**15%**	**31%**	**33%**
Median			**29%**	**32%**	**24%**	**27%**	**27%**	**27%**	**29%**	**34%**

Source: dataCentral, DataStream, Company annual reports, CIRA

The Oil & Gas team notes that the integrated oil sector generally suffers high tax rates, and the analysts believe that tax structuring opportunities are limited. This is principally because tax losses are usually ring fenced in the countries in which they are incurred. This is reflected in higher than average tax rates for **BG**, **Eni**, **RD Shell**, **Statoil**, and **Total**.

Additional taxes are common in Oil & Gas sector

Furthermore, countries often levy additional taxes on the sector to counter "excess" profits. For UK producers, the marginal corporate tax rate was 50% in 2010, and will be 62% from 2011, following an increase in the supplementary tax charge on UK North Sea oil and gas production from 20% to 32%. The oil sector was also excluded from the UK corporation tax rate decreases announced in the Finance Acts of 2010 and 2011.

Higher taxes in Italy

In Italy a surtax of 5.5% was first applied to the energy industry in 2008, which was increased to 6.5% in 2009, and was recently increased to 10.5% for 2011–2013. This is reflected in the high tax rates reported by **Eni**. We discussed the Robin Hood tax in more detail on page 13.

Norway levies a surtax of 50% on petroleum profits, making the marginal rate of tax 78% for the sector, which is reflected in the high effective tax rates reported by **Statoil**.

A number of E&Ps, including **BowLeven** and **Cove Energy**, are not yet producing oil and therefore report no revenues and a tax rate of 0%. While these companies are accruing tax losses, no deferred tax assets are recognised as there is no visibility of future profits until proven reserves have been identified. **Gulfsands** note that their Syrian tax obligations are settled by the Syrian Petroleum Company (state-owned oil company) out of their share of royalties and profit oil, resulting in a 0% effective tax rate. Tax losses may be significant to the E&P sector, as companies incur significant costs identifying and assessing oil reserves before any revenue is generated. We discuss **Premier Oil** as a case study (see page 73) of a company that has obtained significant UK tax losses as a result of M&A.

Among the refiners, **Petroplus Holding** is notable with a below average tax rate. The company relocated to Switzerland (from the Netherlands) in 2006, and has since set up subsidiaries in Bermuda, which the company classifies as holding/finance entities. The company's unusual tax rate of -331% in 2010 was the result of the write-down of deferred tax assets, which implies a downward revision of management's view of the outlook for the business, as deferred tax assets are only recognised to the extent they are likely to be utilised against future profits.

Among the oil services companies, **Lamprell** and **Seadrill** have notably low tax rates. Lamprell is domiciled in the UAE and 98% of revenues (in 2010) were generated in the region, where the company is not subject to corporation tax. The company is incorporated on the Isle of Man (0% corporate tax rate), and therefore has not recorded a tax charge over the period we reviewed. The company does not anticipate any tax liability in the foreseeable future, but our Oil & Gas team notes that the tax holiday was granted under a tax rule that no longer exists, and therefore there is a risk that the company may be subject to tax in future.

Seadrill

Bermudan domicile is beneficial

- Domiciled in Bermuda and has low effective tax rates averaging 8%
- Nature of business appears to offer significant tax planning opportunity

Seadrill is a sea drilling contractor domiciled in Bermuda. Due to the Bermudan domicile, Seadrill only pays foreign tax in the regions where it operates, and has been successful at minimising tax obligations, as reflected in the low average tax rate of 8% in the period 2006–2010. The tax reconciliation (Figure 60) shows the impact of the foreign tax charges, which is partially offset by the effect of transfers to new tax jurisdictions. Seadrill does not provide detail on these transfers, but we believe the reduction in the tax burden implies that these relate to Seadrill's tax management activities.

Figure 60. Seadrill tax reconciliation, 2007-2010 ($m)

	2010	2009	2008	2007	Total
Profit before tax	1,331	1,473	-100	387	3358
Tax at Bermuda statutory tax rate (0%)	**-**	**-**	**-**	**-**	**-**
Tax effects of:					
Effect of taxable income in various countries	198	115	92	18	445
Effect of transfers to new tax jurisdictions	-39	5	-43	-75	-152
Effect of change in taxable currency	-	-	-	-21	-21
Tax charge/(credit) for the year	**159**	**120**	**48**	**-78**	**272**

Source: Company reports, CIRA

Seadrill provide detailed country by country revenue analysis, and our calculation (Figure 61) of the 2010 weighted average tax rate based on the prevailing tax rates in each country is 29%, a gap of 17% to the reported effective rate of 12% in 2010.

Figure 61. Seadrill weighted average 2010 tax rate implied by revenue geographical splits ($m)

	Norway	Brazil	China	Nigeria	USA	Angola	Thailand	Indonesia	UK	Vietnam	Philippines	Other	Total
Revenue	1,393	711	230	204	186	182	165	159	151	150	109	402	4,041
Revenue split %	34%	18%	6%	5%	5%	5%	4%	4%	4%	4%	3%	10%	100%
Assumed tax rate for region	28%	34%	25%	30%	40%	35%	30%	25%	28%	25%	30%	24%	
Corporate tax rate implied by revenue split													**29%**

Source: Company annual report, IMF, KPMG, CIRA

Seadrill annual report highlights tax risks

Seadrill's 2010 annual report cites a risk that "a successful tax challenge to our operating structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries could result in a higher tax rate on our worldwide earnings".

This disclosure implies that Seadrill utilises intercompany transactions which transfer profits between jurisdictions and may therefore be subject to legal challenge, and that Seadrill operations in some countries are not considered a taxable presence, meaning that no tax liability is incurred on earnings in that country in our view.

Seadrill notes that the majority of rigs are owned in tax free jurisdictions such as Bermuda, but that some rigs are owned in other countries. The company also highlights that they are in some regions subject to tonnage tax or to withholding taxes rather than corporation tax. These taxes are not generally based on taxable profits as with corporation tax. Tonnage tax is generally based on the weight of vessels operated, and withholding tax is payable only on the distribution of profits by a company to a foreign parent company.

Premier Oil

- Obtained significant UK tax losses through M&A; reflected in low effective tax rates in recent years but not yet visible in cash tax rates

Premier Oil is a UK based E&P with 50% of assets in the North Sea (UK and Norway), and 50% of assets in Asia and the Middle East, and suffers a high tax rate; over 2006–2010 the average expected tax rate disclosed by the company was 63% (Figure 62).

$1bn of tax losses from acquisition

In 2006–2008 the effective tax rate was not significantly different from this on average. Premier Oil reported overall tax credits in 2009 and 2010, despite continuing profitability. This was principally the result of the acquisition of the North Sea operations of Oilexco in 2009 for $574m, which gave Premier Oil access to over $1bn of UK tax losses. The tax reconciliation for 2009 shows a credit of $136m resulting from the recognition of tax losses, and a further $67m in 2010, which resulted in an overall tax credit in both years.

The significance of the tax effect of the acquisition is highlighted by comparing the overall effective tax rate over 2006–2010 of 41%, compared to the weighted average statutory rate for the period of 63%. Premier Oil's latest guidance on UK tax allowances is that they had $1.1bn available at 1 January 2011, $140m of which had not yet been recognised on balance sheet.

The UK government increase in the marginal corporation tax rate for ring-fenced profits from 50% to 62% resulted in a further deferred tax credit of $62m recognised in H1 2011; deferred tax assets are measured with reference to prevailing corporate tax rates. An increased tax rate therefore increases the value of the tax losses to the company.

Figure 62. Premier Oil tax reconciliation, 2006–2010 ($m)

	2006	2007	2008	2009	2010	Total
Profit before tax	157	147	278	80	101	762
Weighted average tax rate	62%	78%	61%	60%	48%	63%
Profit before tax at weighted average rate	**97**	**114**	**169**	**48**	**48**	**477**
Tax effects of:						
Income/expenses that are not taxable/deductible in determining taxable profit	9	6	6	-11	3	13
Tax and tax credits not related to PBT (including UK petroleum revenue tax)	7	-12	-4	-19	5	-23
Unrecognised tax losses			9	41	9	58
Utilisation and recognition of tax losses not previously recognised	-18	-2	-2	-136	-67	-224
Adjustments in respect of prior years	-2	1	2	-19	-26	-45
Effect of change in tax rates	-4			27		23
Timing differences for which deferred tax not recognised				36		36
Tax charge/(credit) for the year	**89**	**108**	**179**	**-33**	**-29**	**314**
Effective tax rate						

Source: Company reports, CIRA

The effect of the Oilexco transaction is not visible on the Premier Oil cash tax rates which have remained high through 2010 (Figure 63). Premier Oil stated in their H1 results that they do not expect to pay UK corporation tax until at least 2015, and that tax paid represents overseas tax and petroleum reserve tax (PRT), an additional tax levied on UK North Sea oil fields discovered before 1993.

Figure 63. Premier Oil P&L and cash tax rates, 2006–2013E ($m)

	2006	2007	2008	2009	2010	Total 2006 - 2010	2011E	2012E	2013E	Total 2011E – 2013E	Total 2006 – 2013
Profit before tax	157	147	278	80	101	762	209	740	1,040	1,988	2,750
P&L tax charge/(credit)	89	108	179	-33	-29	314	-6	328	448	769	1,083
P&L tax rate	**57%**	**73%**	**65%**	**-41%**	**-29%**	**41%**	**-3%**	**44%**	**43%**	**39%**	**39%**
Cash tax	116	90	203	72	68	549	20	82	112	214	763
Cash tax rate	**74%**	**61%**	**73%**	**89%**	**67%**	**72%**	**10%**	**11%**	**11%**	**11%**	**28%**

Source: Company reports, CIRA estimates. Estimates as of 12 December 2011.

IFRS rules permit P&L recognition of deferred tax assets (and therefore P&L tax credits) to the extent that it is probable that the losses will be utilised against future profits. This treatment front loads tax credits in earnings, and results in a total P&L tax rate over 2006–2010 of 41%, compared to a cash tax rate of 72%.

CIRA forecasts for 2011–2013 suggest that this trend will reverse from 2012E, with the P&L tax rate forecast to be 44% in 2012E and 43% in 2013E, while the cash tax rate is forecast to be 11% in both years. The forecasts reflect the utilisation of accrued UK tax losses, which reduce cash taxes payable, but do not reduce the P&L tax charge as the credit has been recognised in earlier periods.

Pharmaceuticals & Medical Technology

- Lower than average tax rates in pharmaceutical sector despite sales exposure to high tax countries
- Swiss pharmaceutical companies pay the lowest rates
- Lots of tax planning opportunities, particularly from transfer pricing, but higher than average risk of tax investigations
- Special tax incentives particularly important in this sector
- CIRA Pharmaceuticals team forecasts further downward pressure on tax rates for the sector

In general tax rates in the pharmaceutical sector are lower than average (Figure 64). Typically the highest tax rates amongst the major pharmaceutical companies are for UK companies in the high 20's, while the Swiss companies have lower tax rates (low 20s for **Roche** and around 16% for **Novartis**).

Our Pharmaceuticals analysts highlight **Bayer**; they expect the tax rate to fall from 28% in 2011E to 25% by 2014E. They believe the forecast tax saving is underappreciated by the market.

Figure 64. Tax rates of European Pharmaceuticals & Medical Technology coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Actelion Ltd	ATLN.VX	Switzerland	14%	26%	9%	8%	11%	12%	-34%	13%
Almirall S.A.	ALM.MC	Spain	3%	-2%	6%	12%	0%	4%	3%	3%
Amplifon SpA	AMPF.MI	Italy	30%	38%	-580%	37%	43%	43%	35%	35%
AstraZeneca PLC	AZN.L	UK	29%	30%	29%	30%	26%	29%	19%	25%
Basilea Pharmaceutica AG	BSLN.S	Switzerland	0%	0%	0%	-0%	1%	-0%	-0%	0%
Bayer AG	BAYGn.DE	Germany	23%	-3%	27%	27%	24%	19%	28%	27%
Essilor	ESSI.PA	France	31%	31%	29%	30%	26%	29%	26%	26%
Fresenius Medical Care	FMEG.DE	Germany	43%	39%	37%	34%	35%	37%	34%	34%
Fresenius SE	FREG.DE	Germany	39%	37%	39%	30%	33%	35%	34%	32%
GlaxoSmithKline PLC	GSK.L	UK	30%	29%	29%	28%	42%	30%	30%	27%
Ipsen	IPN.PA	France	22%	25%	17%	6%	14%	18%	23%	20%
Merck KGaA	MRCG.DE	Germany	21%	21%	34%	23%	26%	25%	40%	27%
Nobel Biocare Holding AG	NOBN.VX	Switzerland	22%	22%	31%	23%	55%	27%	24%	23%
Novartis AG	NOVN.VX	Switzerland	16%	13%	15%	15%	16%	15%	16%	16%
Novo Nordisk A/S	NOVOb.CO	Denmark	30%	22%	24%	23%	23%	24%	23%	23%
Roche Holding AG	ROG.VX	Switzerland	27%	25%	23%	17%	21%	23%	21%	21%
Sanofi SA	SASY.PA	France	17%	12%	16%	22%	22%	18%	20%	23%
Shire Pharmaceuticals	SHP.L	Ireland	92%	-172%	37%	22%	24%	26%	23%	23%
Smith & Nephew PLC	SN.L	UK	28%	33%	33%	30%	31%	31%	31%	32%
Sonova Holdings AG	SOON.VX	Switzerland	15%	10%	12%	12%	11%	12%	13%	13%
Stada Arzneimittel	STAGn.DE	Germany	36%	29%	27%	29%	37%	32%	48%	29%
Straumann Holding AG	STMN.S	Switzerland	18%	9%	69%	15%	18%	17%	24%	17%
Synergy Health Plc	SYR.L	UK	28%	20%	22%	10%	22%	19%	24%	24%
Synthes Inc	SYST.VX	Switzerland	34%	34%	30%	29%	28%	31%	28%	28%
UCB SA	UCB.BR	Belgium	29%	27%	70%	25%	-453%	19%	18%	28%
Vectura	VEC.L	UK	21%	10%	15%	26%	34%	20%	20%	0%
William Demant Holding	WDH.CO	Denmark	26%	24%	24%	25%	25%	25%	25%	26%
Average			**27%**	**14%**	**5%**	**22%**	**7%**	**23%**	**22%**	**22%**
Median			**27%**	**24%**	**27%**	**23%**	**24%**	**24%**	**24%**	**24%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Positive tax news in this sector

The CIRA Pharmaceuticals team expects continuing downward pressure on tax rates in the sector, [24] particularly for multinationals. This is primarily due to tax incentives to encourage investment (such as UK "patent box" rules that will reduce the tax rate on profits derived from patents) and also lower statutory tax rates in some countries eg the UK.

Transfer pricing is a key issue for the sector

Pharmaceutical sector tax rates are generally well below the expected tax rates based on geographic sales exposure. Given the sales bias towards relatively high tax markets such as the US, Germany and Japan, a superficial analysis might expect tax rates above 30%. Transfer pricing (including charging for intellectual property) which allows allocation of profits towards subsidiaries in lower tax jurisdictions, is an important issue. CIRA Pharmaceuticals team believes that tax rates are lower primarily due to location of intellectual property, which most companies have domiciled in low tax jurisdictions, such as Ireland/Singapore/Puerto Rico. Although sales are global, drug production and research and development activity can be concentrated in certain countries, so pharmaceutical groups will be mindful of tax rates when determining locations for these activities. Pharmaceutical groups may use intra-group financing to move profits from higher tax countries (eg the US) to lower tax countries. Finally, tax incentives for R&D and innovation can be significant.

UK Patent Box rules expected to lower tax for GSK & AstraZeneca

An important issue in the UK will be the UK Patent Box rules, which will be phased in over four years from 1 April 2013. Tax on profits attributable to UK/EU patents will be taxed at 10%. Draft legislation was issued on 6 December 2011 and the final legislation will be included in the Finance Act 2012. The CIRA Pharmaceuticals team estimates the scheme will add c. 2.5% to underlying EPS for **GlaxoSmithKline** (GSK) and **AstraZeneca** from 2017.

Pharmaceutical company tax rates may also be reduced by special tax status, R&D tax credits, or other investment incentives in some countries. For example, GSK's profits from certain operations in Singapore are accorded special status and taxed at reduced rates, which increased EPS by 1.6p in 2010 (5%) and 2.8p in both 2008 and 2009. GSK's tax reconciliation also shows a benefit from R&D credits.

As a result of the tax planning opportunities in the sector, significant investigations by tax authorities are commonplace. Both GSK and AstraZeneca have reached settlements with tax authorities relating to longstanding investigations in recent years.

AstraZeneca paid £505m in 2010/11 to settle a transfer pricing dispute for periods from 1996 onwards with the UK authorities. AstraZeneca has also applied for an advance pricing agreement in relation to intra-group transactions between the UK and US. In 2009/2010 GSK reached an agreement relating to a tax dispute with the US IRS regarding the use of intercompany financing; the IRS had reclassified a financing agreement from debt to equity and thus re-characterised payments as dividends (rather than interest) subject to withholding tax. In Canada, GSK is involved in an ongoing dispute about transfer pricing in the 1990s.

AstraZeneca highlights risk from transfer pricing disputes

AstraZeneca noted in the 2010 annual report that the "international tax environment presents increasingly challenging dynamics for the resolution of transfer pricing disputes". It has accrued $2.3bn at the end of 2010 to cover the worldwide exposure to transfer pricing audits, and a further $1.4bn for other tax contingencies.

[24] *See Shrink, Smarten, Spin: Three 'Killler Apps' for Unlocking Pharma R&D Value*, dated 29 November 2011.

GSK notes that "Changes in tax laws or in their application with respect to matters such as transfer pricing, foreign dividends, controlled companies, R&D tax credits or a restriction in tax relief allowed on the interest on intra-group debt, could increase the Group's effective tax rate and materially and adversely affect its financial results."

Novartis tax rate significantly lower than Roche's

We find it interesting that, according to its tax reconciliation, **Novartis** is able to achieve an expected weighted tax rate of 15.8% in 2010 and 2009 and actual effective tax rate of 14.8% in both years, while **Roche** has an average expected tax rate of 20.2% in 2010 and 19.4% in 2009 and an effective tax rate of 20.7% in 2010 and 16.8% in 2009. Both companies have a similar geographic mix and both are headquartered in Basel, Switzerland, yet Novartis' expected tax rate is around 400bp below Roche's. CIRA Pharmaceutical team believes that Novartis' rate is lower due to (a) more of its IP being domiciled in low tax jurisdictions, and (b) the location of significant manufacturing and R&D activities in Basel, Switzerland. In addition Roche's US subsidiary Genentech (which was separately listed until 2009) has largely been managed separately, with intellectual property and manufacturing located in the US, and this may have resulted in a higher tax burden for the group.

Based simply on geographic sales, we would estimate an expected tax rate of 33% for both Novartis and Roche, as shown Figure 65 and Figure 66. The Roche tax reconciliation also splits out "US state tax impacts" separately, while Novartis does not, so the underlying difference is even larger.

Figure 65. Novartis weighted average 2010 tax rate implied by revenue geographical splits ($m)

	USA	Japan	Germany	Switzerland	France	Other	Alcon, Inc.	Total
Revenue	15,863	4,061	3,926	584	2,369	21,395	2,426	50,624
Revenue split %	31%	8%	8%	1%	5%	42%	5%	100%
Assumed tax rate for region	40%	41%	29%	21%	33%	27%	40%	
Corporate tax rate implied by revenue split								**33%**

Source: Company annual report, IMF, KPMG, CIRA

Figure 66. Roche weighted average 2010 tax rate implied by revenue geographical splits ($m)

	USA	Japan	Germany	Switzerland	Other Europe	Other Asia	Other	Total
Revenue	16,446	4,718	2,970	464	13,256	3,591	6,028	47,473
Revenue split %	35%	10%	6%	1%	28%	8%	13%	100%
Assumed tax rate for region	40%	41%	29%	21%	27%	26%	31%	
Corporate tax rate implied by revenue split								**33%**

Source: Company annual report, IMF, KPMG, CIRA

Roche, Novartis and GSK tax reconciliations all quantify the benefit of special tax credits (eg for R&D) while AstraZeneca does not disclose this.

Biotech companies are more exposed to issues such as R&D tax credits and tax losses carried forward.

Real Estate

- Introduction of REIT status in the UK in 2007 has removed tax issues for most of the Real Estate companies we cover.

Underlying tax rates <2%

Since the introduction of Real Estate Investment Trusts (REITs) in the UK in January 2007 and the subsequent conversion of the major listed real estate companies, underlying tax rates have fallen below 2%. Most companies have income from outside the tax exempt REIT business, such as management fees from third parties, but this makes up only a small part of their total revenue. The picture is similar in the France and the Netherlands which also have tax transparent structures for listed real estate companies.

Figure 67. Tax rates of European Real Estate coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Big Yellow	BYG.L	UK	-40%	-1%	-2%	0%	0%	-30%	-3%	-1%
British Land	BLND.L	UK	-103%	4%	1%	-2%	-2%	36%	2%	2%
Capital & Counties	CAPCC.L	UK		30%	3%	-1%	1%	3%	6%	8%
Derwent London	DLN.L	UK	25%	202%	2%	28%	0%	108%	0%	0%
Eurobank Properties	EUPr.AT	Greece	4%	6%	8%	11%	45%	10%	18%	15%
Grainger	GRI.L	UK	30%	45%	59%	29%	32%	37%	25%	24%
Great Portland	GPOR.L	UK	-20%	-15%	0%	0%	1%	-24%	1%	0%
Hammerson	HMSO.L	UK	-30%	-1%	2%	23%	0%	69%	0%	0%
Hansteen	HSTN.L	UK	31%	33%	2%	43%	8%	-47%	11%	12%
Helical Bar	HLCL.L	UK	15%	49%	25%	-41%	26%	54%	10%	10%
Land Securities	LAND.L	UK	-86%	1%	-0%	-2%	-2%	89%	0%	0%
London & Stamford	LSP.L	UK		139%	113%	-2%	35%	5%	4%	3%
Metric Property	METP.L	UK					2%	2%	0%	0%
Safestore	SAFE.L	UK	26%	25%	16%	97%	10%	19%	-5%	-9%
SEGRO	SGRO.L	UK	-34%	1%	0%	6%	-7%	42%	134%	-14%
Shaftesbury	SHB.L	UK	27%	-113%	2%	-1%	3%	-44%	1%	1%
St Modwen	SMP.L	UK	24%	7%	35%	18%	-3%	-32%	15%	15%
Unite	UTG.L	UK	-26%	38%	11%	3%	-264%	28%	5%	7%
Workspace	WKP.L	UK	-73%	7%	0%	9%	-1%	44%	0%	0%
Average			**-12%**	**24%**	**15%**	**11%**	**-6%**	**20%**	**12%**	**4%**
Median			**-8%**	**7%**	**2%**	**4%**	**1%**	**19%**	**2%**	**1%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Technology

- Significant tax issues in the broader technology sector
- Tax losses can be very material
- Significant tax planning opportunities may be available

Tax issues can be material for a number of companies in the technology sector. The valuation of tax losses, and the impact of tax losses on EPS and cash flows, can be significant. Various aspects of the sector, such as international exposure and the importance of intellectual property, may increase tax planning opportunities. For some companies the tax treatment of employee options may be material.

ASML benefits from Dutch innovation box rules

ASML Holding recorded low forecast tax rates of 13% and 14% in 2011 and 2012, primarily as a result of agreement with the Netherlands tax authorities over the application of Dutch innovation box regulations, as discussed on page 13.

Infineon Technologies has a low forecast tax rate of 14% in 2011 and 13% in 2012. The company has significant tax loss carry-forwards as a result of losses incurred between 2006 and 2009, and the forecast tax rate reflects an expectation that it will be possible to recognise more DTAs as Infineon continues to be profitable.

Alcatel's forecast tax rate well below Ericsson's and Nokia's

As a case study we use **Alcatel-Lucent**, which is forecast to have a much lower tax rate than its telecom equipment peers **Ericsson** and **Nokia** (see Figure 68).

Figure 68. Tax rates of European Technology coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Aixtron SE	AIXGn.DE	Germany	12%	23%	36%	30%	31%	30%	32%	15%
Alcatel-Lucent	ALUA.PA	France	13%	-8%	-3%	9%	-15%	-4%	-74%	10%
ARM Holdings PLC	ARM.L	UK	14%	22%	31%	14%	22%	21%	26%	24%
ASML Holding NV	ASML.AS	Netherlands	28%	20%	-4%	12%	18%	19%	13%	14%
ATOS	ATOS.PA	France	-45%	49%	62%	21%	33%	101%	29%	30%
AVEVA Plc	AVV.L	UK	28%	24%	29%	33%	31%	29%	30%	28%
Capgemini SA	CAPP.PA	France	4%	10%	20%	25%	31%	18%	34%	34%
CSR Plc	CSR.L	UK	28%	28%	-8%	21%	391%	20%	15%	19%
Dassault Systemes SA	DAST.PA	France	28%	35%	29%	25%	31%	30%	30%	31%
Domino Printing Sciences	DOPR.L	UK	28%	30%	34%	31%	29%	30%	30%	29%
Ericsson LM	ERICb.ST	Sweden	28%	28%	32%	26%	26%	28%	32%	32%
Halma	HLMA.L	UK	30%	29%	28%	26%	26%	27%	24%	24%
Infineon Technologies	IFXGn.DE	Germany	-192%	-29%	-69%	-2%	-8%	-67%	14%	13%
Logitech International S A	LOGN.VX	Switzerland	10%	12%	16%	22%	13%	13%	20%	23%
Micro Focus International Plc	MCRO.L	UK	27%	28%	28%	22%	16%	23%	26%	26%
Nokia Oyj	NOK1V.HE	Finland	24%	18%	22%	73%	25%	24%	-30%	26%
Renishaw	RSW.L	UK	23%	20%	24%	22%	20%	21%	22%	23%
Sage Group PLC	SGE.L	UK	31%	31%	31%	29%	29%	30%	29%	28%
SAP AG	SAPG.DE	Germany	30%	32%	30%	28%	22%	29%	29%	28%
Software AG	SOWG.DE	Germany	37%	34%	32%	32%	29%	32%	31%	30%
Spectris	SXS.L	UK	28%	27%	24%	21%	20%	24%	25%	29%
Spirent Communications Plc	SPT.L	UK	-2%	-43%	-51%	-7%	30%	-10%	31%	32%
STMicroelectronics	STM.PA	Switzerland	-3%	5%	5%	6%	22%	2%	31%	29%
Telecity Group Plc	TCY.L	UK	0%	-1%	-27%	9%	17%	8%	27%	27%
Wolfson	WLF.L	UK	29%	28%	28%	31%	41%	25%	27%	26%
Average			**10%**	**18%**	**15%**	**22%**	**37%**	**20%**	**20%**	**25%**
Median			**27%**	**24%**	**28%**	**22%**	**26%**	**24%**	**27%**	**27%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Alcatel-Lucent

- DTA recognition is a key driver of reported tax rate
- Available DTAs total €12.7bn, €1.1bn recognised as of Q3 2011

Alcatel-Lucent had reported tax rates of -15% in 2010, +9% in 2009 and -3% in 2008 (Figure 69). The company reported losses for those years, but received very little corresponding tax credit.

Figure 69. Alcatel-Lucent tax reconciliation, 2008–2010 (€m)

	2008	2009	2010	Total
(Loss) before income tax and discontinued operations	-5,053	-696	-243	-5,992
Average income tax rate	36%	33%	24%	35%
Expected tax (charge) benefit	**1,811**	**231**	**58**	**2,100**
Impact on tax (charge) benefit of:				
Reduced taxation of certain revenues			41	41
Permanent differences and utilisation of previously unrecognised tax losses	-896	49	201	-646
Adjustment to prior years' current tax charge		9		9
Recognition of previously unrecognised deferred tax assets	2	198	95	295
Deferred tax assets no longer recognised	-463	-127	-17	-607
Non-recognition of tax losses	-638	-332	-417	-1,387
Tax credits	31	29	16	76
Other		3	-14	-11
Actual income tax (charge) benefit	**-153**	**60**	**-37**	**-130**
Effective tax rate	3%	9%	-15%	-15%

Source: Company annual reports

The tax reconciliation shows that the expected tax rate has varied from 23.8%-35.8% over that time. The lower 2010 tax rate of 23.8% may be distorted by the small net loss in the year (the interaction of profits and losses in different countries can produce unusual average tax rates). Based on simple geographic sales exposure, a reasonable tax rate appears to be around 32% on our estimates.

Figure 70. Alcatel-Lucent weighted average 2010 tax rate implied by revenue geographical splits ($m)

	USA	Other Western Europe	Asia Pacific	Other Americas	France	Rest of Europe	Rest of World	Total
Revenue	5,291	3,032	2,928	1,404	1,376	673	1,292	15,996
Revenue split %	33%	19%	18%	9%	9%	4%	8%	100%
Assumed tax rate for region	40%	27%	26%	32%	33%	23%	28%	
Corporate tax rate implied by revenue split								**32%**

Source: Company annual report, IMF, KPMG, CIRA

DTAs key driver of reported tax rate

The tax reconciliation illustrates that the reported tax rates are mainly determined by deferred tax asset recognition. For example, in 2010, the DTAs not recognised or no longer recognised increased the charge by €434m, while recognising or using previously unrecognised DTAs (together with permanent differences) reduced tax by €296m.

€12bn unrecognised DTAs

This is unsurprising, because the tax note shows that Alcatel has total DTAs of €12.7bn (428% of market cap), of which €11.8bn are unrecognised. Of these, €220m of recognised DTAs and €9.7bn of unrecognised DTAs arise on tax losses, of which we estimate approximately half are in the US.

At Q3 2011 Alcatel reported an increase in on balance sheet DTAs of €229m, taking the total recognised to €1,117m. The company noted that, following the performance of the 2011 annual goodwill impairment test, a reassessment of deferred taxes resulted in recognition of €615m additional US DTAs, and reducing those recognised in France and other jurisdictions by €386m. The company did not provide an updated unrecognised losses figure.

Despite the reported losses over 2008-2010, Alcatel has paid net cash tax each year (€117m in 2010, €89m in 2009, €123m in 2008), which our analyst notes is mainly in relation to JVs in China and India. Assessing the cash tax rate in future is significant for valuation but this is difficult to estimate accurately without more detail on the location of the DTAs than is provided in the annual report.

DTAs may be valued implicitly by assuming a lower P&L or cash tax rate in forecasts (either for multiple-based or DCF valuations) or a value may be attributed explicitly to the DTAs. P&L tax rates may be volatile in practice (and a poor guide to long-term tax rates), depending on the timing of DTA recognition. The future cash tax rate will depend on the geographic profit mix (ie the extent to which profits occur in the locations with tax losses). When valuing the DTAs explicitly, it is necessary to discount them to reflect both the probability of using the DTAs and also to reflect the time value of money. DTAs from tax losses disclosed in the accounts are not discounted.

Telecoms

- Higher than average tax risk
- Disputes and special arrangements with tax authorities appear more common in this sector (eg KPN, Vodafone)
- Tax losses and other DTAs can be material to valuations (eg Cable & Wireless Worldwide)

Telecoms companies report quite a range of tax rates, typically slightly lower than average (see Figure 71). The sector seems to have a number of company-specific tax issues, including disputes with tax authorities, and some special tax concessions. Overall tax risk seems to be higher than average. The CIRA Telecoms team notes that telecoms businesses are vulnerable to higher taxes as they generate significant cash flows and are not able to offshore their businesses.

Figure 71. Tax rates of European Telecoms coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Belgacom SA	BCOM.BR	Belgium	25%	24%	24%	21%	15%	22%	24%	24%
Bouygues SA (note 1)	BOUY.PA	France	34%	32%	31%	32%	33%	32%	29%	27%
BT Group PLC	BT.L	UK	-15%	12%	25%	-2%	13%	0%	20%	23%
Cable and Wireless Communications Plc	CWC.L	UK	17%	20%	9%	34%	27%	22%	27%	25%
Cable & Wireless Worldwide PLC	CWP.L	UK	6%	-12%	-367%	101%	-49%	505%	-0%	0%
Deutsche Telekom AG	DTEGn.DE	Germany	-37%	56%	41%	67%	35%	33%	35%	33%
Elisa Oyj	ELI1V.HE	Finland	24%	23%	22%	25%	24%	23%	25%	25%
Eutelsat Communications	ETL.PA	France	35%	35%	33%	34%	36%	35%	34%	34%
France Telecom	FTE.PA	France	58%	16%	38%	41%	32%	34%	32%	32%
Freenet	FNTGn.DE	Germany	-119%	90%	2,717%	53%	-16%	-35%	-9%	-4%
Inmarsat plc	ISA.L	UK	-42%	23%	-84%	22%	22%	-3%	25%	25%
Jazztel	JAZ.MC	UK	0%	0%	0%	0%	0%	0%	-40%	21%
Kabel Deutschland	KD8Gn.DE	Germany	-38%	-2%	8%	-132%	21%	-14%	18%	20%
KPN NV	KPN.AS	Netherlands	7%	-36%	29%	-7%	22%	3%	14%	20%
Millicom Intl Cellular	MICsdb.ST	Luxembourg	33%	16%	39%	27%	12%	21%	4%	28%
Mobistar SA	MSTAR.BR	Belgium	32%	32%	32%	35%	29%	32%	33%	33%
OTE	OTEr.AT	Greece	33%	33%	29%	40%	239%	39%	39%	38%
Portugal Telecom	PTC.LS	Portugal	1%	24%	25%	23%	23%	19%	22%	26%
SES S.A.	SESFd.PA	Luxembourg	19%	16%	18%	16%	12%	16%	10%	13%
Sonaecom	SNC.LS	Portugal	1,345%	-6,912%	135%	46%	29%	-54%	24%	29%
Swisscom AG	SCMN.VX	Switzerland	20%	18%	20%	19%	22%	20%	21%	21%
TalkTalk Telecom Group PLC	TALK.L	UK	27%	27%	45%	127%	38%	23%	33%	37%
TDC	TDC.CO	Denmark	27%	24%	27%	26%	30%	26%	25%	27%
Tele2 AB	TEL2b.ST	Sweden	-10%	140%	7%	8%	4%	17%	26%	26%
Telecom Italia SpA	TLITn.MI	Italy	46%	41%	23%	34%	13%	33%	115%	37%
Telefonica SA	TEF.MC	Spain	26%	15%	28%	24%	28%	24%	20%	27%
Telekom Austria	TELA.VI	Austria	15%	19%	36%	11%	19%	16%	-95%	21%
Telenet Group Holding NV	TNET.BR	Belgium	80%	408%	132%	-61%	39%	10%	34%	34%
Telenor ASA	TEL.OL	Norway	11%	11%	22%	29%	25%	19%	31%	29%
TeliaSonera AB	TLSN.ST	Sweden	24%	20%	19%	23%	21%	21%	23%	23%
Tiscali SpA	TIS.MI	Italy	9%	10%	-33%	-473%	-24%	-13%	-7%	-12%
United Internet AG	UTDI.DE	Germany	34%	34%	-145%	17%	41%	39%	32%	30%
Virgin Media	VMED.O	USA	2%	-1%	1%	1%	39%	6%	22%	0%
Vodafone Group PLC	VOD.L	UK	-102%	25%	26%	1%	17%	26%	16%	21%
Zon	ZON.LS	Portugal	28%	26%	30%	26%	20%	27%	33%	28%
Average			**47%**	**-163%**	**87%**	**8%**	**25%**	**29%**	**20%**	**23%**
Median			**20%**	**23%**	**25%**	**24%**	**22%**	**21%**	**24%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA. Note: Bouygues tax rate distorted by associate income, CIRA Telecoms team believes that underlying tax rate for 2011-12 should be around 32%.

Belgacom's effective tax rate of around 24% is lower than the headline Belgian tax rate of 34%. This is due to the Belgian tax deduction for notional interest on equity financing (see page 10).

The CIRA Telecoms team highlights that **France Telecom** has been affected by recent French tax rules on the use of losses. Companies are now only allowed to offset tax losses against up to 60% of profits. As a result France Telecom is expected to pay some cash tax in 2011 and 2012: the analysts forecast cash tax payments of €500m pa in 2011 and 2012, followed by €800m in 2013 and €1.5bn in 2014 (compared to previous expectations of little or no cash tax in 2011 and 2012, but €1.5bn in 2013). Separately they note that France Telecom recorded a tax expense of €1.9bn in 2010 relating to tax audits for 2000-2005. France Telecom does not expect a final decision to be made on this tax dispute until 2013-2014 at the earliest.

Tax losses can be very significant in this sector

Tax losses can be significant and remeasurements of deferred tax assets can result in P&L tax volatility. The valuation of these DTAs can be very material to some of the smaller telecoms companies. The CIRA Telecoms team also notes that several companies have cash tax rates well below the P&L tax rates, often due to tax losses.

For example, **Cable & Wireless Worldwide** has had a volatile P&L tax credit in recent years, mainly due to the recognition, and subsequent write-down, of previously unrecognised DTAs. It wrote down £146m of DTAs in the six months to September 2011 due to revised financial projections. C&W Worldwide now has £74m of DTAs on balance sheet (vs £220m at March 2011) and approximately £5bn off balance sheet. It pays virtually no cash tax.

At March 2011, C&W Worldwide's off balance sheet DTAs arose on £3.4bn of unused capital allowances (now a higher figure following the recent writedown) and £16bn of tax losses. The tax losses include £5.2bn UK capital losses (which can generally only be used to offset UK capital gains), £10.3bn of losses in overseas holding companies (the company considers the probability of using these losses to be "remote") and £666m of losses in overseas trading companies (no DTA recognised due to uncertainty of future profitability).

C&W Worldwide DTAs potentially material to valuation

We believe that very little or no value should be attributed to the £5.2bn of UK capital losses and the £10.3bn of holding company losses. However, investors should consider what value (if any) to attribute to the approximately £4bn of unused capital allowances worth up to £1bn or the £666m overseas trading losses, which could be worth up to a maximum of around £200m. These are in addition to the £74m of DTAs on balance sheet which relate to UK capital allowances which the company expects to use. Given the company's market cap of £440m, the possible tax value is clearly material.

We have taken two telecoms companies as case studies, KPN and Vodafone. KPN illustrates the benefits of agreeing special tax incentives, while Vodafone has been involved in some high-profile disputes with tax authorities.

KPN

- Past low tax rate driven by recognition of DTAs
- Future expected effective tax rate of 20% due to new Dutch tax incentive for innovative activities

KPN reported a P&L tax rate of 21.8% in 2010 and -6.8% in 2009 (ie a tax credit on the profit), although the cash tax paid has been relatively close to the Dutch statutory rate. The reconciliation is shown below in Figure 72.

Figure 72. KPN tax reconciliation, 2009-2010 (€m)

	2009	2010	Total
Profit before income tax	2,042	2,334	4,376
Taxes at Dutch statutory tax rates	**-521**	**-595**	**-1,116**
Tax rate differences of foreign operations	-37	-53	-90
Non-taxable income and non-deductible expenses	-4	-31	-35
Change in Dutch statutory tax rate		18	18
(De)recognition of deferred tax positions:			
related to prior years	757	193	950
related to the current year	-42	-17	-59
Other	-14	-23	-37
Income tax benefit/(charge)	**139**	**-508**	**-369**
Effective tax rate	-7%	22%	8%

Source: Company annual reports

The tax reconciliation shows that the geographic weighted tax rate is slightly higher than the Dutch rate of 25.5% in 2009/10. KPN specifies it suffers a tax rate of 31.4% in Germany, 34% in Belgium and 40% in the US.

Change in KPN's method of capitalising DTAs reduced 2009 tax by €757m

More significantly, the low P&L tax rate until now has been driven by recognition of deferred taxes, mainly relating to KPN's German business E-Plus. Interestingly the large adjustment in 2009 (€757m) arose from applying a new methodology for valuing loss carry-forwards and deductible temporary differences (rather than simply reassessing expected future profits based on changes in economic conditions or actual business performance). Under the new methodology the company says that "less weight is assigned to the expiration of the UMTS licence in estimating probable future taxable income". Mainly due to the new methodology, E-Plus DTAs at December 2009 increased by €705m. This illustrates the degree of judgement involved in DTA recognition, and the extent to which it can depend on a company's particular policy (and the degree of conservatism applied).

KPN has DTAs on balance sheet of €1.9bn of which €1.1bn relates to tax losses and a significant other portion relates to intangible assets including goodwill. KPN has off-balance sheet DTAs of €1.9bn on tax losses and €0.9bn relating to deductible temporary differences. The German tax loss carry-forwards fell slightly in 2010 due to re-assessment of the tax positions of prior years.

KPN has also negotiated various specific arrangements with the Dutch tax authorities. For example, an agreement in 2004 allowed the offset of a €11.5bn tax loss relating to E-Plus against the Dutch taxable result, but this had to be "recaptured" in later years by adding E-Plus EBITDA to the taxable income of KPN Mobile. A liability of €851m remains to be realised in cash over 2011-2013.

KPN group effective tax rate reduced from 25% to 20% due to Dutch tax incentive

In Q2 2011, KPN announced it had reached an agreement in principle with the Dutch tax authorities regarding the application of a recent tax rule, "innovation tax facilities". A tax rate of 5% will apply to all income derived from innovative activities which result from qualifying research & development projects (self-developed intangible assets). KPN's agreement has retrospective effect to 1 January 2007. The application of the new rule will reduce KPN's effective tax rate in the Netherlands from 25% to approximately 18% for 2011-2013; the KPN group effective tax rate (adjusting for the retrospective aspect) will be reduced to approximately 20% from 2011 onwards. KPN reported a positive cash impact of €237m in H1 2011.

Vodafone

- Mid-20s underlying tax rate but volatile reported rate
- Large off-balance sheet DTAs
- Various disputes with tax authorities highlight tax risk, although many of these issues have now been resolved

Although Vodafone guides to a tax rate of around 25% on an underlying basis, its reported tax rate has been volatile due to re-assessment of deferred tax assets, prior year adjustments and the settlement of cases with the tax authorities (see Figure 73). Vodafone's sometimes high-profile disputes with tax authorities highlight the tax risk in this sector.

Figure 73. Vodafone tax reconciliation, 2009–2011 (years to March) (£m)

	2009	2010	2011	Total
Profit/(loss) before tax on continuing operations as shown in the consolidated income statement	4,189	8,674	9,498	22,361
Expected income tax expense/(income) on profit from continuing operations at UK statutory tax rate	**1,173**	**2,429**	**2,659**	**6,261**
Effect of taxation of associated undertakings, reported within operating profit	118	160	145	423
Impairment losses with no tax effect	1,652	588	1,722	3,962
Impact of agreement of German write down losses (2)		-2,103		-2,103
Expected income tax expense at UK statutory rate on profit from continuing operations, before impairment losses and taxation of associates	**2,943**	**1,074**	**4,526**	**8,543**
Effect of different statutory tax rates of overseas jurisdictions	382	516	-141	757
Effect of current year changes in statutory tax rates	-31	35	-29	-25
Deferred tax on overseas earnings	-26	5	143	122
Assets revalued for tax purposes	-155		121	-34
Effect of previously unrecognised temporary differences including losses	-881	-1,040	-2,122	-4,043
Adjustments in respect of prior years(1)	-1,124	-387	-1,028	-2,539
Expenses not deductible for tax purposes and other items	423	425	677	1,525
Exclude taxation of associated undertakings	-422	-572	-519	-1,513
Income tax expense from continuing operations	**1,109**	**56**	**1,628**	**2,793**
Tax rate on reported profits	26%	1%	17%	12%

Source: Company annual reports

We also note that Vodafone provides virtually no information about the tax it pays on its stake in Cellco Partnership, which trades as Verizon Wireless. Cellco Partnership is not a taxable entity for US federal tax purposes, although it pays some US state taxes at the partnership level. This explains why Cellco reports a tax rate of approximately 6%. The taxable income from Cellco is included in the partners' US federal tax returns.

Theoretical £26bn additional value if all losses could be used

Also, Vodafone illustrates the potential significance of DTAs in this sector: Vodafone has recognised DTAs of £2.1bn in respect of tax losses of £8bn, but has not recognised DTAs of £25.8bn in respect of tax losses of £98bn.

Vodafone's annual report highlights a number of matters on which the group has exercised significant accounting judgement:

- Litigation with the Indian tax authorities in relation to the acquisition of Vodafone Essar
- Recognition of a deferred tax asset in respect of losses in Germany relating to the Mannesmann acquisition
- Recognition of a deferred tax asset in respect of losses in Luxembourg following the settlement of the CFC tax case

The litigation with the Indian tax authorities relates to whether Vodafone should have deducted withholding tax from its payment to Hutchison Telecommunications to acquire Vodafone Essar. This case is expected to be resolved shortly.

Vodafone has recognised DTAs on losses of £3.9bn in Germany, but not recognised a DTA for £13.4bn of losses in Germany due to uncertainty whether the losses can be utilised. These arise because in 2009/10 the German tax authorities decided to allow £13.5bn of a potential £46.7bn of losses arising on the write down of investments in Germany.

In 2010/11 Vodafone reached agreement with the UK tax authorities regarding the application of Controlled Foreign Company (CFC) rules to a Vodafone holding company in Luxembourg. The CFC rules mean that a UK company may be taxed in the UK on undistributed income arising from subsidiaries (or other controlled company) in lower tax jurisdictions. The intention of the rules is to stop companies deferring tax payment through use of offshore subsidiaries in low tax jurisdictions. The CFC rules do not apply if the controlled company carries on a genuine business in the lower tax jurisdiction. Vodafone paid £1.25bn in 2010 to settle all outstanding UK CFC liabilities and the UK authorities agreed no further UK CFC tax liabilities will arise in the near future under current legislation (ie Vodafone was allowed to keep the tax efficient structure). The UK tax authorities are currently working to overhaul the CFC rules and draft legislation was published on 6 December 2011.

Tobacco & Beverages

- Tax relatively straightforward; rates slightly lower than average

The CIRA Tobacco & Beverages team believes that tax is relatively straightforward in this sector, with most tax rates close to expected levels. Tax rates are on average slightly lower than in many other sectors. The analysts believe that spirits companies have more opportunities for optimising tax rates (due to transfer pricing, etc) than the beer manufacturers, because beer is manufactured locally, matching costs and revenues to a greater extent.

C&C highlights possible future tax risk

C&C Group has a relatively low rate of tax, probably mainly reflecting the significant proportion of its profits arising in Ireland. Interestingly, the company commented in its recent annual report that "Future income tax charges may be impacted…by any adoption or implementation of the current draft EU Directive and proposal in relation to the Common Consolidated Corporate Tax Base "CCCTB" which seeks to alter the existing system of allocating a group's taxable profits between different territories." This may indicate that the company is benefitting from the current Irish rules on determining the tax base and from its transfer pricing arrangements.

Swedish Match tax rate appears low

Swedish Match's tax rate seems surprisingly low, given its geographic exposure: its revenues are mainly from Sweden and the US, with only approximately a quarter of revenue arising in the rest of the world. The tax reconciliation indicates that the effect of foreign tax rates is to lower the company's effective rate below the Swedish statutory rate of 26.3%. The 2010 tax charge was also low because of significant income not subject to tax, but no further information was provided.

Figure 74. Tax rates of European Tobacco & Beverages coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
AB-InBev	ABI.BR	Belgium	20%	18%	17%	23%	25%	22%	20%	24%
British American Tobacco PLC	BATS.L	UK	31%	30%	32%	31%	33%	32%	28%	27%
Britvic	BVIC.L	UK	34%	24%	39%	29%	-67%	46%	26%	26%
C&C Group Plc	GCC.I	Ireland	12%	11%	6%	10%	10%	12%	14%	15%
Carlsberg	CARLb.CO	Denmark	29%	29%	-12%	27%	24%	22%	25%	26%
Coca-Cola Hellenic Bottling Co. SA	HLBr.AT	Greece	21%	21%	31%	25%	24%	24%	26%	24%
Davide Campari-Milano SpA	CPRI.MI	Italy	31%	32%	26%	31%	33%	31%	32%	31%
Diageo	DGE.L	UK	35%	27%	16%	23%	16%	23%	20%	20%
Heineken	HEIN.AS	Netherlands	21%	31%	36%	22%	22%	25%	28%	27%
Imperial Tobacco Group PLC	IMT.L	UK	26%	29%	28%	28%	16%	24%	29%	29%
Pernod-Ricard	PERP.PA	France	23%	20%	10%	19%	23%	19%	23%	23%
SABMiller	SAB.L	UK	35%	33%	33%	41%	41%	37%	27%	27%
Swedish Match AB	SWMA.ST	Sweden	26%	23%	15%	21%	18%	21%	20%	20%
Average			**27%**	**25%**	**21%**	**25%**	**17%**	**26%**	**24%**	**24%**
Median			**26%**	**27%**	**26%**	**25%**	**23%**	**24%**	**26%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Transport

- Relatively few tax issues
- Tax losses can be material (eg Deutsche Post, SAS, Air France)
- Wide range of tax rates (eg 2012 forecast rates ranging from 12% for Ryanair to 69% for AP Moeller Maersk)

Figure 75. Tax rates of European Transport coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
Aegean Airlines S.A.	AGNr.AT	Greece	28%	20%	26%	29%	-25%	33%	-6%	-22%
Aeroporto di Venezia	SAVE.MI	Italy	53%	-0%	47%	43%	29%	29%	33%	33%
Aeroports de Paris	ADP.PA	France	40%	25%	34%	34%	34%	33%	34%	33%
Air France-KLM	AIRF.PA	France	22%	31%	36%	28%	-45%	98%	32%	31%
AP Moller Maersk A/S	MAERSKb.CO	Denmark	60%	60%	65%	140%	49%	64%	64%	69%
BBA Aviation	BBA.L	UK	29%	21%	26%	25%	24%	25%	22%	23%
Deutsche Post	DPWGn.DE	Germany	20%	14%	-19%	5%	7%	18%	24%	24%
easyJet	EZJ.L	UK	27%	25%	25%	-30%	21%	20%	26%	24%
Firstgroup PLC	FGP.L	UK	27%	12%	22%	18%	13%	19%	29%	27%
Fraport	FRAG.DE	Germany	33%	28%	34%	22%	3%	24%	32%	32%
Gemina SpA	GEMI.MI	Italy	175%	-92%	-13%	-99%	-76%	-87%	70%	47%
Go Ahead Group	GOG.L	UK	25%	26%	56%	30%	12%	26%	28%	28%
Hamburger Hafen und Logistik AG	HHFGn.DE	Germany	37%	41%	33%	29%	28%	34%	30%	31%
IAG	ICAG.MC	UK				33%	-19%	37%	4%	23%
Kuehne & Nagel International	KNIN.VX	Switzerland	24%	24%	23%	23%	21%	23%	21%	21%
Lufthansa	LHAG.DE	Germany	22%	22%	24%	56%	-17%	12%	26%	25%
National Express Group PLC	NEX.L	UK	18%	25%	-21%	32%	-56%	-2%	38%	37%
Panalpina	PWTN.S	Switzerland	24%	24%	31%	25%	525%	30%	25%	25%
PostNL NV	PTNL.AS	Netherlands	32%	29%	30%	38%	24%	31%	23%	18%
Ryanair	RYA.I	Ireland	3%	11%	6%	10%	11%	9%	15%	12%
Scandinavian Airlines System	SAS.ST	Sweden	44%	27%	3%	23%	26%	20%	24%	25%
Stagecoach Group PLC	SGC.L	UK	26%	-44%	26%	18%	21%	10%	18%	20%
TNT Express	TNTE.AS	Netherlands			32%	123%	45%	45%	132%	35%
Vienna Airport	VIEV.VI	Austria	24%	23%	23%	24%	23%	23%	25%	25%
Zurich Airport	FHZN.S	Switzerland	20%	21%	18%	20%	20%	20%	21%	21%
Average			**33%**	**15%**	**23%**	**28%**	**28%**	**24%**	**31%**	**27%**
Median			**27%**	**24%**	**26%**	**25%**	**21%**	**24%**	**26%**	**25%**

Source: dataCentral, DataStream, Company annual reports, CIRA

AP Moeller Maersk has high tax rate

AP Moeller Maersk has a higher than average tax rate of 64% over 2006 – 2010, which is consistent with the forecast effective rate. This is principally due to APM's oil operations (18% of 2010 revenue), which are subject to higher taxes than the 25% statutory rate in Denmark.

Ryanair is domiciled in Ireland and is therefore subject to a low corporate tax rate of 12.5%, which is reflected in the Ryanair's low average effective tax rate of 9% over 2006 – 2010. Ryanair notes that it is not tied to Ireland and says that it would move its tax domicile immediately if Ireland decided to increase corporate tax rates.The CIRA Transport team observes that Ryanair's cash tax rate was just 4% over the same period. This is driven by accelerated capital allowances on capital expenditure. Tax relief for capital expenditure is given over 8 years for tax purposes while accounting deprecation is related to the useful lives of aircraft which average 25 years. This creates a temporary timing difference between P&L and cash taxes, resulting in a deferred tax liability which increases the P&L taxes relative to the cash tax paid.

Tax losses significant for airlines such as SAS and Air France

SAS has significant DTAs as a result of operating losses recorded in recent years. The most recent annual report as at 31 December 2010 reported loss carry-forwards of SEK9.7bn, and DTAs of SEK2.3bn. DTAs have not been recognised for 9% (SEK0.9bn) of available loss carry-forwards, due to "uncertainty as regards

future profit earnings". While only 6% (SEK0.6bn) of the loss carry-forwards have expiration dates, the speed with which the losses can be realised affects the economic value of the tax asset. The DTA amounts to 84% of the company's market cap. **Air France-KLM** also has significant DTAs, including €1.8bn relating to tax losses, partly offset by deferred tax liabilities.

CIRA analysts note that airlines pay relatively little cash tax in down-cycle years, due to capital allowances and tax loss accumulation.

Stagecoach Group's effective tax rate was 21% in 2010 and 18% in 2009, significantly lower than the UK statutory rate. Stagecoach Group has significant joint ventures reported under the equity method on a post-tax basis, which skew reported effective tax rates, and the company recognised £25m DTAs on tax losses which were not previously recognised.

The CIRA Transport team notes that the high effective tax rate for **TNT Express** reflects its de-merger (as it can no longer benefit from tax pooling with former parent **PostNL**) and the non-deductability of material losses in emerging markets notably Brazil.

We focus on **Deutsche Post** as a case study of a company with significant carried forward tax losses.

Deutsche Post

- Significant carried forward German tax losses, DTAs mainly off balance sheet
- Tax rate rising

Off balance sheet DTAs of up to €4.8bn

Deutsche Post has historically benefitted from substantial tax loss carry-forwards. The company recorded €499m of DTAs in relation to tax loss carry-forwards as of 31 December 2010, implying that the company expects to utilise €1,674m of losses against future profits (based on the company's 2010 expected tax rate of 30%). This represented 11% of the total available carry-forward losses of €14,974m, as shown in Figure 76. The company has also not recognised DTAs in relation to temporary differences of around €2.7bn. If the company was able to utilise the off-balance sheet DTAs relating to tax losses and temporary differences, it could be worth up to €4.8bn (30% x €16bn).

Figure 76. Deutsche Post tax loss carry-forward analysis, 2006–2010 (€m)

	2006	2007	2008	2009	2010
Loss carry-forward deferred tax assets recognised	270	227	42	142	499
Company expected tax rate	40%	40%	30%	30%	30%
Loss carry-forwards recognised	677	569	141	478	1,674
Loss carry-forwards unrecognised	10,300	11,700	16,300	16,600	13,300
Total loss carry-forwards	**10,977**	**12,269**	**16,441**	**17,078**	**14,974**
Percentage of loss carry-forwards recognised	**6%**	**5%**	**1%**	**3%**	**11%**

Source: Company annual reports, CIRA. Note: Loss carry-forwards recognised calculated based on deferred tax assets recognised and company expected tax rate each year.

2010 represented a significant step up in terms of DTA recognition compared to 2008 and 2009, where DTAs recognised represented only 1% and 3% of those available. The DTA recognition in 2009 and 2010 resulted in lower than normal tax effective tax rates for Deutsche Post, as shown in Figure 77.

Deutsche Post states that most of the tax loss carry-forwards are attributable to Deutsche Post AG in Germany. The company's tax rate has been rising (as domestic mail profits have fallen since the 2004 peak and the overseas contribution from DHL has increased) and reached 25% in the recent Q3 2011 results.

Figure 77. Deutsche Post P&L and cash tax rates, 2006–2010 (€m)

	2006	2007	2008	2009	2010	Total
Profit before tax	2,842	2,192	-1,066	276	2,824	7,068
P&L tax charge	-560	-307	-200	-15	-194	-1,276
P&L tax rate	**20%**	**14%**	**-19%**	**5%**	**7%**	**18%**
Cash tax paid	-343	-340	-325	-339	-301	-1,648
Cash tax rate	**12%**	**16%**	**-30%**	**123%**	**11%**	**23%**

Source: Company annual reports, CIRA

Deutsche Post 's tax reconciliation (Figure 78) shows the significance of DTAs. Over 2006-2009, the largest factor reducing the tax rate was "deferred tax not recognised for initial differences". This refers to differences between accounting book values and tax values of fixed assets (PP&E) and pensions when the company was created in 1995, for which no deferred tax was recognised. Over 2006-2009 the tax rate was increased by DTAs not recognised for tax loss carry-forwards, although this reversed in 2010 due to recognition of previously unrecognised DTAs. We note that "effects from extended intra-group loans" of €733m were netted off in this line item, indicating the company may be using tax efficient group financing. One other significant item is "tax exempt income and non-deductible expenses", which in 2010 largely related to the planned sale of Postbank.

Figure 78. Deutsche Post tax reconciliation, 2006–2010 (€m)

	2006	2007	2008	2009	2010	Total
Profit before tax	2,842	2,192	-1,066	276	2,824	7,068
Expected tax rate	40%	40%	30%	30%	30%	37%
Expected income taxes	**-1,134**	**-875**	**318**	**-82**	**-842**	**-2,615**
Deferred tax not recognised for initial differences	483	735	420	304	27	1,969
DTAs of German Group companies not recognised for tax loss carry-forwards and temporary differences	-139	-376	-469	-280	430	-834
DTAs of foreign Group companies not recognised for tax loss carry-forwards and temporary differences	-440	-98	-424	-130	-77	-1,169
Change in tax rates at German Group companies	0	188	0			188
Effect of current taxes from previous years	31	-68	45	5	-75	-62
Tax-exempt income and non-deductible expenses	503	83	-118	143	311	922
Differences in tax rates at foreign companies	50	103	30	27	32	242
Restructuring provisions	70					70
Other	16	1	-2	-2	0	13
Effective income taxes from continuing operations	**-560**	**-307**	**-200**	**-15**	**-194**	**-1,276**

Source: Company reports, CIRA

Utilities

- Most tax rates in normal range and broadly in line with country tax rates
- Spanish acquirers have benefitted from tax deductible goodwill (eg Iberdrola, Gas Natural)
- Some companies are subject to additional taxes above normal corporate tax rates (eg Centrica, Italian utilities)
- Accelerated tax depreciation can create large deferred tax liabilities (eg United Utilities, Severn Trent, Pennon)

As shown in Figure 79, most utility company tax rates are within the expected range (with a couple of outliers noted below) and in line with country tax rates. Our analysts note that the recent increase in the French corporate tax rate has added approximately 0.5%-1% to the French utilities' 2012 effective tax rates.

Figure 79. Tax rates of European Utilities coverage universe

Name	RIC	Country	2006	2007	2008	2009	2010	Average	2011E	2012E
A2A	A2.MI	Italy	26%	19%	40%	62%	118%	38%	59%	53%
Acciona	ANA.MC	Spain	21%	11%	24%	21%	23%	19%	24%	25%
Centrica PLC	CNA.L	UK	391%	39%	136%	35%	33%	45%	42%	43%
Drax Group Plc	DRX.L	UK	27%	21%	25%	30%	26%	25%	26%	25%
E.ON AG	EONGn.DE	Germany	-6%	24%	33%	25%	21%	20%	19%	22%
Electricite de France	EDF.PA	France	17%	25%	33%	29%	59%	28%	29%	30%
Edison	EDN.MI	Italy	2%	25%	52%	53%	48%	34%	-58%	-42%
Energias de Portugal	EDP.LS	Portugal	21%	22%	19%	25%	26%	23%	22%	26%
EDP Renovaveis	EDPR.LS	Spain		32%	30%	28%	31%	30%	30%	27%
Enagas SA	ENAG.MC	Spain	35%	32%	29%	30%	29%	31%	30%	30%
Endesa SA	ELE.MC	Spain	21%	25%	25%	22%	21%	23%	26%	29%
ENEL SpA	ENEI.MI	Italy	40%	33%	9%	28%	30%	28%	34%	35%
Enel Green Power	EGPW.MI	Italy			-68%	33%	28%	4%	37%	37%
Fortum Oyj	FUM1V.HE	Finland	21%	17%	14%	17%	16%	17%	16%	18%
Gamesa	GAM.MC	Spain	13%	-10%	1%	6%	-43%	0%	28%	28%
Gas Natural SDG SA	GAS.MC	Spain	25%	25%	24%	25%	25%	25%	25%	25%
GDF Suez	GSZ.PA	France	32%	31%	15%	26%	26%	25%	24%	32%
Iberdrola SA	IBE.MC	Spain	29%	23%	23%	20%	23%	23%	21%	24%
International Power	IPR.L	UK	36%	-16%	22%	15%	-2%	18%	23%	24%
National Grid PLC	NG.L	UK	25%	28%	34%	37%	18%	28%	29%	28%
Pennon Group PLC	PNN.L	UK	28%	11%	43%	24%	9%	23%	19%	19%
Public Power Corp.	DEHr.AT	Greece	47%	20%	23%	30%	25%	28%	31%	31%
Red Electrica de Espana SA	REE.MC	Spain	29%	33%	31%	28%	30%	30%	33%	30%
REN	RENE.LS	Portugal	13%	23%	26%	28%	34%	21%	32%	30%
RWE AG	RWEG.DE	Germany	27%	40%	29%	33%	28%	32%	31%	26%
SSE PLC	SSE.L	UK	27%	22%	208%	26%	30%	26%	21%	21%
Severn Trent PLC	SVT.L	UK	24%	-9%	133%	25%	-9%	27%	14%	14%
Snam Rete Gas SpA	SRG.MI	Italy	40%	28%	33%	32%	32%	33%	53%	42%
Suez Environnement	SEVI.PA	France	28%	30%	13%	21%	15%	22%	23%	27%
TERNA SpA	TRN.MI	Italy	40%	29%	36%	35%	34%	35%	58%	45%
Terna Energy SA	TENr.AT	Greece	21%	24%	26%	32%	41%	29%	32%	28%
United Utilities PLC	UU.L	UK	27%	13%	66%	15%	-8%	26%	12%	11%
Veolia Environnement	VIE.PA	France	29%	25%	48%	22%	28%	29%	44%	33%
Verbund AG	VERB.VI	Austria	23%	25%	23%	23%	23%	23%	30%	24%
Average			**35%**	**21%**	**37%**	**28%**	**26%**	**25%**	**27%**	**27%**
Median			**27%**	**25%**	**28%**	**27%**	**26%**	**26%**	**29%**	**27%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Fortum has a relatively low tax rate

Fortum has a relatively low tax rate (16% in 2010, forecast 16%-18%) which is lower than the tax rate in Finland (26%) and the other Nordic countries. Although 80% of sales are to the Nordic countries, we note that over 40% of employees are in Russia which has a lower corporate tax rate (20%, with lower rates in certain cases).

Centrica has a high tax rate reflecting additional tax burden on UK oil & gas production

Centrica has a higher tax rate (33% in 2010, forecast 42% in 2011) and this is due to higher taxes on UK oil and gas production. These are corporation tax at 30% (higher than the normal rate) on profits of gas and oil production; a further supplementary charge at 20% on profits of gas and oil production (adjusted for financing costs) and petroleum revenue tax at 50% on income generated from certain gas and oil production (net of certain costs). Therefore the company expects its tax rate to remain above the UK corporate tax rate in future.

Italy recently extended its Robin Hood tax to the regulated utilities sector. The CIRA European Utilities team calculates that the tax will reduce Italian utilities' EPS by 13% over 2011 – 2013.

Spanish utilities have benefitted from tax deductible goodwill

Some of the Spanish utilities (**Iberdrola**, **Acciona**, **Gas Natural**) have benefitted from tax-deductible goodwill. Under Spanish tax rules, goodwill arising from the acquisition of a foreign business after 2002 was tax deductible over 20 years, even though goodwill is no longer amortised for accounting purposes. This tax deduction reduces the cash tax payable. However, the EU challenged this tax treatment and it is no longer permitted for new acquisitions, although companies can continue to benefit from the tax deductible goodwill on acquisitions prior to 21 December 2007 (see page 14).

DTLs are common in utilities sector, due to accelerated tax depreciation of fixed assets

Some utilities have significant deferred tax liabilities arising from accelerated tax depreciation (known as capital allowances in the UK); our case study United Utilities illustrates this point.

United Utilities

- Volatile tax rate reflects revaluations of DTLs and prior year adjustments

United Utilities has reported a volatile P&L tax rate in recent years: 66% in the year to March 2009, 15% in the year to March 2010 and -5% in the year to March 2011 (-8% on continuing operations).

Figure 80. United Utilities tax reconciliation, 2009–2011 (years to March)

	2009		2010		2011		Total	
	£m	%	£m	%	£m	%	£m	%
Profit/(loss) before taxation	529		474		351		1,354	
Tax at the UK corporation tax rate	**148**	**28%**	**133**	**28%**	**98**	**28%**	**379**	**28%**
Change in tax rate					-98	-28%	-98	-7%
Adjustments in respect of prior periods	-6	-1%	-55	-11%	-16	-5%	-76	-6%
Net expense not deductible	1	0%	-8	-2%	-2	-1%	-9	-1%
Abolition of industrial buildings allowances	206	39%					206	15%
Total tax charge and effective tax rate for the year	**349**	**66%**	**71**	**15%**	**-18**	**-5%**	**402**	**30%**

Source: Company annual reports

As Figure 80 shows, the two main reasons for the volatile tax rate are revaluations in DTLs arising from changes in tax legislation/rates, and prior year adjustments.

United Utilities has DTLs of £1,368m

United Utilities has DTLs of £1,368m (£1,293m after offsetting some DTAs), arising entirely on accelerated tax depreciation. This is quite common in the utilities sector: the tax authorities may allow depreciation of fixed assets for tax purposes which is faster than accounting depreciation. As a result, there is a cash tax advantage (it delays payment of tax) but a corresponding DTL builds up. This might be reversed, for example, if tax legislation changes or if a company reduces its investment in fixed assets. Investors should consider for valuation purposes whether they expect DTLs to reverse in the foreseeable future (increasing cash tax rates).

Deferred tax credits of £50m pa for next 3 years as UK tax rate falls

The reduction of the UK corporate tax rate from 28% to 26% enacted during the year to March 2011 (28% rate effective in 2010/11 and 26% rate in 2011/12) resulted in the DTLs being remeasured at the new lower tax rate, creating a P&L credit of £98m. Since the UK corporate tax rate is expected to fall by 1% per year until 23% by 1 April 2014, United Utilities expects to benefit from a total deferred tax credit of around £150m, ie about £50m pa for the next 3 years (in addition to the current tax benefit from the lower tax rate). This is likely to reduce the total P&L tax charge below the normal tax rate for those three years.

Similarly in 2009 United Utilities reported a high tax rate of 66% due to a one-off deferred tax charge of £206m resulting from the abolition of industrial buildings allowance, although the negative cash impact will be spread over 20 years.

United Utilities' P&L tax rate has also been reduced by tax credits from material prior year adjustments over the last 3 years arising from agreement of past tax returns. As no further details have been provided, it is not possible to forecast if these credits might continue in future.

The other UK water companies **Pennon** and **Severn Trent** have similar tax issues, namely volatile reported P&L tax rates, large DTLs due to tax depreciation, and tax credits arising from material prior year adjustments. For example, Severn Trent has DTLs of £1,092m (31% of market cap) arising from accelerated tax depreciation (net DTL on balance sheet £919m). It has also experienced a very volatile tax rate (see Figure 79) due to changes in tax rules and sizeable prior year adjustments. Severn Trent and Pennon will also report tax credits due to DTL remeasurements over the next three years as the UK corporate tax rate falls from 26% to 23%, reducing the total reported P&L tax charge.

UK water companies exclude deferred tax from adjusted profit measures

We note that both Pennon and Severn Trent exclude deferred tax charge/income from their adjusted EPS measures, while United Utilities focuses on underlying pre-tax measures in its financial reports. This may reflect the volatility of deferred tax P&L charges, or a view that the DTLs are unlikely to reverse in the medium term.

Appendix 1: Tax reference tables

In this appendix we summarise some of the key corporate tax rules for selected countries.

Figure 81. Corporate tax guide for selected countries (part 1)

	Austria	Belgium	Denmark	Finland
Corporate tax rate on taxable profits	The corporate tax rate is 25%	The corporate tax rate is 33.99%, which includes a "crisis tax" of 0.99%. Notional interest deduction on equity capital – interest rate for 2011 is 3.425%, which reduces the effective tax rate to 24% - 27%.	The corporate tax rate is 25%	The corporate tax rate is 26%
Loss carry-forward	Can be carried forward for an indefinite period. Only set against a maximum of 75% of taxable profits. Restrictions on carry-forward following changes to organisational or commercial structure (e.g. post M&A). No relief on capital losses.	Losses can be carried forward indefinitely by the entity that incurred the losses. Carry-forward may be restricted on change of control (e.g. M&A)	Losses can be carried forward indefinitely. Carry-forward restricted if company holding losses is inactive on change of control. Losses carried forward on change of control may be utilised against trading profits only (not against financial or lease income).	Losses can be carried forward for 10 years. The right to carry forward losses will generally be forfeited on a direct or indirect change of control, but Finnish tax authorities may allow carry-forward on request.
Loss carry-back	Losses cannot be carried back.	Losses cannot be carried back.	Losses cannot be carried back.	Losses cannot be carried back.
Capital gains tax (CGT)rate	Taxed as ordinary income	Taxed as ordinary income.	Taxed as ordinary income. Losses on sale of real estate may only be used to offset gains on real estate.	Taxed as ordinary income. Capital losses generally tax deductible.
Intercompany dividends	Intercompany domestic dividends are exempt. Dividends from abroad are tax exempt if at least 10% is owned for one year, unless the dividend paying company is located in a tax haven.	95% of dividends received from domestic or foreign affiliates are not subject to tax with participation of at least 10% is held for at least one year. The remaining 5% is subject to tax at the normal rate.	Intercompany domestic and foreign dividends are tax exempt if the parent owns at least 10% of the company resident in the EU or country with which Denmark has a tax treaty, otherwise only dividends subsidiaries subject to 50% direct or indirect control are exempt.	Generally exempt except where held as an investment by a bank or insurer, where 75% of dividends are taxable. EC Parent-Subsidiary Directive applies. Dividends from a non-EU with which Finland has no tax treaty are fully taxable.
Tax groups	Direct or indirect control of 50% required to form a tax group. Domestic and international tax losses can be shared across a tax group. Group status must be kept for minimum of 3 years; if member leaves group then tax assessed as if it had never been a group member.	No concept of a tax group	Danish companies within a group (50% control) form part of a tax group which allows pooling of taxable gains and losses. Groups may elect to enter into a voluntary global joint tax arrangement which may allow foreign losses to offset Danish profits.	Finnish companies within a group (90% control) may make group contributions which have the effect of evening out taxable profits and losses.
Taxable profits calculation – points to note	Only straight line depreciation allowed	Straight line depreciation normally used; permission must be obtained from tax authorities to use other method.	Patents and licenses may be amortised over between one and seven years.	Tax depreciation may be at a lower rate than accounting depreciation, but not at a higher rate.
	Goodwill from asset deals amortised over 15 years. Goodwill from domestic share deals can be amortised only if acquired company is included within tax group. Goodwill resulting from corporate merger cannot be amortised.	LIFO accepted for tax.		

Source: PwC, Deloitte, CIRA

Figure 82. Corporate tax guide for selected countries (part 2)

	France	Germany	Greece	Ireland
Corporate tax rate on taxable profits	In 2011 the overall effective corporate tax rate was 34.43%, composed of a corporate tax rate of 33.33% and a 1.1% social surcharge. For 2012 and 2013, the overall corporate tax rate has been increased to 36.10% for large companies (sales>€250m).	The overall corporate tax rate averages around 30%. It is made up of central corporate tax at 15%, a solidarity levy of 0.825%, and regional trade taxes of between 7% and 17%.	The tax rate for periods ending after 31 July 2011 is 20% (previously 24%). A crisis levy of 10% for companies with domestic profits in excess of €5m was levied in 2010 may stay in place for 2011-2013.	The corporate rate is 12½% on active income, and 25% on passive (including foreign dividends, interest, rent and royalty) income
Loss carry-forward	Losses can be carried forward with no limit, but cannot be used to relieve more than 60% of taxable profits in excess of €1m each year. Some restrictions on change of ownership. Rules changed in September 2011; formerly no restriction on offset against taxable profits in a period.	Losses can be carried forward with no limit, but cannot be used to relieve more than 60% of taxable profits in excess of €1m each year. Some restrictions on change of ownership.	Losses can be carried forward for 5 years.	Operating losses can be carried forward indefinitely against operating income. Capital losses may only offset future capital gains. Restrictions on change of ownership.
Loss carry-back	Loss carry-back is limited to €0.5m for corporate taxes. Rules changed in September 2011; formerly all losses could be carried back three years.	Loss carry-back is limited to €0.5m for corporate taxes. No loss carry-back for trade taxes.	Losses cannot be carried back.	Operating losses can be carried back for one year against trading or capital gains. Capital losses may not be carried back.
Capital gains tax (CGT)rate	Taxed as ordinary income.	Taxed as ordinary income. Gains from sale of shareholdings are exempt but 5% of gains are assumed to be non-deductible business expenses and are therefore taxable.	For listed shares acquired up to 31 December 2011 a transaction duty of 0.2% is due on sale of the shares. For shares acquired from 1 January 2012 onwards, gains will instead be taxable as operating income.	Capital gains tax payable at 25%. Exemption for shareholdings greater than 5% held for more than one year sold to companies resident in the EU or where a double tax treaty is in place.
Intercompany dividends	Dividends received from resident and non-resident subsidiaries are 95% tax exempt. The remaining 5% is taxed at the normal rate.	Dividends received from resident and non-resident subsidiaries are tax exempt, regardless of holding size and duration. However, 5% of the gross dividend is taxed as a non-deductible business expense. Exemption does not apply to banks holding securities for trading.	Intercompany domestic dividends are subject to 25% withholding tax. The withholding tax rate is 21% for dividends paid in 2011.	Intercompany domestic dividends are tax exempt. Dividends received by Irish resident companies from a foreign country are taxed at 12.5%, unless the shareholding is greater than 5%. In this case, the dividend received is tax exempt.
Tax groups	French companies within a group (95% control) may elect to be taxed as a single entity and therefore offset the profits and losses of the group. The Consolidated Global Profits Tax system, which allowed group treatment globally if approved by the Ministry of Finance, was recently abolished.	German companies within a group (50% control) may form a tax group by signing a legal profit pooling agreement which is required to last at least five years. Tax losses can be shared across a tax group.	No concept of a tax group	Trading losses may be shared within a group (75% control) of Irish and EEA member state subsidiaries. Losses may only be surrendered by non-Irish companies when their profits would be subject to tax in Ireland.
Taxable profits calculation – points to note	New provisions introduced in 2011 mean that French groups will benefit from a reduced tax rate of 15% on patent income. Previously, the reduced rate applicable to royalty income was neutralised in a domestic group by permitting only partial tax relief of the licensee company, offsetting the lower tax rate on the licensor. Licensee companies now receive full tax relief on license payments.		LIFO accepted for tax.	Tax credit of 25% of qualifying R&D expenditure available, as well as tax relief on the expenditure, meaning that up to 37.5% tax relief is available on R&D expenditure. 100% first year capital allowance available in respect of expenditures on certain energy-efficient equipment such as information and communications technology, heating and electricity provision, and alternative fuel vehicles.

Source: PwC, Deloitte, CIRA

Figure 83. Corporate tax guide for selected countries (part 3)

	Italy	Netherlands	Norway	Portugal
Corporate tax rate on taxable profits	The corporate tax rate is 27.5% (IRES). There is a regional production tax (IRAP) normally charged at 3.9% of the net value of production, but regions may change the rate. A surtax of 5.5% was added to IRES for the energy industry in 2008, and increased to 6.5% in 2009. For the period 2011-2013, this surtax has been raised to 10.5%. In 2011 the scope of this surtax was increased to incorporate the regulated utilities sector. Taxable profits are calculated differently for IRES and IRAP.	The corporate tax rate is 25%.	Corporate tax rate is 28%. There is an extra oil tax at a rate of 50% for companies in this sector	The overall corporate tax rate is 29%. Corporate tax (CIT) is 25%, and there is a local surtax (Derrama) of 1.5%, and a state surtax (Derrama Estadual) of 2.5%. For 2012 and 2013 the state surtax has been raised to 5% for profits above €10m.
Loss carry-forward	For IRES, losses can be carried forward indefinitely, but can only offset 80% of future taxable income. No carry-forward of losses for IRAP. Restrictions on carry-forward if change in ownership or significant change in company's business.	Losses can be carried forward nine years. Restrictions on carry-forward after change of in control of 30% or more.	Losses can be carried forward indefinitely.	Losses can be carried forward for four years. Proposed extension to 5 years from 2012, but losses can only be offset against 75% of profits.Restrictions on carry forward if change in ownership or significant change in company's business.
Loss carry-back	Losses cannot be carried back.	Losses can be carried back for one year.	No carry back unless incurred in two years before ceasing to trade.	Losses cannot be carried back.
Capital gains tax (CGT)rate	Gains on fixed assets are taxable for both IRES and IRAP. IRES tax on gains can be spread over five years if asset held for at least three years. Gains on financial investments are 95% exempt from IRES if held for more than a year, and are generally excluded from IRAP taxable income.	Taxed as ordinary income. Capital losses generally tax deductible. Exemption for shareholdings of at least 5%.	In general treated as taxable income. Gains on corporate shareholdings are 97% tax exempt.	Treated as taxable income. Gains exempt for 10% shareholdings held for at least a year under EU parent subsidiary directive.
Intercompany dividends	Dividends received from resident and non-resident subsidiaries (unless payer is in a tax haven) are 95% IRES tax exempt. Dividends are generally excluded from IRAP taxable income.	Intercompany dividends are taxed as normal income with an exemption for shareholdings of at least 5%.	Intercompany dividends are 97% tax exempt.	Dividends exempt for shareholdings of at least 10% held for at least a year.
Tax groups	Both domestic and cross border tax consolidation available for IRES within a group (50% control). No tax consolidation for IRAP tax.	Domestic tax groups, based on a 95% relationship, are permitted.	No concept of a tax group, but domestic intra-group (95% control) capital contributions are permitted, which can be used to offset profits and losses within a group.	Domestic tax groups, based on 90% control, are permitted.
Taxable profits calculation – points to note	LIFO accepted for tax. A substitute tax is available for the increase in the accounting value of assets following corporate restructuring activity such as mergers and demergers. Companies may elect to obtain partial or full recognition for tax purposes of the step up in accounting value of assets, by paying a substitute tax. This tax is based on progressive rates between 12% and 16%. The election protects companies from higher future capital gains on disposal of assets, and results in earlier tax revenue for the Italian government, as these transactions would otherwise be tax neutral.	LIFO accepted for tax. Innovation box applies for self-developed intangible assets. Under certain conditions, companies may opt for the application of a lower tax rate on taxable profits derived from these intangible assets - the innovation box tax rate is 5%.	Declining balance depreciation mandatory and maximum rates are prescribed.	

Source: PwC, Deloitte, CIRA

Figure 84. Corporate tax guide for selected countries (part 4)

	Spain	Sweden	Switzerland	UK
Corporate tax rate on taxable profits	Corporate tax rate is 30%.	Corporate tax rate is 26.3%.	The overall corporate tax rate is between 12.7% and 24.2%, depending on the company's location. Corporate tax is charged at the federal level (8.5% on profits after tax, approximately 7.83% on profits before tax, as tax is a deductible expense). Cantonal and communal tax rates vary.	From 1 April 2011 the corporation tax rate is 26% (previously 28%).
Loss carry-forward	In August Spain made temporary changes to loss carry-forward. For tax periods beginning in 2011 - 2013, losses may only offset 50% of taxable profits each year (previously 100%) for companies with turnover in excess of €60m. Losses may be carried forward for 18 years (15 years prior to these temporary changes).	Losses can be carried forward indefinitely. Restrictions on carry-forward if change in ownership.	Losses may be carried forward for 7 years and may be used to offset capital gains.	Losses can be carried forward with no time limit. Trading losses may offset capital gains but capital losses may only offset future capital gains. Restrictions on loss carry forward with change of ownership and change of trade.
Loss carry-back	Losses cannot be carried back.	Losses cannot be carried back.	Losses cannot be carried back.	Operating losses can be carried back for corporation tax purposes to the previous 12 months. Capital losses cannot be carried back.
Capital gains tax (CGT)rate	Treated as taxable income. Relief available for 5% shareholdings held for at least one year. Tax credit awarded equal to undistributed taxable income during holding period.	Treated as taxable income. Corporate shareholders exempt from capital gains tax on disposal of shares held for business reasons (holding greater than 10% for listed holding, shares held for at least one year).	Generally capital gains are treated as normal business income. Corporate shareholders exempt from tax if securities sold are at least 10% of the sold company's share capital, and the investment was held for at least one year.	Taxed as ordinary income.
Intercompany dividends	Intercompany dividends are included in taxable income but given 100% credit if recipient has had a 5% holding for at least a year. Otherwise tax credit of only 50% of dividend is available.	Corporate shareholders exempt from tax on dividends held for business reasons (holding greater than 10% for listed holding, shares held for at least one year). Minimum holding period can be fulfilled retroactively.	Intercompany dividends are exempt assuming a 10% participation and market value of more than SFr1m. No minimum holding period.	Intercompany dividends between UK companies are exempt in the hands of the recipient.
Tax groups	Domestic tax groups, based on 70% control, are permitted.	Tax groups, based on 90% control, are permitted. Domestic and EEA subsidiaries can be included if taxable in Sweden.	No concept of a tax group	Direct or indirect control of 75% required to form a tax group among UK resident companies. Relief using EEA subsidiary losses is possible where UK reliefs have been fully utilised.
Taxable profits calculation – points to note				Research and development (R&D) tax credit available; 130% of R&D expenditure is deductible from taxable income.
Forthcoming changes				From 1 April 2012 the rate will be 25%, from 1 April 2012 the rate will be 24% and from 1 April 2015 the rate will be 23%.

Source: PwC, Deloitte, CIRA

Figure 85. Corporate tax guide for selected countries (part 5)

	USA	Japan
Corporate tax rate on taxable profits	Federal corporate tax rate is 35% for taxable income greater than $18m. State and local taxes amount to up to 12% but are deductible for federal tax calculation resulting in a net effective rate of around 40%.	The overall corporate tax rate is approximately 42% but varies depending on the size of a company. The Japanese Diet has voted to reduce the corporate tax rate by 2.7% for periods beginning on or after 1 April 2012.
Loss carry-forward	Losses can be carried forward 20 years. Restrictions on loss carry-forward with change of ownership.	Losses can be carried forward 7 years. Restrictions on loss carry-forward with change of ownership.
Loss carry-back	Losses can be carried back two years.	Losses can be carried back for one year for national corporation tax purposes only (30% rate). This rule is suspended until 31 March 2012.
Capital gains tax (CGT)rate	Taxed as ordinary income. Capital losses may be carried back three years and forward five years to offset capital gains.	Taxed as ordinary income. Capital losses may offset trading profits.
Intercompany dividends	Dividends received from other US companies are 70% deductible. An 80% deduction is available when between 20% and 80% of the distributing company is held. Generally dividends from foreign companies are not deductible.	Domestic dividends are exempt from corporate tax if 25% participation. If less than 25%, then 50% of the dividend is taxable. Foreign dividends are 95% exempt with 25% participation, if held for six months or more on the date the dividend is declared. Double tax treaties may reduce the required participation (e.g. 10% for dividends from the US).
Tax groups	Domestic tax groups, based on 80% control, are permitted. Foreign subsidiaries may not be consolidated except for certain Mexican and Canadian entities. Sales, dividends and other transactions are generally deferred or eliminated within the group until such time as a transaction occurs with a non-member of the group.	A consolidated tax return may be filed by domestic tax groups, based on 100% control. A group tax regime also applies whereby gains or losses from the transfer of certain assets may be deferred.

Source: PwC, Deloitte, CIRA

Appendix 2: European Common Consolidated Corporate Tax Base

In March 2011, the European Commission (EC) proposed a system which would allow companies to calculate taxable profits across the EU in a single tax return. This would create a common method for calculating taxable profits, known as the Common Consolidated Corporate Tax Base (CCCTB).

Countries would still set their own corporate tax rates. Taxable profits would be allocated between EU states in which a company is active, based on a formula taking into account the assets, labour and sales in each country, and companies would then be liable to corporation tax at the rate set by each state. It is proposed the CCCTB would be optional for companies, ie they could opt in if the effect would be beneficial.

The main advantages for companies would be the ability to aggregate all taxable profits and losses generated in the EU. This would avoid the problem of having taxable losses in one country which cannot be offset (in most cases) against taxable profits in another country, which can be a significant problem in many sectors. It would also avoid having to apply complex transfer pricing laws. The EC has estimated that this consolidation effect would save companies €1.3bn per year. A further benefit would be lower tax administration and compliance costs, which the EC estimates would save EU businesses €700m per year.

There has been mixed support for the CCCTB. France and Germany support the proposals and have already announced an agreement on tax between their two countries. However the *Financial Times* reported that the UK is unlikely to participate in the CCCTB, partly due to concerns about reduced flexibility to respond to economic conditions. The FT also reported that Ireland is concerned about possible damage to its status as an attractive tax location for international businesses. However, the statement by EU Heads of State on 21 July 2011 (concerning measures to support Greece) noted “Ireland's willingness to participate constructively in the discussions on the Common Consolidated Corporate Tax Base draft directive (CCCTB) and in the structured discussions on tax policy issues”.

The CCCTB could result in greater transparency over the tax applied across the EU. The current headline tax rates across the EU are not strictly comparable, as the method of calculating taxable profits can vary considerably. If the proposals are put in place, the method by which companies' profits are apportioned across countries is likely to be a highly sensitive issue. The CCCTB proposals will now be discussed further by EU member states. The CCCTB idea has been discussed by the EU for many years and we do not expect implementation in the near term.

Appendix 3: Deferred tax examples

We have compiled three basic examples of the mechanics of deferred tax in practice.

Basic deferred tax example

At its most straightforward, deferred tax arises when the tax treatment of a transaction differs from its IFRS accounting treatment; a temporary timing difference. Deferred tax bridges the gap, moving the IFRS tax charge into line with how the transaction has been treated under IFRS.

We illustrate the mechanics of deferred tax using the example of a royalty receipt of €200m earned (and therefore recognised as income under IFRS) in 2011. But the royalty is not received in cash until 2012, and is taxed on a cash receipts basis. Figure 86 shows income statement and balance sheet extracts, and a simplified tax computation for 2011 and 2012, assuming a tax rate of 25% in both years.

Figure 86. Royalty income deferred tax example (€m)

	2011	2012
Income statement		
Profit before royalty income	800	1,000
Royalty income	200	0
Profit before tax	**1,000**	**1,000**
Current tax (charge)/credit	-200	-300
Deferred tax (charge)/credit	-50	50
Total tax (charge)/credit	**-250**	**-250**
Profit after tax	**750**	**750**
Effective current tax rate	*20%*	*30%*
Effective total tax rate	*25%*	*25%*
Balance sheet		
Deferred tax liability	50	0
Tax computation		
Accounting profit before tax	1,000	1,000
Royalty income adjustment (cash basis)	-200	200
Taxable profits	800	1,200
Current tax at 25%	-200	-300

Source: Citi Investment Research and Analysis

The example illustrates the role of deferred tax in matching the tax charge to accounting profit:

- The accounting profit before tax in each year is €1,000m. However, the current tax charge across the two years differs significantly, with the 2012 current tax charge €100m greater than that of 2011. The current tax rate also therefore differs, jumping from 20% in 2011 to 30% in 2012.
- The current tax charge is calculated in the Tax Computation; the royalty income is deducted from profits in 2011 (as it has not been received in cash), and is instead tax on receipt in 2012. This results in differing taxable profits, from which follows the current tax charge differential.

- A deferred charge (and associated deferred tax liability) of €50m is recorded in 2011, being the royalty income of €200m taxed at 25%. This represents the tax which would be due if royalty income was taxed on an accruals basis. This results in a total tax charge of €250m and an effective tax rate of 25%.

- In 2012, the timing difference reverses. The royalty income is received in cash, and is therefore taxed within the current tax computation. As the timing difference has reversed, the deferred tax liability is unwound, which results in a deferred tax credit of €50m. This results in a total tax charge of €250m and a tax rate of 25%.

Deferred tax has therefore had the effect of smoothing volatility in the current tax charge, and resulted in equal total tax charges and tax rates across 2011 and 2012, a logical result based on equal profit before tax across the two years.

Fixed assets deferred tax example

Fixed assets commonly have deferred tax associated due to timing differences between accounting deprecation and the tax relief provided on capital expenditure, referred to as capital allowances in the UK. This results in temporary timing differences between the actual tax relief obtained, and the deduction from accounting profit of deprecation charges.

IFRS deferred tax rules are based on comparing book values with tax book values, and Figure 87 illustrates deferred tax movements over the life of an asset. The example uses a fixed asset purchased for €1,000 on 1 January 2011. The asset has an expected useful life of 10 years and is depreciated straight line over this period. Accelerated capital allowances apply, on a reducing balance basis, at 50% per year. The tax rate is 25% and therefore over the life of the asset the company's tax bill will be reduced by €250 associated with the asset's depreciation.

Figure 87. Deferred tax on fixed assets example

Year end	NBV	Capital allowance	Tax base	Temporary difference	Deferred tax liability	Deferred tax P&L (charge)/ credit	Current tax (charge)/credit	Total tax (charge)/credit
	A	B	C	D = A - C	E = D x 25%	F = Δ E	G = B x 25%	H = F + G
2011	900	500	500	400	100	-100	125	25
2012	800	250	250	550	138	-38	63	25
2013	700	125	125	575	144	-6	31	25
2014	600	63	63	538	134	9	16	25
2015	500	31	31	469	117	17	8	25
2016	400	16	16	384	96	21	4	25
2017	300	8	8	292	73	23	2	25
2018	200	4	4	196	49	24	1	25
2019	100	2	2	98	25	25	0	25
2020	0	1	1	-1	-0	25	0	25

Source: Citi Investment Research and Analysis

- Column A is the book value (NBV) of the asset, depreciated evenly over its 10 year life. Column B is the capital allowance received in the year, and column C represents the tax base of the asset, being the original cost less accumulated capital allowances. The tax relief is on a reducing balance basis, meaning that a large proportion of the tax relief is granted in the early years of the asset's life.

- The temporary difference (column D) is the difference between the NBV and tax base. Column E is the associated deferred tax liability, being the temporary difference multiplied by the tax rate.

- The deferred tax P&L impact (column F) is the movement in the deferred tax liability each year. The current tax credit associated with the asset is the capital allowance (column B) multiplied by the tax rate. The total tax credit associated with the fixed asset (column H, deferred tax plus current tax) is a stable amount per year, equating to the accounting depreciation multiplied by the tax rate.

To understand deferred tax intuitively, it is more helpful to focus on the income statement perspective. Deferred tax attempts to match the total tax charge to the profit before tax reported. In the example above, 2011 taxable profits would be lower than accounting profits, as capital allowances exceed the depreciation charge. The lower taxable profit therefore results in a lower current tax charge. Deferred tax bridges this gap, increasing the accounting tax charge to reflect the additional tax payable as if the tax charge was calculated on accounting rather than tax profits.

Tax loss carry-forward deferred tax example

Deferred tax relating to loss carry-forwards is a common area of interest to investors. When a company makes losses (tax losses, not necessarily IFRS accounting losses), tax authorities generally give companies credit for these losses, allowing them to offset profits in later years.

In the example set out in Figure 88, a company makes a loss of €500m in 2011 (we assume accounting profits equal taxable profits), and again we assume a tax rate of 25%.

Figure 88. Deferred tax on tax losses example (€m)

	2011	2012
Income statement		
Profit/(loss) before tax	-500	500
Current tax (charge)/credit	0	0
Deferred tax (charge)/credit	125	-125
Total tax (charge)/credit	**125**	**-125**
Profit/(loss) after tax	**-375**	**375**
Effective current tax rate	*0%*	*0%*
Effective total tax rate	*25%*	*25%*
Balance sheet		
Deferred tax asset	125	0
Tax losses		
Tax losses carried forward	500	0

Source: Citi Investment Research and Analysis

- The 2011 loss means the company does not pay any tax, but the company does not receive a tax refund (refunds are uncommon). Therefore the current tax charge is €nil.

- However, as the company expects to return to profitability in 2012, management determines that it is appropriate to recognise deferred tax to represent the expected tax savings to be realised in future. Therefore a DTA of €125m (€500m x 25% tax rate) is recognised in the balance sheet, with an accompanying tax credit (income) in the P&L. This results in a total effective tax rate of 25%.

- In 2012, the company returns to profitability as expected, reporting a profit before tax of €500m. The company is able to utilise the tax losses carried forward of €500m from 2011 to offset this loss, and therefore the current tax charge is again €nil. However, in utilising the carried forward losses, the company has also therefore utilised its DTA. The asset of €125m is derecognised from the balance sheet, and is charged back though the income statement as a deferred tax expense, thereby again giving rise to an effective total tax rate of 25%.

There are two main points to take away from the example in Figure 88. Firstly, the earnings benefit of the tax loss was recorded in 2011 (via the deferred tax credit), while the cash benefit was not obtained until 2012 (the relief obtained from avoiding paying taxes on 2012 profits). Secondly, deferred tax had the effect of dampening the volatility of the pre-tax results, reducing the loss in 2011 and the profit in 2012. Had company management not felt it appropriate to recognise a DTA in 2011 (because profits were not expected in the foreseeable future), then a post tax loss of €500m would have been recorded, and a €500m profit reported in 2012.

On the other hand, had the company continued to make losses in 2012, and management's view of the outlook for the company deteriorated during the year, then the DTA would have been written off in 2012, exacerbating the pre-tax loss with a tax charge of €125m in 2012.

Appendix 4: Tax rates by country

We include tables of the CIRA European coverage universe tax rates between 2006 and 2012E, split by the country of principal operation (as decided by each analyst). We include notes to highlight where a tax domicile differs (domicile country source: Reuters). The average tax rate is the total of the 2006 – 2010 tax charge over the profit before tax from the same period. The average for each country is a simple unweighted average.

Figure 89. Tax rates of Austria coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Erste Bank	Banks	ERST.VI	22%	20%	31%	23%	22%	22%	-43%	24%
OMV AG	Oil & Gas	OMVV.VI	23%	24%	34%	39%	38%	31%	28%	37%
Raiffeisen Bank Intl	Banks	RBIV.VI	14%	21%	25%	22%	9%	17%	18%	23%
RHI	Engineering	RHIV.VI	12%	12%	10%	15%	0%	9%	26%	19%
Telekom Austria	Telecoms Services	TELA.VI	15%	19%	36%	11%	19%	16%	-95%	21%
Verbund AG	Utilities	VERB.VI	23%	25%	23%	23%	23%	23%	30%	24%
Vienna Airport	Transportation	VIEV.VI	24%	23%	23%	24%	23%	23%	25%	25%
voestalpine AG	Metals & Mining	VOES.VI	23%	21%	13%	-2%	26%	20%	22%	22%
Wienerberger AG	Building Materials & Housebuilders	WBSV.VI	21%	19%	22%	11%	14%	30%	11%	16%
Average			**20%**	**20%**	**24%**	**18%**	**19%**	**21%**	**2%**	**23%**
Median			**22%**	**21%**	**23%**	**22%**	**22%**	**22%**	**22%**	**23%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 90. Tax rates of Belgium coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
AB-InBev	Tobacco & Beverages	ABI.BR	20%	18%	17%	23%	25%	22%	20%	24%
Belgacom SA	Telecoms Services	BCOM.BR	25%	24%	24%	21%	15%	22%	24%	24%
Colruyt	Food Retail	COLR.BR	33%	33%	31%	32%	29%	32%	30%	30%
Delhaize	Food Retail	DELB.BR	37%	34%	31%	31%	30%	32%	31%	31%
KBC	Banks	KBC.BR	22%	22%	21%	8%	4%	22%	21%	24%
Mobistar SA	Telecoms Services	MSTAR.BR	32%	32%	32%	35%	29%	32%	33%	33%
Solvay SA	Chemicals	SOLB.BR	20%	29%	24%	26%	-4%	24%	24%	31%
Telenet Group Holding NV	Telecoms Services	TNET.BR	80%	408%	132%	-61%	39%	10%	34%	34%
UCB SA	Pharma	UCB.BR	29%	27%	70%	25%	-453%	19%	18%	28%
Umicore NV/SA	Chemicals	UMI.BR	16%	20%	34%	20%	18%	21%	19%	20%
Average			**31%**	**65%**	**42%**	**16%**	**-27%**	**24%**	**25%**	**28%**
Median			**27%**	**28%**	**31%**	**24%**	**21%**	**22%**	**24%**	**29%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 91. Tax rates of Denmark coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
AP Moller Maersk A/S	Transportation	MAERSKb.CO	60%	60%	65%	140%	49%	64%	64%	69%
Carlsberg	Tobacco & Beverages	CARLb.CO	29%	29%	-12%	27%	24%	22%	25%	26%
Danske Bank A/S	Banks	DANSKE.CO	27%	23%	59%	68%	44%	33%	51%	28%
FLSmidth	Engineering	FLS.CO	-20%	31%	31%	19%	32%	23%	30%	30%
Novo Nordisk A/S	Pharma	NOVOb.CO	30%	22%	24%	23%	23%	24%	23%	23%
Rockwool	Building Materials & Housebuilders	ROCKb.CO	32%	26%	31%	39%	35%	30%	33%	33%
TDC	Telecoms Services	TDC.CO	27%	24%	27%	26%	30%	26%	25%	27%
Vestas Wind System	Engineering	VWS.CO	31%	34%	28%	28%	34%	30%	28%	28%
William Demant Holding	MedTech	WDH.CO	26%	24%	24%	25%	25%	25%	25%	26%
Average			**27%**	**30%**	**31%**	**44%**	**33%**	**31%**	**34%**	**32%**
Median			**29%**	**26%**	**28%**	**27%**	**32%**	**26%**	**28%**	**28%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 92. Tax rates of Finland coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Elisa Oyj	Telecoms Services	ELI1V.HE	24%	23%	22%	25%	24%	23%	25%	25%
Fortum Oyj	Utilities	FUM1V.HE	21%	17%	14%	17%	16%	17%	16%	18%
Metso Oyj	Engineering	MEO1V.HE	3%	30%	29%	32%	30%	24%	31%	31%
Neste Oil	Oil & Gas	NES1V.HE	26%	25%	24%	26%	23%	25%	28%	25%
Nokia Oyj	Telecoms Equipment	NOK1V.HE	24%	18%	22%	73%	25%	24%	-30%	26%
Sampo Oyj	Insurance	SAMAS.HE	28%	26%	22%	22%	16%	23%	13%	13%
Talvivaara Mining Company	Metals & Mining	TALV.L	0%	-102%	173%	27%	-32%	19%	29%	26%
Average			**18%**	**5%**	**44%**	**32%**	**15%**	**22%**	**16%**	**23%**
Median			**24%**	**23%**	**22%**	**26%**	**23%**	**23%**	**25%**	**25%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 93. Tax rates of France coverage universe (part 1)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Accor SA	Leisure	ACCP.PA	38%	20%	31%	-86%	-3,267%	50%	30%	30%
Aeroports de Paris	Transportation	ADP.PA	40%	25%	34%	34%	34%	33%	34%	33%
Air France-KLM	Transportation	AIRF.PA	22%	31%	36%	28%	-45%	98%	32%	31%
Alcatel-Lucent	Telecoms Equipment	ALUA.PA	13%	-8%	-3%	9%	-15%	-4%	-74%	10%
Alstom	Engineering	ALSO.PA	24%	25%	25%	24%	22%	25%	23%	23%
ArcelorMittal[1]	Metals & Mining	ISPA.AS	15%	20%	10%	102%	-80%	-2%	3%	15%
Arkema	Chemicals	AKE.PA	60%	49%	41%	-104%	26%	51%	26%	25%
ATOS	Business Services	ATOS.PA	-45%	49%	62%	21%	33%	101%	29%	30%
AXA SA	Insurance	AXAF.PA	26%	23%	-204%	27%	24%	22%	28%	25%
BNP Paribas SA	Banks	BNPP.PA	26%	25%	12%	28%	30%	26%	30%	30%
Bouygues SA	Telecoms Services	BOUY.PA	34%	32%	31%	32%	33%	32%	29%	27%
Bureau Veritas	Business Services	BVI.PA	28%	25%	25%	25%	28%	26%	27%	27%
Capgemini SA	Business Services	CAPP.PA	4%	10%	20%	25%	31%	18%	34%	34%
Carrefour	Food Retail	CARR.PA	29%	29%	34%	58%	59%	37%	28%	28%
Casino Guichard Perachon	Food Retail	CASP.PA	34%	28%	26%	24%	22%	27%	30%	31%
CGGVeritas	Oil & Gas	GEPH.PA	36%	35%	24%	4%	-45%	44%	62%	34%
Credit Agricole SA	Banks	CAGR.PA	23%	5%	-6%	14%	34%	17%	39%	33%
Danone	Food Products & Producers	DANO.PA	20%	30%	28%	21%	23%	24%	26%	26%
Dassault Systemes SA	Tech Equipment	DAST.PA	28%	35%	29%	25%	31%	30%	30%	31%
Edenred	Business Services	EDEN.PA		34%	33%	517%	48%	46%	33%	33%
Eiffage	Infrastructure	FOUG.PA	31%	17%	34%	35%	36%	27%	35%	35%
Electricite de France	Utilities	EDF.PA	17%	25%	33%	29%	59%	28%	29%	30%
Essilor	MedTech	ESSI.PA	31%	31%	29%	30%	26%	29%	26%	26%
Eutelsat Communications	Telecoms Services	ETL.PA	35%	35%	33%	34%	36%	35%	34%	34%
Faurecia	Autos & Auto Parts	EPED.PA	-9%	-6%	-5%	-9%	30%	-16%	24%	24%
France Telecom	Telecoms Services	FTE.PA	58%	16%	38%	41%	32%	34%	32%	32%
GDF Suez	Utilities	GSZ.PA	32%	31%	15%	26%	26%	25%	24%	32%
Guyenne et Gascogne	Food Retail	GUYG.PA	5%	5%	9%	12%	16%	9%	16%	16%
Havas SA	Media	EURC.PA	30%	30%	28%	26%	24%	27%	23%	24%
Ipsen	Pharma	IPN.PA	22%	25%	17%	6%	14%	18%	23%	20%
JCDecaux	Media	JCDX.PA	32%	31%	30%	37%	32%	32%	31%	30%
L Oreal Group	Household & Personal Care	OREP.PA	20%	24%	26%	27%	29%	25%	28%	28%
Lafarge SA	Building Materials & Housebuilders	LAFP.PA	28%	26%	20%	20%	22%	24%	26%	26%
Lagardere Groupe	Media	LAGA.PA	21%	15%	3%	43%	26%	17%	33%	33%
L'Air Liquide SA	Chemicals	AIRP.PA	29%	26%	24%	25%	26%	26%	26%	27%
LVMH	Luxury	LVMH.PA	28%	27%	28%	30%	31%	29%	30%	30%
M6 Metropole Television	Media	MMTP.PA	33%	34%	29%	32%	36%	33%	36%	36%
Michelin	Autos & Auto Parts	MICP.PA	39%	28%	31%	50%	30%	33%	30%	30%
Natixis	Banks	CNAT.PA	27%	6%	21%	44%	13%	77%	27%	30%
Nexans	Engineering	NEXS.PA	16%	30%	38%	76%	24%	28%	30%	30%
Pernod-Ricard	Tobacco & Beverages	PERP.PA	23%	20%	10%	19%	23%	19%	23%	23%
Peugeot SA	Autos & Auto Parts	PEUP.PA	76%	28%	15%	30%	20%	700%	20%	23%
PPR	Luxury	PRTP.PA	26%	20%	34%	39%	28%	28%	28%	28%

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Luxembourg.

Figure 94. Tax rates of France coverage universe (part 2)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Publicis Groupe SA	Media	PUBP.PA	30%	30%	29%	26%	28%	29%	28%	28%
Renault SA	Autos & Auto Parts	RENA.PA	8%	9%	21%	-5%	2%	12%	2%	3%
Safran	Aerospace & Defence	SAF.PA	84%	61%	138%	26%	6%	20%	26%	26%
Saint Gobain	Building Materials & Housebuilders	SGOB.PA	35%	38%	31%	45%	32%	35%	29%	29%
Sanofi SA	Pharma	SASY.PA	17%	12%	16%	22%	22%	18%	20%	23%
Schneider Electric SA	Engineering	SCHN.PA	28%	27%	24%	24%	24%	26%	24%	30%
SCOR	Insurance	SCOR.PA	24%	22%	-15%	-15%	8%	8%	24%	23%
SES S.A.[1]	Telecoms Services	SESFd.PA	19%	16%	18%	16%	12%	16%	10%	13%
Societe Generale	Banks	SOGN.PA	28%	15%	31%	-39%	26%	24%	28%	29%
Sodexo	Leisure	EXHO.PA	34%	34%	34%	34%	32%	33%	35%	35%
STMicroelectronics[2]	Tech Equipment	STM.PA	-3%	5%	5%	6%	22%	2%	31%	29%
Suez Environnement	Utilities	SEVI.PA	28%	30%	13%	21%	15%	22%	23%	27%
Technip	Oil & Gas	TECF.PA	32%	38%	30%	52%	30%	35%	29%	30%
Television Francaise 1 SA	Media	TFFP.PA	35%	30%	21%	13%	24%	26%	34%	33%
Thales	Aerospace & Defence	TCFP.PA	21%	16%	17%	41%	58%	-3%	18%	23%
Total	Oil & Gas	TOTF.PA	57%	54%	56%	47%	49%	53%	53%	55%
Valeo SA	Autos & Auto Parts	VLOF.PA	37%	36%	-35%	-118%	21%	55%	25%	25%
Veolia Environnement	Utilities	VIE.PA	29%	25%	48%	22%	28%	29%	44%	33%
Vinci	Infrastructure	SGEF.PA	33%	32%	31%	30%	31%	31%	32%	31%
Average			**27%**	**25%**	**22%**	**29%**	**-30%**	**40%**	**27%**	**28%**
Median			**28%**	**27%**	**27%**	**26%**	**26%**	**27%**	**28%**	**29%**

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Luxembourg. [2]Tax domicile Switzerland.

Figure 95. Tax rates of Germany coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
adidas Group	General Retail	ADSGn.DE	31%	32%	29%	32%	30%	30%	28%	29%
Aixtron SE	Tech Equipment	AIXGn.DE	12%	23%	36%	30%	31%	30%	32%	15%
Allianz SE	Insurance	ALVG.DE	20%	25%	24%	11%	27%	22%	28%	28%
BASF SE	Chemicals	BASFn.DE	47%	38%	45%	46%	31%	40%	28%	32%
Bayer AG	Chemicals	BAYGn.DE	23%	-3%	27%	27%	24%	19%	28%	27%
Beiersdorf	Household & Personal Care	BEIG.DE	22%	31%	31%	35%	41%	31%	33%	35%
BMW AG	Autos & Auto Parts	BMWG.DE	30%	19%	6%	49%	33%	28%	33%	33%
Commerzbank	Banks	CBKG.DE	25%	23%	115%	1%	-10%	46%	-3%	23%
Continental AG	Autos & Auto Parts	CONG.DE	33%	31%	-7%	9%	48%	99%	30%	31%
Daimler AG	Autos & Auto Parts	DAIGn.DE	18%	47%	39%	-15%	29%	41%	32%	32%
Deutsche Bank	Banks	DBKGn.DE	28%	26%	33%	4%	41%	22%	30%	31%
Deutsche Post	Transportation	DPWGn.DE	20%	14%	-19%	5%	7%	18%	24%	24%
Deutsche Telekom AG	Telecoms Services	DTEGn.DE	-37%	56%	41%	67%	35%	33%	35%	33%
E.ON AG	Utilities	EONGn.DE	-6%	24%	33%	25%	21%	20%	19%	22%
Fraport	Transportation	FRAG.DE	33%	28%	34%	22%	3%	24%	32%	32%
Freenet	Telecoms Services	FNTGn.DE	-119%	90%	2,717%	53%	-16%	-35%	-9%	-4%
Fresenius Medical Care	MedTech	FMEG.DE	43%	39%	37%	34%	35%	37%	34%	34%
Fresenius SE	MedTech	FREG.DE	39%	37%	39%	30%	33%	35%	34%	32%
GEA Group	Engineering	G1AG.DE	26%	31%	24%	23%	24%	26%	26%	25%
GfK Holding AG	Media	GFKG.DE	24%	22%	27%	20%	33%	26%	27%	27%
Hamburger Hafen und Logistik	Transportation	HHFGn.DE	37%	41%	33%	29%	28%	34%	30%	31%
Hannover Ruckversicherungs AG	Insurance	HNRGn.DE	30%	6%	291%	27%	24%	27%	15%	26%
HeidelbergCement AG	Building Materials & Housebuilders	HEIG.DE	29%	16%	33%	1,311%	10%	18%	22%	23%
Henkel	Household & Personal Care	HNKG_p.DE	26%	25%	24%	29%	26%	26%	27%	27%
Hochtief	Infrastructure	HOTG.DE	40%	32%	34%	32%	28%	32%	22%	27%
Hugo Boss Group	Consumer Durables & Apparel	BOSG_p.DE	28%	27%	24%	24%	24%	26%	24%	24%
Infineon Technologies	Tech Equipment	IFXGn.DE	-192%	-29%	-69%	-2%	-8%	-67%	14%	13%
K+S AG	Chemicals	SDFGn.DE	21%	35%	27%	23%	26%	25%	26%	27%
Kabel Deutschland	Telecoms Services	KD8Gn.DE	-38%	-2%	8%	-132%	21%	-14%	18%	20%
Kloeckner & Co	Metals & Mining	KCOGn.DE	14%	26%	17%	23%	5%	15%	48%	23%
Lanxess	Chemicals	LXSG.DE	30%	35%	25%	-22%	23%	25%	23%	22%
Linde AG	Chemicals	LING.DE	26%	28%	23%	22%	24%	25%	23%	24%
Lufthansa	Transportation	LHAG.DE	22%	22%	24%	56%	-17%	12%	26%	25%
MAN SE	Engineering	MANG.DE	27%	34%	30%	-16%	30%	34%	28%	29%
Merck KGaA	Pharma	MRCG.DE	21%	21%	34%	23%	26%	25%	40%	27%
Metro AG	Food Retail	MEOG.DE	32%	36%	30%	51%	43%	38%	36%	35%
MTU Aero Engines	Aerospace & Defence	MTXGn.DE	41%	14%	9%	32%	37%	27%	33%	33%
Munich Re	Insurance	MUVGn.DE	32%	17%	47%	33%	22%	29%	-1%	30%
Porsche Automobil Holding SE	Autos & Auto Parts	PSHG_p.DE	36%	28%	26%	18%	2%	22%	0%	0%
Postbank	Banks	DPBGn.DE	26%	13%	16%	119%	56%	-8%	29%	33%
ProSiebenSat.1 Media	Media	PSMG_p.DE	37%	61%	-83%	35%	26%	44%	29%	29%
Rheinmetall AG	Aerospace & Defence	RHMG.DE	25%	30%	27%	-13%	24%	29%	27%	27%
RWE AG	Utilities	RWEG.DE	27%	40%	29%	33%	28%	32%	31%	26%
Salzgitter AG	Metals & Mining	SZGG.DE	19%	31%	33%	22%	39%	27%	32%	33%
SAP AG	Tech Equipment	SAPG.DE	30%	32%	30%	28%	22%	29%	29%	28%
Siemens AG	Engineering	SIEGn.DE	25%	23%	35%	37%	29%	29%	28%	28%
Software AG	Tech Equipment	SOWG.DE	37%	34%	32%	32%	29%	32%	31%	30%
Stada Arzneimittel	Pharma	STAGn.DE	36%	29%	27%	29%	37%	32%	48%	29%
Stroer Out-of-Home Media AG	Media	SAXG.DE	16%	-23%	-1,489%	115%	-0%	-25%	32%	33%
Symrise AG	Chemicals	SY1G.DE	24%	31%	33%	28%	25%	30%	24%	24%
ThyssenKrupp AG	Metals & Mining	TKAG.DE	35%	34%	27%	21%	18%	33%	33%	33%
United Internet AG	Tech Equipment	UTDI.DE	34%	34%	-145%	17%	41%	39%	32%	30%
Volkswagen AG	Autos & Auto Parts	VOWG.DE	-9%	37%	29%	28%	20%	25%	22%	24%
Wacker Chemie AG	Chemicals	WCHG.DE	25%	33%	32%	2,358%	32%	34%	31%	33%
Average			**18%**	**27%**	**48%**	**92%**	**24%**	**25%**	**27%**	**27%**
Median			**26%**	**29%**	**29%**	**28%**	**26%**	**27%**	**28%**	**28%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 96. Tax rates of Greece coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Aegean Airlines S.A.	Transportation	AGNr.AT	28%	20%	26%	29%	-25%	33%	-6%	-22%
ATEbank	Banks	AGBr.AT	33%	22%	-94%	3%	-12%	-96%	7%	20%
Coca-Cola Hellenic Bottling Co. SA	Tobacco & Beverages	HLBr.AT	21%	21%	31%	25%	24%	24%	26%	24%
Ellaktor	Engineering	HELr.AT	58%	38%	21%	43%	75%	43%	-753%	51%
Eurobank Properties	Real Estate	EUPr.AT	4%	6%	8%	11%	45%	10%	18%	15%
Folli Follie Group	Retailing	HDFr.AT	27%	38%	25%	39%	32%	32%	24%	24%
Fourlis Holdings	General Retail	FRLr.AT	43%	29%	27%	40%	42%	34%	34%	30%
Frigoglass	Engineering	FRIr.AT	29%	27%	31%	25%	27%	28%	24%	25%
Greek Postal Savings Bank SA	Banks	GPSr.AT	19%	14%	-9%	52%	533%	37%	26%	26%
Hellenic Exchange Holding SA	Diversified Financials	EXCr.AT	33%	26%	27%	46%	46%	33%	25%	31%
Hellenic Petroleum S.A.	Energy	HEPr.AT	24%	25%	-72%	27%	37%	27%	23%	20%
Intralot SA	Leisure	INLr.AT	28%	21%	28%	26%	32%	26%	29%	28%
Jumbo Babyland	General Retail	BABr.AT	29%	26%	25%	22%	23%	25%	28%	26%
Marfin Popular Bank PCL	Banks	MRBr.AT	17%	15%	15%	22%	22%	17%	11%	13%
METKA	Engineering	MTKr.AT	26%	26%	23%	32%	29%	28%	27%	30%
Motor Oil (Hellas)SA	Oil & Gas	MORr.AT	33%	27%	24%	31%	36%	30%	21%	20%
National Bank of Greece SA	Banks	NBGr.AT	26%	14%	18%	23%	31%	20%	11%	20%
OPAP SA	Leisure	OPAr.AT	30%	26%	27%	37%	35%	31%	33%	30%
OTE	Telecoms Services	OTEr.AT	33%	33%	29%	40%	239%	39%	39%	38%
Piraeus Bank SA	Banks	BOPr.AT	18%	17%	15%	28%	297%	20%	48%	4%
Public Power Corp.	Utilities	DEHr.AT	47%	20%	23%	30%	25%	28%	31%	31%
Sidenor SA	Metals & Mining	SID.AT	6%	19%	32%	-27%	12%	26%	36%	24%
Terna Energy SA	Utilities	TENr.AT	21%	24%	26%	32%	41%	29%	32%	28%
Titan Cement Co SA	Building Materials & Housebuilders	TTNr.AT	31%	19%	-0%	23%	14%	20%	12%	20%
Average			**28%**	**23%**	**13%**	**28%**	**69%**	**23%**	**-8%**	**23%**
Median			**28%**	**23%**	**24%**	**29%**	**32%**	**28%**	**26%**	**25%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 97. Tax rates of Ireland coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
C&C Group Plc	Tobacco & Beverages	GCC.I	12%	11%	6%	10%	10%	12%	14%	15%
CRH PLC	Building Materials & Housebuilders	CRH.L	24%	25%	23%	20%	19%	23%	17%	21%
Grafton Group PLC	Building Materials & Housebuilders	GRF_u.L	13%	13%	10%	1%	-150%	5%	21%	19%
Independent News & Media PLC	Media	INME.I	22%	23%	1%	-24%	-12%	45%	69%	21%
Irish Life & Permanent PLC	Insurance	IPM.I	21%	6%	24%	-1%	17%	22%	23%	15%
Ryanair	Transportation	RYA.I	3%	11%	6%	10%	11%	9%	15%	12%
Smurfit Kappa Group	Business Services	SKG.I	-7%	2%	-145%	-108%	45%	308%	38%	28%
Average			**13%**	**13%**	**-10%**	**-13%**	**-9%**	**61%**	**28%**	**19%**
Median			**13%**	**11%**	**6%**	**1%**	**11%**	**22%**	**21%**	**19%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 98. Tax rates of Italy coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
A2A	Utilities	A2.MI	26%	19%	40%	62%	118%	38%	24%	25%
Aeroporto di Venezia	Transportation	SAVE.MI	53%	-0%	47%	43%	29%	29%	33%	33%
Amplifon SpA	MedTech	AMPF.MI	30%	38%	-580%	37%	43%	43%	35%	36%
Arnoldo Mondadori Editore	Media	MOED.MI	42%	40%	35%	45%	53%	42%	48%	50%
Assicurazioni Generali SpA	Insurance	GASI.MI	27%	28%	31%	23%	31%	28%	30%	30%
Atlantia	Infrastructure	ATL.MI	42%	68%	36%	39%	36%	45%	38%	38%
Autogrill SpA	Leisure	AGL.MI	41%	38%	32%	67%	50%	44%	42%	41%
Banca Monte dei Paschi di Siena SpA	Banks	BMPS.MI	39%	43%	1,008%	70%	26%	13%	40%	47%
Banca Popolare di Milano	Banks	PMII.MI	37%	40%	61%	53%	-246%	49%	42%	43%
Banco Popolare	Banks	BAPO.MI	32%	44%	25%	46%	-46%	34%	15%	49%
Buzzi Unicem	Building Materials & Housebuilders	BZU.MI	37%	35%	28%	27%	59%	31%	26%	27%
CIR - Compagnie Industriali Riunite SpA	Engineering	CIRX.MI	29%	33%	36%	-2%	9%	25%	5%	5%
Davide Campari-Milano SpA	Tobacco & Beverages	CPRI.MI	31%	32%	26%	31%	33%	31%	32%	31%
Edison	Utilities	EDN.MI	2%	25%	52%	53%	48%	34%	-58%	-42%
Enel Green Power	Utilities	EGPW.MI			-68%	33%	28%	4%	37%	37%
ENEL SpA	Utilities	ENEI.MI	40%	33%	9%	28%	30%	28%	34%	35%
Eni	Oil & Gas	ENI.MI	52%	46%	50%	56%	55%	51%	55%	59%
ERG Group	Energy	ERG.MI	19%	36%	-1%	48%	-31%	16%	14%	40%
Fiat Industrial	Engineering	FI.MI				-7%	34%	218%	40%	40%
Fiat SpA	Autos & Auto Parts	FIA.MI	30%	26%	21%	-131%	69%	38%	25%	30%
Finmeccanica	Aerospace & Defence	SIFI.MI	19%	38%	37%	34%	36%	32%	33%	37%
Gemina SpA	Transportation	GEMI.MI	175%	-92%	-13%	-99%	-76%	-87%	70%	47%
Geox SpA	General Retail	GEO.MI	27%	31%	29%	41%	36%	32%	36%	35%
Gruppo Editoriale l'Espresso SpA	Media	ESPI.MI	28%	41%	72%	88%	47%	47%	45%	50%
Intesa Sanpaolo	Banks	ISP.MI	32%	31%	-56%	20%	36%	24%	10%	38%
Italcementi Group	Building Materials & Housebuilders	ITAI.MI	29%	28%	35%	30%	24%	29%	21%	32%
Landi Renzo	Autos & Auto Parts	LR.MI	38%	38%	32%	25%	35%	34%	33%	33%
Lottomatica Spa	Leisure	LTO.MI	98%	46%	26%	40%	60%	44%	34%	36%
Luxottica Group SpA	Luxury	LUX.MI	35%	35%	33%	34%	36%	35%	35%	35%
Mediaset SpA	Media	MS.MI	35%	38%	18%	32%	36%	33%	31%	31%
Piaggio & C SpA	Autos & Auto Parts	PIA.MI	20%	42%	27%	36%	49%	36%	47%	47%
Pirelli	Autos & Auto Parts	PECI.MI	-14%	31%	-18%	130%	38%	-133%	37%	36%
Prysmian SpA	Engineering	PRY.MI	38%	22%	18%	25%	30%	25%	88%	26%
Safilo SpA	General Retail	SFLG.MI	43%	42%	170%	-8%	84%	-167%	50%	45%
Saipem	Oil & Gas	SPMI.MI	29%	22%	23%	27%	28%	25%	28%	28%
Saras S.p.A.	Energy	SRS.MI	21%	32%	32%	39%	31%	28%	40%	40%
Seat Pagine Gialle SpA	Media	PGIT.MI	48%	43%	-256%	174%	-19%	-177%	129%	99%
Snam Rete Gas SpA	Utilities	SRG.MI	40%	28%	33%	32%	32%	33%	53%	42%
Telecom Italia SpA	Telecoms Services	TLITn.MI	46%	41%	23%	34%	13%	33%	115%	37%
TERNA SpA	Utilities	TRN.MI	40%	29%	36%	35%	34%	35%	58%	45%
Tiscali SpA	Telecoms Services	TIS.MI	9%	10%	-33%	-473%	-24%	-13%	-7%	-12%
Tod's SPA	Luxury	TOD.MI	41%	38%	33%	32%	32%	35%	32%	32%
UniCredit Group	Banks	CRDI.MI	23%	28%	9%	30%	24%	23%	-25%	38%
Unione Banche Italiane	Banks	UBI.MI	38%	41%	54%	46%	69%	45%	-88%	49%
Yoox	General Retail	YOOX.MI		-61%	33%	44%	39%	41%	43%	42%
Average			**35%**	**28%**	**28%**	**23%**	**24%**	**20%**	**34%**	**36%**
Median			**35%**	**35%**	**31%**	**34%**	**34%**	**32%**	**35%**	**37%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 99. Tax rate of Luxembourg coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Millicom Intl Cellular	Telecommunication Services	MICsdb.ST	33%	16%	39%	27%	12%	21%	4%	28%

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 100. Tax rates of Netherlands coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Aegon NV	Insurance	AEGN.AS	18%	17%	-2%	144%	8%	9%	21%	28%
Ahold	Food Retail	AHLN.AS	9%	20%	23%	15%	25%	19%	24%	25%
Akzo Nobel NV	Chemicals	AKZO.AS	18%	27%	-33%	27%	19%	37%	30%	35%
ASML Holding NV	Tech Equipment	ASML.AS	28%	20%	-4%	12%	18%	19%	13%	14%
Delta Lloyd	Insurance	DLL.AS	16%	3%	16%	27%	25%	13%	-669%	25%
DSM NV	Chemicals	DSMN.AS	25%	24%	24%	102%	25%	26%	18%	22%
EADS	Aerospace & Defence	EAD.PA	69%	34%	31%	23%	30%	30%	35%	32%
Heineken	Tobacco & Beverages	HEIN.AS	21%	31%	36%	22%	22%	25%	28%	27%
ING Groep NV	Diversified Financials	ING.AS	19%	14%	48%	31%	26%	15%	25%	27%
KPN NV	Telecoms Services	KPN.AS	7%	-36%	29%	-7%	22%	3%	14%	20%
Philips Electronics NV	Engineering	PHG.AS	11%	14%	311%	22%	26%	20%	36%	28%
PostNL NV	Transportation	PTNL.AS	32%	29%	30%	38%	24%	31%	23%	18%
Randstad	Business Services	RAND.AS	13%	28%	118%	-52%	9%	8%	31%	30%
TNT Express	Transportation	TNTE.AS			32%	123%	45%	45%	132%	35%
Unilever NV	Food Products & Producers	UNc.AS	24%	22%	26%	26%	25%	25%	25%	25%
Wolters Kluwer NV	Media	WLSNc.AS	21%	23%	18%	3%	19%	19%	18%	18%
Average			**21%**	**17%**	**44%**	**35%**	**23%**	**22%**	**-12%**	**26%**
Median			**19%**	**22%**	**28%**	**24%**	**24%**	**20%**	**25%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 101. Tax rates of Norway coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
DNB NOR ASA	Banks	DNB.OL	20%	14%	27%	37%	23%	23%	28%	23%
DNO International ASA	Oil & Gas	DNO.OL	63%	69%	-31%	1,063%	-37%	-221%	30%	22%
Norsk Hydro ASA	Metals & Mining	NHY.OL	68%	25%	15%	70%	43%	62%	33%	28%
PGS	Oil & Gas	PGS.OL	35%	-2%	7%	23%	-636%	15%	33%	20%
Schibsted	Media	SBST.OL	8%	28%	-27%	34%	14%	19%	32%	32%
Seadrill[1]	Oil & Gas	SDRL.OL	9%	-20%	-48%	8%	12%	8%	9%	10%
Statoil	Oil & Gas	STL.OL	66%	70%	76%	85%	72%	74%	67%	71%
Statoil Fuel and Retail	General Retail	SFRET.OL		46%	-36%	2%	18%	12%	25%	25%
Subsea 7[2]	Oil & Gas	SUBC.OL	24%	56%	33%	28%	33%	35%	32%	34%
Telenor ASA	Telecoms Services	TEL.OL	11%	11%	22%	29%	25%	19%	31%	29%
Yara International	Chemicals	YAR.OL	23%	22%	33%	-16%	25%	23%	18%	21%
Average			**30%**	**29%**	**6%**	**124%**	**-37%**	**6%**	**31%**	**29%**
Median			**24%**	**25%**	**15%**	**29%**	**23%**	**19%**	**31%**	**25%**

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Bermuda. [2]Tax domicile Luxembourg.

Figure 102. Tax rates of Portugal coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Banco BPI	Banks	BBPI.LS	25%	24%	23%	15%	-2%	18%	-62%	2%
Banco Espirito Santo	Banks	BES.LS	24%	19%	16%	16%	6%	16%	14%	29%
Brisa	Infrastructure	BRI.LS	28%	-14%	26%	23%	3%	9%	29%	29%
EDP Renovaveis[1]	Utilities	EDPR.LS		32%	30%	28%	31%	30%	30%	27%
Energias de Portugal	Utilities	EDP.LS	21%	22%	19%	25%	26%	23%	22%	26%
Galp Energia	Oil & Gas	GALP.LS	19%	26%	21%	22%	27%	23%	27%	30%
Jeronimo Martins	Food Retail	JMT.LS	20%	20%	21%	20%	21%	20%	21%	22%
Portugal Telecom	Telecoms Services	PTC.LS	1%	24%	25%	23%	23%	19%	22%	26%
REN	Utilities	RENE.LS	13%	23%	26%	28%	34%	21%	32%	30%
Sonaecom	Telecoms Services	SNC.LS	1,345%	-6,912%	135%	46%	29%	-54%	24%	29%
Zon	Telecoms Services	ZON.LS	28%	26%	30%	26%	20%	27%	33%	28%
Average			**139%**	**-610%**	**34%**	**25%**	**20%**	**14%**	**17%**	**25%**
Median			**22%**	**23%**	**25%**	**23%**	**23%**	**20%**	**24%**	**28%**

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Spain.

Figure 103. Tax rates of Spain coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Abertis	Infrastructure	ABE.MC	38%	28%	30%	27%	23%	29%	28%	28%
Acciona	Utilities	ANA.MC	21%	11%	24%	21%	23%	19%	24%	25%
ACS	Infrastructure	ACS.MC	23%	23%	3%	12%	15%	17%	12%	12%
Almirall S.A.	Pharma	ALM.MC	3%	-2%	6%	12%	0%	4%	3%	3%
Amadeus	Business Services	AMA.MC	28%	14%	25%	27%	18%	22%	32%	31%
Antena 3	Media	A3TV.MC	27%	27%	12%	-18%	17%	21%	19%	16%
Banco de Sabadell SA	Banks	SABE.MC	43%	20%	5%	8%	18%	21%	-20%	20%
Banco Popular Espanol	Banks	POP.MC	37%	31%	27%	27%	27%	31%	-13%	20%
Banco Santander	Banks	SAN.MC	25%	21%	17%	11%	24%	20%	29%	29%
Banesto	Banks	BTO.MC	42%	31%	28%	28%	25%	31%	24%	29%
Bankinter SA	Banks	BKT.MC	34%	25%	25%	26%	27%	27%	26%	28%
BBVA SA	Banks	BBVA.MC	29%	24%	22%	20%	22%	24%	19%	18%
BME	Diversified Financials	BME.MC	33%	31%	28%	27%	29%	30%	29%	30%
CaixaBank SA	Banks	CABK.MC				2%	2%	2%	8%	17%
Enagas SA	Utilities	ENAG.MC	35%	32%	29%	30%	29%	31%	30%	30%
Endesa SA	Utilities	ELE.MC	21%	25%	25%	22%	21%	23%	26%	29%
FCC	Infrastructure	FCC.MC	31%	28%	19%	26%	20%	26%	17%	20%
Ferrovial SA	Infrastructure	FER.MC	25%	-26%	76%	21%	-5%	-25%	0%	0%
Fluidra	Infrastructure	FLUI.MC	28%	28%	27%	6%	24%	28%	26%	26%
Gamesa	Utilities	GAM.MC	13%	-10%	1%	6%	-43%	0%	28%	28%
Gas Natural SDG SA	Utilities	GAS.MC	25%	25%	24%	25%	25%	25%	25%	25%
Grupo Prisa	Media	PRS.MC	-39%	9%	31%	48%	100%	20%	30%	30%
IAG[1]	Transportation	ICAG.MC				33%	-19%	37%	32%	31%
Iberdrola SA	Utilities	IBE.MC	29%	23%	23%	20%	23%	23%	21%	24%
Inditex	General Retail	ITX.MC	25%	24%	20%	24%	25%	24%	23%	25%
Jazztel	Telecommunication Services	JAZ.MC	0%	0%	0%	0%	0%	0%	-40%	21%
Mapfre SA	Insurance	MAP.MC	30%	29%	28%	28%	26%	28%	27%	27%
Mediaset Espana SA	Media	TL5.MC	30%	28%	11%	-847%	-0%	23%	17%	15%
Realia Business SA	Infrastructure	RLIA.MC	32%	29%	29%	21%	-21%	31%	-64%	14%
Red Electrica de Espana SA	Utilities	REE.MC	29%	33%	31%	28%	30%	30%	33%	30%
Repsol	Oil & Gas	REP.MC	40%	40%	39%	41%	26%	36%	38%	38%
Sacyr	Infrastructure	SVO.MC	22%	-3%	31%	41%	-16%	-40%	-10%	-8%
Telefonica SA	Telecoms Services	TEF.MC	26%	15%	28%	24%	28%	24%	20%	27%
Average			**24%**	**19%**	**22%**	**-5%**	**17%**	**19%**	**14%**	**22%**
Median			**28%**	**25%**	**25%**	**24%**	**23%**	**24%**	**23%**	**25%**

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile UK.

Figure 104. Tax rates of Sweden coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Atlas Copco AB	Engineering	ATCOa.ST	28%	30%	24%	24%	26%	26%	25%	26%
Autoliv Inc.	Autos & Auto Parts	ALV.N	12%	34%	31%	-418%	26%	25%	28%	28%
Electrolux AB	Engineering	ELUXb.ST	31%	28%	44%	25%	25%	28%	25%	27%
Eniro AB	Media	ENRO.ST	24%	20%	-15%	-162%	3%	-7%	7%	21%
Ericsson LM	Telecoms Equipment	ERICb.ST	28%	28%	32%	26%	26%	28%	32%	32%
Hennes & Mauritz AB	General Retail	HMb.ST	32%	29%	28%	26%	25%	28%	26%	26%
Husqvarna AB	Engineering	HUSQb.ST	31%	30%	27%	17%	15%	25%	14%	20%
Nordea	Banks	NDA1V.HE	18%	20%	21%	25%	27%	22%	27%	26%
Sandvik AB	Engineering	SAND.ST	27%	26%	26%	25%	26%	26%	28%	28%
Scandinavian Airlines System	Transportation	SAS.ST	44%	27%	3%	23%	26%	20%	24%	24%
Scania AB	Autos & Auto Parts	SCVb.ST	31%	28%	26%	30%	27%	28%	29%	29%
Securitas	Business Services	SECUb.ST	42%	62%	28%	30%	30%	35%	29%	28%
Skandinaviska Enskilda Banken AB	Banks	SEBa.ST	19%	20%	19%	65%	23%	23%	21%	23%
Skanska	Infrastructure	SKAb.ST	29%	28%	34%	28%	27%	29%	12%	26%
SKF AB	Engineering	SKFb.ST	31%	33%	31%	26%	30%	31%	30%	31%
Svenska Handelsbanken AB	Banks	SHBa.ST	24%	26%	22%	26%	27%	25%	26%	26%
Swedbank AB	Banks	SWEDa.ST	23%	22%	21%	-10%	25%	29%	21%	23%
Swedish Match AB	Tobacco & Beverages	SWMA.ST	26%	23%	15%	21%	18%	21%	20%	20%
Tele2 AB	Telecoms Services	TEL2b.ST	-10%	140%	7%	8%	4%	17%	26%	26%
TeliaSonera AB	Telecoms Services	TLSN.ST	24%	20%	19%	23%	21%	21%	23%	23%
Volvo AB	Autos & Auto Parts	VOLVb.ST	20%	30%	29%	29%	28%	25%	28%	29%
Average			**25%**	**34%**	**22%**	**-5%**	**23%**	**24%**	**24%**	**26%**
Median			**27%**	**28%**	**26%**	**25%**	**26%**	**25%**	**26%**	**26%**

Source: dataCentral, DataStream, Company annual reports, CIRA

Figure 105. Tax rates of Switzerland coverage universe

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
ABB Ltd	Engineering	ABBN.VX	29%	15%	25%	24%	27%	23%	27%	28%
Actelion Ltd	Biotech	ATLN.VX	14%	26%	9%	8%	11%	12%	-34%	13%
Adecco	Business Services	ADEN.VX	21%	28%	30%	11%	30%	27%	23%	30%
Basilea Pharmaceutica AG	Biotech	BSLN.S	0%	0%	0%	-0%	1%	-0%	-0%	0%
Clariant AG	Chemicals	CLN.VX	52%	48%	131%	-60%	21%	70%	29%	28%
Credit Suisse	Banks	CSGN.VX	17%	9%	38%	21%	23%	8%	29%	25%
EFG International	Diversified Financials	EFGN.S	12%	11%	12%	5%	3%	45%	8%	12%
GAM Holding Ltd	Diversified Financials	GAMH.S	27%	25%	25%	1%	81%	15%	20%	20%
Geberit AG	Building Materials & Housebuilders	GEBN.VX	24%	24%	18%	23%	14%	20%	15%	16%
Givaudan AG	Chemicals	GIVN.VX	19%	42%	28%	25%	22%	24%	21%	21%
Gottex Fund Management Holdings Ltd[1]	Diversified Financials	GFMN.S	12%	10%	10%	-5%	52%	9%	1%	11%
Holcim Ltd	Building Materials & Housebuilders	HOLN.VX	28%	21%	23%	24%	28%	24%	29%	28%
Julius Baer Gruppe AG	Diversified Financials	BAER.VX	26%	19%	19%	18%	19%	20%	18%	19%
Kuehne & Nagel International	Transportation	KNIN.VX	24%	24%	23%	23%	21%	23%	15%	12%
Kuoni Reisen Holding	Leisure	KUNN.S	17%	14%	13%	90%	42%	19%	50%	28%
Lindt & Sprungli	Food Products & Producers	LISN.S	28%	27%	25%	26%	24%	26%	25%	25%
Logitech International S A	Tech Equipment	LOGN.VX	10%	12%	16%	22%	13%	13%	20%	23%
Lonza Group AG	Chemicals	LONN.VX	21%	17%	12%	15%	14%	15%	16%	20%
Nestle	Food Products & Producers	NESN.VX	24%	25%	11%	26%	29%	21%	26%	26%
Nobel Biocare Holding AG	MedTech	NOBN.VX	22%	22%	31%	23%	55%	27%	24%	23%
Novartis AG	Pharma	NOVN.VX	16%	13%	15%	15%	16%	15%	16%	16%
Panalpina	Transportation	PWTN.S	24%	24%	31%	25%	525%	30%	26%	25%
Petroplus Hldg AG	Energy	PPHN.S	25%	3%	7%	-11%	-331%	-52%	7%	10%
Richemont	Luxury	CFR.VX	17%	17%	15%	14%	17%	16%	17%	17%
Roche Holding AG	Pharma	ROG.VX	27%	25%	23%	17%	21%	23%	21%	21%
SGS	Business Services	SGSN.VX	25%	25%	23%	25%	26%	25%	26%	26%
Sonova Holdings AG	MedTech	SOON.VX	15%	10%	12%	12%	11%	12%	13%	13%
Straumann Holding AG	MedTech	STMN.S	18%	9%	69%	15%	18%	17%	24%	17%
Swatch Group AG	Luxury	UHR.VX	21%	20%	17%	20%	23%	20%	22%	22%
Swiss Re	Insurance	SRENH.VX	22%	20%	36%	31%	35%	22%	23%	23%
Swisscom AG	Telecoms Services	SCMN.VX	20%	18%	20%	19%	22%	20%	21%	21%
Syngenta AG	Chemicals	SYNN.VX	20%	22%	18%	16%	16%	18%	20%	20%
Synthes Inc[2]	MedTech	SYST.VX	34%	34%	30%	29%	28%	31%	21%	21%
UBS	Banks	UBSN.VX	19%	-45%	25%	17%	-5%	33%	15%	15%
Vontobel	Diversified Financials	VONN.S	14%	17%	18%	9%	15%	15%	16%	16%
Zurich Airport	Transportation	FHZN.S	20%	21%	18%	20%	20%	20%	21%	21%
Zurich Financial Services AG	Insurance	ZURN.VX	31%	24%	-17%	29%	28%	23%	29%	28%
Average			**21%**	**18%**	**23%**	**17%**	**27%**	**20%**	**19%**	**20%**
Median			**21%**	**20%**	**19%**	**19%**	**21%**	**20%**	**21%**	**21%**

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Guernsey. [2]Tax domicile United States.

Figure 106. Tax rates of UK coverage universe (part 1)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
3i Group Plc	Diversified Financials	III.L	0%	1%	-0%	3%	2%	7%	-1%	1%
3i Infrastructure Plc[1]	Infrastructure	3IN.L				0%	0%	0%	0%	0%
Aberdeen Asset Management	Diversified Financials	ADN.L	19%	-29%	23%	36%	15%	14%	26%	26%
Admiral Group	Insurance	ADML.L	30%	30%	28%	27%	27%	28%	28%	28%
Aegis Group PLC	Media	AEGS.L	30%	31%	29%	30%	39%	31%	30%	27%
Afren	Oil & Gas	AFRE.L	0%	0%	-1%	981%	47%	-278%	39%	49%
African Barrick Gold Plc	Metals & Mining	ABGL.L		-349%	-13%	56%	28%	11%	30%	30%
Aggreko PLC	Business Services	AGGK.L	37%	35%	35%	31%	30%	33%	29%	28%
AMEC	Oil & Gas	AMEC.L	8%	20%	32%	24%	9%	24%	23%	24%
Amlin Plc	Insurance	AML.L	22%	21%	34%	11%	14%	18%	18%	18%
Anglo American PLC	Metals & Mining	AAL.L	28%	31%	33%	28%	28%	29%	26%	29%
Antofagasta PLC	Metals & Mining	ANTO.L	23%	23%	20%	22%	29%	24%	32%	29%
Aquarius Platinum Ltd[2]	Metals & Mining	AQP.L	24%	32%	16%	52%	141%	34%	28%	28%
ARM Holdings PLC	Tech Equipment	ARM.L	14%	22%	31%	14%	22%	21%	26%	24%
Ashmore Group	Diversified Financials	ASHM.L	30%	28%	28%	26%	23%	26%	25%	24%
ASOS Plc	General Retail	ASOS.L	28%	31%	29%	28%	31%	29%	34%	26%
Associated British Foods PLC	Food Products & Producers	ABF.L	27%	22%	27%	23%	26%	25%	29%	29%
AstraZeneca PLC	Pharma	AZN.L	29%	30%	29%	30%	26%	29%	19%	25%
AVEVA Plc	Tech Equipment	AVV.L	28%	24%	29%	33%	31%	29%	30%	28%
Aviva PLC	Insurance	AV.L	33%	16%	120%	28%	35%	16%	26%	24%
Babcock	Business Services	BAB.L	19%	18%	18%	16%	10%	16%	18%	22%
BAE Systems	Aerospace & Defence	BAES.L	28%	30%	27%	414%	32%	34%	28%	30%
Balfour Beatty	Engineering	BALF.L	46%	-12%	35%	28%	39%	28%	28%	33%
Barclays PLC	Banks	BARC.L	27%	28%	13%	24%	25%	24%	34%	27%
Barratt Developments	Building Materials & Housebuilders	BDEV.L	30%	36%	31%	28%	-20%	26%	27%	26%
BBA Aviation	Transportation	BBA.L	29%	21%	26%	25%	24%	25%	30%	31%
Bellway PLC	Building Materials & Housebuilders	BWY.L	29%	21%	26%	19%	25%	26%	26%	25%
Berendsen	Business Services	BRSN.L	29%	19%	30%	26%	35%	27%	27%	27%
Berkeley Group Holdings PLC	Building Materials & Housebuilders	BKGH.L	29%	29%	28%	28%	31%	29%	31%	28%
BG Group	Oil & Gas	BG.L	46%	43%	44%	44%	40%	43%	44%	45%
BHP Billiton PLC	Metals & Mining	BLT.L	34%	32%	45%	34%	23%	31%	31%	31%
Big Yellow	Real Estate	BYG.L	-40%	-1%	-2%	0%	0%	-30%	-3%	-1%
Blinkx Plc	Media	BLNX.L		2%	5%	4%	-24%	11%	30%	33%
Bodycote PLC	Engineering	BOY.L	6%	21%	31%	6%	26%	17%	27%	28%
Booker	Food Retail	BOK.L	59%	18%	17%	17%	17%	22%	19%	21%
Bovis Homes Group PLC	Building Materials & Housebuilders	BVS.L	30%	30%	25%	27%	24%	31%	27%	28%
Bowleven	Oil & Gas	BLVN.L	0%	0%	0%	0%	0%	0%	0%	0%
BP	Oil & Gas	BP.L	40%	38%	41%	39%	16%	43%	35%	35%
British American Tobacco PLC	Tobacco & Beverages	BATS.L	31%	30%	32%	31%	33%	32%	28%	27%
British Land	Real Estate	BLND.L	-103%	4%	1%	-2%	-2%	36%	2%	2%
British Sky Broadcasting	Media	BSY.L	32%	416%	45%	26%	26%	35%	26%	25%
Britvic	Tobacco & Beverages	BVIC.L	34%	24%	39%	29%	-67%	46%	26%	26%
BT Group PLC	Telecoms Services	BT.L	-15%	12%	25%	-2%	13%	0%	20%	23%
Bunzl PLC	Building Materials & Housebuilders	BNZL.L	32%	32%	31%	31%	29%	31%	28%	29%
Burberry Group PLC	Luxury	BRBY.L	29%	31%	68%	50%	28%	33%	27%	27%
Cable & Wireless Worldwide PLC	Telecoms Services	CWP.L	6%	-12%	-367%	101%	-49%	505%	-0%	0%
Cable and Wireless Communications Plc	Telecoms Services	CWC.L	17%	20%	9%	34%	27%	22%	27%	25%
Capita Group PLC	Business Services	CPI.L	28%	27%	27%	27%	24%	26%	27%	27%
Capital & Counties	Real Estate	CAPCC.L		30%	3%	-1%	1%	3%	6%	8%
Carillion	Engineering	CLLN.L	11%	14%	6%	14%	12%	12%	16%	17%
Carphone Warehouse	General Retail	CPW.L	25%	25%	13%	-0%	200%	-1%	2%	3%
Catlin Group Ltd[2]	Insurance	CGL.L	6%	11%	77%	8%	6%	8%	13%	13%
Centamin Egypt Limited[3]	Metals & Mining	CEY.L	0%	0%	10%	1%	0%	0%	0%	0%

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Jersey. [2]Tax domicile Bermuda. [3]Tax domicile Australia.

Figure 107. Tax rates of UK coverage universe (part 2)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Centrica PLC	Utilities	CNA.L	391%	39%	136%	35%	33%	45%	42%	43%
Charter International PLC[1]	Engineering	CHTR.L	12%	19%	20%	20%	18%	18%	20%	19%
Chemring Group	Aerospace & Defence	CHG.L	31%	32%	29%	27%	25%	28%	26%	26%
Cobham	Aerospace & Defence	COB.L	28%	28%	24%	25%	20%	25%	25%	25%
Compass Group	Leisure	CPG.L	19%	29%	30%	29%	27%	27%	26%	26%
Cookson Group PLC	Engineering	CKSN.L	42%	29%	45%	-93%	20%	36%	26%	27%
Cove Energy	Oil & Gas	COVE.L	0%	0%	0%	0%	0%	0%	0%	0%
CPP Group	Business Services	CPPG.L		29%	32%	31%	31%	31%	31%	31%
Croda International PLC	Chemicals	CRDA.L	63%	34%	32%	36%	33%	35%	33%	32%
CSR Plc	Tech Equipment	CSR.L	28%	28%	-8%	21%	391%	20%	15%	19%
Daily Mail & General Trust PLC	Media	DMGOa.L	20%	14%	118%	24%	-26%	-104%	29%	28%
De La Rue	Business Services	DLAR.L	32%	32%	33%	29%	7%	28%	26%	25%
Debenhams Plc	General Retail	DEB.L	30%	27%	21%	31%	27%	27%	25%	24%
Derwent London	Real Estate	DLN.L	25%	202%	2%	28%	0%	108%	0%	0%
Diageo	Tobacco & Beverages	DGE.L	35%	27%	16%	23%	16%	23%	20%	20%
Dixons Retail PLC	General Retail	DXNS.L	69%	-33%	-39%	42%	-9%	-77%	49%	49%
Domino Printing Sciences	Tech Equipment	DOPR.L	28%	30%	34%	31%	29%	30%	30%	29%
Drax Group Plc	Utilities	DRX.L	27%	21%	25%	30%	26%	25%	26%	25%
Dunelm	General Retail	DNLM.L	35%	31%	30%	29%	28%	30%	27%	26%
easyJet	Transportation	EZJ.L	27%	25%	25%	-30%	21%	20%	34%	33%
Electrocomponents	Business Services	ECM.L	34%	33%	31%	31%	31%	32%	31%	30%
EnQuest	Oil & Gas	ENQ.L					51%	51%	91%	72%
Enterprise Inns	Leisure	ETI.L	22%	14%	10%	45%	184%	11%	27%	26%
European Goldfields Limited[2]	Metals & Mining	EGUq.L	40%	16%	143%	-41%	-1%	13%	2%	22%
Experian[1]	Business Services	EXPN.L	21%	19%	16%	3%	19%	15%	29%	27%
F&C Asset Management Plc	Diversified Financials	FCAM.L	26%	28%	25%	-115%	30%	41%	28%	27%
Fenner	Engineering	FENR.L	30%	29%	29%	18%	29%	29%	31%	31%
Ferrexpo PLC[3]	Metals & Mining	FXPO.L	18%	17%	17%	12%	15%	16%	18%	20%
Filtrona PLC	Chemicals	FLTR.L	34%	34%	34%	37%	31%	34%	30%	29%
First Quantum Minerals Ltd[2]	Metals & Mining	FQM.L	26%	22%	63%	27%	112%	41%	42%	45%
Firstgroup PLC	Transportation	FGP.L	27%	12%	22%	18%	13%	19%	132%	35%
Fresnillo Plc[4]	Metals & Mining	FRES.L	30%	32%	43%	22%	27%	28%	28%	25%
G4S	Business Services	GFS.L	29%	26%	27%	25%	23%	26%	26%	25%
Gem Diamonds	Metals & Mining	GEMD.L	90%	40%	4%	28%	33%	-13%	34%	32%
GKN Plc	Autos & Auto Parts	GKN.L	3%	1%	7%	20%	6%	0%	14%	18%
GlaxoSmithKline PLC	Pharma	GSK.L	30%	29%	29%	28%	42%	30%	30%	27%
Glencore[3]	Metals & Mining	GLEN.L			18%	19%	-38%	38%	3%	11%
Go Ahead Group	Transportation	GOG.L	25%	26%	56%	30%	12%	26%	25%	25%
Grainger	Real Estate	GRI.L	30%	45%	59%	29%	32%	37%	25%	24%
Great Portland	Real Estate	GPOR.L	-20%	-15%	0%	0%	1%	-24%	1%	0%
Greene King	Leisure	GNK.L	26%	16%	27%	22%	9%	19%	25%	24%
Greggs	Food Products & Producers	GRG.L	33%	29%	31%	30%	28%	30%	26%	26%
Gulfsands Petroleum	Oil & Gas	GPX.L	73%	49%	17%	0%	-0%	2%	0%	0%
Halfords Group Plc	General Retail	HFD.L	29%	29%	28%	30%	28%	29%	27%	26%
Halma	Tech Equipment	HLMA.L	30%	29%	28%	26%	26%	27%	24%	24%
Hammerson	Real Estate	HMSO.L	-30%	-1%	2%	23%	0%	69%	0%	0%
Hansteen	Real Estate	HSTN.L	31%	33%	2%	43%	8%	-47%	11%	12%
Hargreaves Lansdown PLC	Diversified Financials	HRGV.L	30%	30%	29%	29%	27%	29%	26%	25%
Hays	Business Services	HAYS.L	30%	29%	30%	78%	29%	31%	33%	33%
Helical Bar	Real Estate	HLCL.L	15%	49%	25%	-41%	26%	54%	10%	10%
Henderson Group Plc	Diversified Financials	HGGH.L	15%	10%	-22%	6%	-1%	10%	-71%	24%
Heritage Oil[5]	Oil & Gas	HOIL.L	0%	0%	0%	0%	-0%	-0%	0%	0%
Hiscox Ltd[6]	Insurance	HSX.L	19%	19%	33%	13%	15%	18%	15%	15%
HMV Group PLC	General Retail	HMV.L	25%	28%	28%	29%	161%	30%	-8%	26%
Hochschild Mining Plc[7]	Metals & Mining	HOCM.L	45%	31%	130%	31%	24%	31%	33%	32%

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Ireland. [2]Tax domicile Canada. [3]Tax domicile Switzerland. [4]Tax domicile Mexico. [5]Tax domicile Jersey. [6]Tax domicile Bermuda. [7]Tax domicile Peru.

Figure 108. Tax rates of UK coverage universe (part 3)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Home Retail Group	General Retail	HOME.L	37%	31%	-5%	28%	28%	47%	27%	25%
HomeServe	Business Services	HSV.L	32%	32%	-54%	30%	28%	37%	25%	25%
Howdens	Building Materials & Housebuilders	HWDN.L	79%	-20%	31%	27%	34%	28%	31%	31%
HSBC Holdings PLC	Banks	HSBA.L	25%	17%	37%	7%	29%	23%	18%	22%
ICAP PLC	Diversified Financials	IAP.L	42%	40%	35%	35%	21%	35%	38%	37%
IG Group	Diversified Financials	IGG.L	31%	31%	29%	28%	459%	36%	26%	25%
IMI PLC	Engineering	IMI.L	31%	31%	34%	29%	30%	31%	29%	28%
Imperial Tobacco Group PLC	Tobacco & Beverages	IMT.L	26%	29%	28%	28%	16%	24%	29%	29%
Inchcape PLC	General Retail	INCH.L	18%	24%	50%	31%	30%	28%	26%	27%
Informa PLC[1]	Media	INF.L	22%	20%	21%	-10%	21%	15%	22%	23%
Inmarsat plc	Telecoms Services	ISA.L	-42%	23%	-84%	22%	22%	-3%	25%	25%
Intercontinental Hotels Group Plc	Leisure	IHG.L	-23%	5%	18%	425%	27%	-11%	27%	28%
Intermediate Capital Group	Diversified Financials	ICP.L	36%	33%	-10%	23%	31%	36%	34%	33%
International Personal Finance Plc	Diversified Financials	IPF.L	33%	31%	28%	26%	33%	30%	29%	28%
International Power	Utilities	IPR.L	36%	-16%	22%	15%	-2%	18%	23%	24%
Intertek	Business Services	ITRK.L	25%	25%	26%	27%	27%	26%	32%	29%
Invensys PLC	Engineering	ISYS.L	23%	15%	14%	15%	17%	16%	22%	24%
Investec PLC	Diversified Financials	INVP.L	26%	24%	23%	21%	13%	21%	20%	22%
ITV PLC	Media	ITV.L	24%	27%	7%	-216%	6%	6%	23%	23%
Jardine Lloyd Thompson Group PLC	Insurance	JLT.L	33%	24%	31%	29%	21%	27%	28%	29%
JD Wetherspoon	Leisure	JDW.L	24%	34%	44%	33%	24%	31%	29%	28%
Johnson Matthey PLC	Chemicals	JMAT.L	29%	29%	31%	28%	29%	29%	28%	28%
Johnston Press PLC	Media	JPR.L	27%	9%	15%	23%	-118%	23%	22%	23%
Jupiter Fund Management	Diversified Financials	JUP.L		24%	2%	-20%	23%	24%	26%	25%
Keller Group	Engineering	KLR.L	32%	35%	32%	30%	35%	33%	27%	27%
Kesa Electricals PLC	General Retail	KESA.L	34%	37%	-37%	44%	54%	67%	35%	35%
Kingfisher PLC	General Retail	KGF.L	26%	33%	129%	34%	28%	33%	28%	28%
Ladbrokes	Leisure	LAD.L	20%	15%	16%	16%	-159%	-5%	15%	15%
Lamprell[2]	Oil & Gas	LAM.L	0%	0%	0%	0%	0%	0%	2%	3%
Lancashire Holdings[3]	Insurance	LRE.L	0%	0%	0%	1%	2%	1%	0%	0%
Land Securities	Real Estate	LAND.L	-86%	1%	-0%	-2%	-2%	89%	0%	0%
Legal & General	Insurance	LGEN.L	15%	10%	48%	32%	37%	8%	24%	24%
Lloyds Banking Group PLC	Banks	LLOY.L	32%	17%	-5%	-107%	146%	5%	18%	25%
London & Stamford	Real Estate	LSP.L		139%	113%	-2%	35%	5%	4%	3%
Lonmin PLC	Metals & Mining	LMI.L	32%	42%	27%	-19%	49%	44%	25%	25%
Man Group PLC	Diversified Financials	EMG.L	15%	18%	40%	20%	20%	21%	17%	17%
Marks and Spencer Group PLC	General Retail	MKS.L	30%	27%	28%	26%	23%	27%	25%	24%
Marshalls PLC	Building Materials & Housebuilders	MSLH.L	30%	28%	-38%	68%	20%	31%	12%	20%
Marston's	Leisure	MARS.L	28%	13%	19%	23%	10%	19%	23%	24%
Meggitt Plc	Aerospace & Defence	MGGT.L	26%	15%	17%	23%	20%	21%	25%	25%
Metric Property	Real Estate	METP.L					2%	2%	0%	0%
Michael Page Group	Business Services	MPI.L	33%	31%	30%	41%	33%	32%	33%	33%
Micro Focus International Plc	Tech Equipment	MCRO.L	27%	28%	28%	22%	16%	23%	26%	26%
Mitchells & Butlers	Leisure	MAB.L	11%	79%	26%	140%	34%	65%	27%	26%
MITIE	Business Services	MTO.L	31%	30%	28%	28%	25%	28%	24%	25%
Morgan Crucible Co PLC	Engineering	MGCR.L	20%	21%	25%	28%	29%	24%	30%	30%
Morrison (Wm)	Food Retail	MRW.L	33%	9%	30%	30%	28%	26%	29%	28%
N Brown	General Retail	BWNG.L	28%	28%	33%	27%	24%	28%	24%	24%
National Express Group PLC	Transportation	NEX.L	18%	25%	-21%	32%	-56%	-2%	18%	20%
National Grid PLC	Utilities	NG.L	25%	28%	34%	37%	18%	28%	29%	28%
New World Resources[4]	Metals & Mining	NWRR.L		20%	26%	-10%	12%	23%	24%	19%
Next Group PLC	General Retail	NXT.L	31%	29%	30%	28%	27%	29%	26%	25%
Nyrstar NV	Metals & Mining	NYR.BR		-18%	2%	24%	19%	3%	19%	22%
Paddy Power[5]	Leisure	PAP.L	17%	17%	16%	13%	13%	15%	14%	15%
Pearson PLC	Media	PSON.L	2%	29%	31%	31%	23%	24%	23%	26%

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Switzerland. [2]Tax domicile UAE. [3]Tax domicile Bermuda. [4]Tax domicile Netherlands. [5]Tax domicile Ireland.

Figure 109. Tax rates of UK coverage universe (part 4)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
Pennon Group PLC	Utilities	PNN.L	28%	11%	43%	24%	9%	23%	19%	19%
Persimmon PLC	Building Materials & Housebuilders	PSN.L	30%	29%	20%	5%	25%	38%	27%	27%
Petrofac	Oil & Gas	PFC.L	30%	27%	26%	19%	17%	21%	19%	20%
Petropavlovsk PLC	Metals & Mining	POG.L	29%	27%	42%	27%	64%	36%	25%	28%
Premier Farnell	Business Services	PFL.L	32%	28%	28%	28%	28%	29%	28%	29%
Premier Foods	Food Products & Producers	PFD.L	19%	51%	8%	15%	12%	13%	-7%	-31%
Premier Oil	Oil & Gas	PMO.L	50%	73%	65%	-41%	-29%	36%	-3%	44%
Provident Financial PLC	Diversified Financials	PFG.L	31%	30%	28%	30%	29%	29%	26%	25%
Prudential Plc	Insurance	PRU.L	58%	34%	81%	56%	31%	30%	27%	29%
Punch Taverns	Leisure	PUB.L	9%	19%	56%	-0%	-7%	28%	27%	26%
QinetiQ	Aerospace & Defence	QQ.L	22%	7%	17%	4%	82%	28%	20%	20%
Randgold Resources Ltd[1]	Metals & Mining	RRS.L	31%	32%	34%	20%	17%	24%	11%	13%
Reckitt Benckiser	Household & Personal Care	RB.L	23%	22%	24%	25%	26%	25%	28%	26%
Redrow PLC	Building Materials & Housebuilders	RDW.L	30%	29%	29%	29%	47%	26%	28%	28%
Reed Elsevier PLC	Media	REL.L	-67%	-158%	-55%	-50%	-7%	-65%	20%	23%
Regus[2]	Business Services	RGU.L	-6%	13%	23%	23%	91%	16%	20%	26%
Renishaw	Tech Equipment	RSW.L	23%	20%	24%	22%	20%	21%	22%	23%
Rentokil	Business Services	RTO.L	23%	22%	32%	26%	335%	31%	24%	28%
Resolution[3]	Insurance	RSL.L			0%	-2%	14%	5%	28%	24%
Rexam PLC	Business Services	REX.L	28%	33%	29%	50%	31%	29%	32%	30%
Rio Tinto PLC	Metals & Mining	RIO.L	27%	25%	46%	29%	27%	30%	30%	33%
Rolls Royce	Aerospace & Defence	RR.L	30%	20%	28%	26%	26%	25%	25%	25%
Rotork	Engineering	ROR.L	32%	31%	29%	30%	29%	30%	29%	29%
Royal Bank of Scotland Group PLC	Banks	RBS.L	29%	21%	6%	14%	-159%	-11%	194%	32%
Royal Dutch Shell[4]	Oil & Gas	RDSa.L	41%	37%	48%	39%	42%	42%	48%	50%
RSA Insurance Group	Insurance	RSA.L	26%	4%	22%	24%	25%	20%	24%	24%
SABMiller	Tobacco & Beverages	SAB.L	35%	33%	33%	41%	41%	37%	27%	27%
Safestore	Real Estate	SAFE.L	26%	25%	16%	97%	10%	19%	-5%	-9%
Sage Group PLC	Tech Equipment	SGE.L	31%	31%	31%	29%	29%	30%	29%	28%
Sainsbury	Food Retail	SBRY.L	32%	31%	31%	25%	24%	28%	26%	26%
Salamander Energy	Oil & Gas	SMDR.L	-35%	75%	12%	-357%	-49%	-41%	75%	65%
Schroders PLC	Diversified Financials	SDR.L	25%	24%	44%	34%	24%	27%	24%	25%
SEGRO	Real Estate	SGRO.L	-34%	1%	0%	6%	-7%	42%	134%	-14%
Senior	Engineering	SNR.L	16%	19%	24%	21%	22%	21%	25%	24%
Serco	Business Services	SRP.L	26%	28%	27%	26%	27%	27%	28%	27%
Severn Trent PLC	Utilities	SVT.L	24%	-9%	133%	25%	-9%	27%	14%	14%
Shaftesbury	Real Estate	SHB.L	27%	-113%	2%	-1%	3%	-44%	1%	1%
Shire Pharmaceuticals[5]	Pharma	SHP.L	92%	-172%	37%	22%	24%	26%	23%	23%
SIG PLC	Building Materials & Housebuilders	SHI.L	30%	30%	79%	18%	5%	65%	57%	29%
Signet Jewelers Ltd[6]	General Retail	SIG.L	35%	35%	-21%	32%	33%	53%	35%	36%
Smith & Nephew PLC	MedTech	SN.L	28%	33%	33%	30%	31%	31%	31%	32%
Smith WH PLC	General Retail	SMWH.L	21%	22%	22%	22%	22%	22%	19%	20%
Smiths Group	Engineering	SMIN.L	21%	23%	26%	21%	23%	23%	30%	30%
Soco International	Oil & Gas	SIA.L	40%	43%	18%	45%	60%	42%	51%	50%
Spectris	Tech Equipment	SXS.L	28%	27%	24%	21%	20%	24%	25%	29%
Spirax-Sarco	Engineering	SPX.L	33%	32%	31%	32%	30%	31%	31%	31%
Spirent Communications Plc	Telecoms Equipment	SPT.L	-2%	-43%	-51%	-7%	30%	-10%	31%	32%
Spirit Pub Company	Consumer Services	SPRTC.L		21%	18%	12%	28%	20%	26%	25%
Sports Direct International Plc	General Retail	SPD.L	41%	36%	320%	27%	30%	38%	29%	29%
SSE PLC	Utilities	SSE.L	27%	22%	208%	26%	30%	26%	21%	21%
St Modwen	Real Estate	SMP.L	24%	7%	35%	18%	-3%	-32%	15%	15%
Stagecoach Group PLC	Transportation	SGC.L	26%	-44%	26%	18%	21%	10%	21%	21%
Standard Chartered PLC	Banks	STAN.L	26%	26%	27%	32%	28%	28%	30%	29%
Standard Life PLC	Insurance	SL.L	51%	10%	85%	63%	53%	36%	20%	20%
Synergy Health Plc	MedTech	SYR.L	28%	20%	22%	10%	22%	19%	24%	24%

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile Jersey. [2]Tax domicile Luxembourg. [3]Tax domicile Guernsey. [4]Tax domicile Netherlands. [5]Tax domicile Ireland. [6]Tax domicile Bermuda

Figure 110. Tax rates of UK coverage universe (part 5)

Name	Sector	RIC	2006	2007	2008	2009	2010	Average	2011E	2012E
TalkTalk Telecom Group PLC	Telecoms Services	TALK.L	27%	27%	45%	127%	38%	23%	33%	37%
Tate and Lyle	Food Products & Producers	TATE.L	36%	44%	17%	138%	20%	22%	16%	18%
Taylor Wimpey PLC	Building Materials & Housebuilders	TW.L	30%	-413%	4%	8%	407%	7%	30%	28%
Telecity Group Plc	Tech Equipment	TCY.L	0%	-1%	-27%	9%	17%	8%	27%	27%
Tesco	Food Retail	TSCO.L	31%	25%	28%	27%	25%	27%	26%	25%
The Restaurant Group	Leisure	RTN.L	49%	31%	32%	23%	29%	31%	29%	28%
Thomas Cook Group	Leisure	TCG.L	23%	21%	10%	63%	101%	31%	41%	41%
Travis Perkins PLC	Building Materials & Housebuilders	TPK.L	28%	29%	30%	26%	28%	28%	28%	27%
Trinity Mirror PLC	Media	TNI.L	27%	-226%	20%	31%	8%	-155%	35%	35%
TUI Travel Plc	Leisure	TT.L		55%	0%	69%	-152%	-39%	32%	34%
Tullet Prebon	Diversified Financials	TLPR.L	33%	35%	32%	30%	24%	30%	29%	30%
Tullow Oil	Oil & Gas	TLW.L	40%	54%	24%	9%	52%	37%	14%	40%
UBM plc	Media	UBM.L	-11%	17%	19%	312%	14%	-18%	16%	16%
Unite	Real Estate	UTG.L	-26%	38%	11%	3%	-264%	28%	5%	7%
United Utilities PLC	Utilities	UU.L	27%	13%	66%	15%	-8%	26%	12%	11%
Valiant Petroleum	Oil & Gas	VPP.L	0%	0%	33%	-51%	34%	211%	61%	62%
Vectura	Pharma	VEC.L	21%	10%	15%	26%	34%	20%	20%	0%
Vedanta Resources Plc	Metals & Mining	VED.L	27%	27%	24%	18%	24%	24%		
Victrex PLC	Chemicals	VCTX.L	31%	30%	29%	29%	28%	29%	27%	27%
Virgin Media[1]	Telecoms Services	VMED.O	2%	-1%	1%	1%	39%	6%	22%	0%
Vodafone Group PLC	Telecoms Services	VOD.L	-48%	36%	734%	1%	37%	78%	16%	21%
Weir Group PLC	Engineering	WEIR.L	24%	29%	30%	28%	28%	28%	28%	28%
Whitbread PLC	Leisure	WTB.L	39%	38%	54%	23%	18%	34%	25%	27%
William Hill	Leisure	WMH.L	30%	25%	20%	33%	20%	24%	19%	20%
Wolfson	Tech Equipment	WLF.L	29%	28%	28%	31%	41%	25%	27%	26%
Wolseley PLC[2]	Building Materials & Housebuilders	WOS.L	25%	49%	5%	-12%	28%	332%	27%	26%
Workspace	Real Estate	WKP.L	-73%	7%	0%	9%	-1%	44%	0%	0%
WPP PLC[3]	Media	WPP.L	31%	30%	33%	26%	24%	29%	26%	26%
WS Atkins	Business Services	ATKW.L	305%	26%	18%	20%	20%	25%	23%	23%
Xchanging plc	Business Services	XCH.L	30%	37%	28%	33%	-22%	80%	32%	32%
Xstrata PLC	Metals & Mining	XTA.L	40%	28%	25%	36%	25%	29%	26%	26%
Yell Group PLC	Media	YELL.L	13%	33%	-11%	33%	30%	-85%	31%	31%
Zanaga Iron Ore Company[4]	Metals & Mining	ZIOC.L					0%	0%	0%	0%
Average			**24%**	**19%**	**25%**	**28%**	**26%**	**24%**	**24%**	**24%**
Median			**28%**	**27%**	**27%**	**26%**	**24%**	**26%**	**26%**	**26%**

Source: dataCentral, DataStream, Reuters, Company annual reports, CIRA. [1]Tax domicile United States. [2]Tax domicile Switzerland. [3]Tax domicile Ireland. [4]Tax domicile British Virgin Islands.

Appendix 5: Deferred tax screens

We have screened the CIRA European coverage universe to compare both gross and net DTAs with market cap. The gross DTA is the DTA figure on balance sheet (which may be after some netting of DTLs permitted by IAS 12). The net DTA is the DTA on balance sheet less the DTL on balance sheet. The results are shown in Figure 111 and Figure 112.

Figure 111. Stocks with greatest gross DTAs compared to market cap (m)

Name	RIC	Sector	Country	Curr	Market cap	Gross DTAs	Gross DTAs % mtk cap
Grupo Prisa	PRS.MC	Media	Spain	EUR	413	1,046	253%
Banco Popolare	BAPO.MI	Banks	Italy	EUR	1,635	2,414	148%
Piraeus Bank SA	BOPr.AT	Banks	Greece	EUR	340	417	123%
Banca Monte dei Paschi di Siena SpA	BMPS.MI	Banks	Italy	EUR	3,688	4,114	112%
ATEbank	AGBr.AT	Banks	Greece	EUR	442	442	100%
Banco BPI	BBPI.LS	Banks	Portugal	EUR	488	427	87%
UniCredit Group	CRDI.MI	Banks	Italy	EUR	15,310	11,286	74%
Air France-KLM	AIRF.PA	Transportation	France	EUR	1,288	933	72%
KBC	KBC.BR	Banks	Belgium	EUR	3,582	2,367	66%
Banca Popolare di Milano	PMII.MI	Banks	Italy	EUR	737	420	57%
PGS	PGS.OL	Oil & Gas	Norway	USD	2,296	1,228	53%
Natixis	CNAT.PA	Banks	France	EUR	6,568	3,361	51%
Commerzbank	CBKG.DE	Banks	Germany	EUR	7,665	3,567	47%
Credit Agricole SA	CAGR.PA	Banks	France	EUR	11,990	5,220	44%
Scandinavian Airlines System	SAS.ST	Transportation	Sweden	SEK	2,747	1,187	43%
Eiffage	FOUG.PA	Infrastructure	France	EUR	1,592	683	43%
Banesto	BTO.MC	Banks	Spain	EUR	2,558	1,051	41%
Dixons Retail PLC	DXNS.L	General Retail	UK	GBP	415	163	39%
Unione Banche Italiane	UBI.MI	Banks	Italy	EUR	2,745	1,073	39%
Veolia Environnement	VIE.PA	Utilities	France	EUR	4,892	1,786	37%
Munich Re	MUVGn.DE	Insurance	Germany	EUR	17,005	5,959	35%
Finmeccanica	SIFI.MI	Aerospace & Defence	Italy	EUR	1,876	656	35%
Fiat SpA	FIA.MI	Autos & Auto Parts	Italy	EUR	4,855	1,678	35%
Banco Santander	SAN.MC	Banks	Spain	EUR	49,553	17,089	34%
Credit Suisse	CSGN.VX	Banks	Switzerland	CHF	27,513	9,417	34%
Societe Generale	SOGN.PA	Banks	France	EUR	14,672	4,867	33%
Alcatel-Lucent	ALUA.PA	Telecoms Equipment	France	EUR	2,968	948	32%
Ferrovial	FER.MC	Infrastructure	Spain	EUR	6,748	2,068	31%
Deutsche Bank	DBKGn.DE	Banks	Germany	EUR	27,959	8,341	30%
Taylor Wimpey PLC	TW.L	Building Materials & Housebuilders	UK	GBP	1,262	372	29%
Sacyr	SVO.MC	Infrastructure	Spain	EUR	1,902	540	28%
Intesa Sanpaolo	ISP.MI	Banks	Italy	EUR	21,059	5,974	28%
Atlantia	ATL.MI	Infrastructure	Italy	EUR	7,425	2,102	28%
Swiss Re	SRENH.VX	Insurance	Switzerland	USD	19,482	5,421	28%
Gamesa	GAM.MC	Utilities	Spain	EUR	830	222	27%
Royal Bank of Scotland Group PLC	RBS.L	Banks	UK	GBP	23,988	6,373	27%
Banco de Sabadell SA	SABE.MC	Banks	Spain	EUR	3,549	923	26%
National Bank of Greece SA	NBGr.AT	Banks	Greece	EUR	1,855	471	25%
Realia Business SA	RLIA.MC	Infrastructure	Spain	EUR	377	92	24%
Sonaecom	SNC.LS	Telecoms Services	Portugal	EUR	452	110	24%
BNP Paribas SA	BNPP.PA	Banks	France	EUR	38,165	9,242	24%
Lloyds Banking Group PLC	LLOY.L	Banks	UK	GBP	17,475	4,164	24%
EADS	EAD.PA	Aerospace & Defence	Netherlands	EUR	17,987	4,250	24%
FCC	FCC.MC	Infrastructure	Spain	EUR	2,573	599	23%
ArcelorMittal	ISPA.AS	Metals & Mining	Netherlands	USD	29,760	6,603	23%
Almirall S.A.	ALM.MC	Pharma	Spain	EUR	852	189	22%
UBS	UBSN.VX	Banks	Switzerland	CHF	43,532	9,522	22%
CIR – Compagnie Industriali Riunite SpA	CIRX.MI	Engineering	Italy	EUR	998	218	22%
Public Power Corp.	DEHr.AT	Utilities	Greece	EUR	1,030	217	21%
Capgemini SA	CAPP.PA	Business Services	France	EUR	4,309	891	21%

Source: DataStream, dataCentral, CIRA. Market cap as of 2 December 2011, tax information as of last annual report.

Figure 112. Stocks with greatest net DTAs compared to market cap (m)

Name	RIC	Sector	Country	Curr	Market cap	Net DTAs	Net DTAs % mtk cap
Grupo Prisa	PRS.MC	Media	Spain	EUR	413	1,017	246%
Banco Popolare	BAPO.MI	Banks	Italy	EUR	1,635	1,841	113%
Banca Monte dei Paschi di Siena SpA	BMPS.MI	Banks	Italy	EUR	3,688	4,009	109%
ATEbank	AGBr.AT	Banks	Greece	EUR	442	442	100%
Banco BPI	BBPI.LS	Banks	Portugal	EUR	488	396	81%
Piraeus Bank SA	BOPr.AT	Banks	Greece	EUR	340	256	75%
KBC	KBC.BR	Banks	Belgium	EUR	3,582	2,244	63%
PGS	PGS.OL	Oil & Gas	Norway	USD	2,296	1,107	48%
Natixis	CNAT.PA	Banks	France	EUR	6,568	3,049	46%
UniCredit Group	CRDI.MI	Banks	Italy	EUR	15,310	6,914	45%
Commerzbank	CBKG.DE	Banks	Germany	EUR	7,665	3,345	44%
Banca Popolare di Milano	PMII.MI	Banks	Italy	EUR	737	299	41%
Banesto	BTO.MC	Banks	Spain	EUR	2,558	990	39%
Dixons Retail PLC	DXNS.L	General Retail	UK	GBP	415	145	35%
Credit Agricole SA	CAGR.PA	Banks	France	EUR	11,990	4,000	33%
Air France-KLM	AIRF.PA	Transportation	France	EUR	1,288	422	33%
Credit Suisse	CSGN.VX	Banks	Switzerland	CHF	27,513	9,005	33%
Fiat SpA	FIA.MI	Autos & Auto Parts	Italy	EUR	4,855	1,543	32%
Societe Generale	SOGN.PA	Banks	France	EUR	14,672	4,337	30%
Taylor Wimpey PLC	TW.L	Building Materials & Housebuilders	UK	GBP	1,262	371	29%
Atlantia	ATL.MI	Infrastructure	Italy	EUR	7,425	2,068	28%
Banco Santander	SAN.MC	Banks	Spain	EUR	49,553	12,777	26%
Sonaecom	SNC.LS	Telecoms Services	Portugal	EUR	452	109	24%
Banco de Sabadell SA	SABE.MC	Banks	Spain	EUR	3,549	825	23%
Lloyds Banking Group PLC	LLOY.L	Banks	UK	GBP	17,475	3,917	22%
UBS	UBSN.VX	Banks	Switzerland	CHF	43,532	9,425	22%
Deutsche Bank	DBKGn.DE	Banks	Germany	EUR	27,959	6,034	22%
Gamesa	GAM.MC	Utilities	Spain	EUR	830	173	21%
BNP Paribas SA	BNPP.PA	Banks	France	EUR	38,165	7,601	20%
Unione Banche Italiane	UBI.MI	Banks	Italy	EUR	2,745	521	19%
National Bank of Greece SA	NBGr.AT	Banks	Greece	EUR	1,855	352	19%
Royal Bank of Scotland Group PLC	RBS.L	Banks	UK	GBP	23,988	4,231	18%
Realia Business SA	RLIA.MC	Infrastructure	Spain	EUR	377	66	17%
Redrow PLC	RDW.L	Building Materials & Housebuilders	UK	GBP	356	62	17%
EADS	EAD.PA	Aerospace & Defence	Netherlands	EUR	17,987	3,055	17%
Mediaset SpA	MS.MI	Media	Italy	EUR	2,587	436	17%
Capgemini SA	CAPP.PA	Business Services	France	EUR	4,309	713	17%
Thales	TCFP.PA	Aerospace & Defence	France	EUR	4,694	760	16%
Intesa Sanpaolo	ISP.MI	Banks	Italy	EUR	21,059	3,366	16%
Alstom	ALSO.PA	Engineering	France	EUR	7,560	1,199	16%
RHI	RHIV.VI	Engineering	Austria	EUR	605	95	16%
WS Atkins	ATKW.L	Business Services	UK	GBP	631	93	15%
Barratt Developments	BDEV.L	Building Materials & Housebuilders	UK	GBP	978	143	15%
Fiat Industrial	FI.MI	Engineering	Italy	EUR	8,138	1,159	14%
BAE Systems	BAES.L	Aerospace & Defence	UK	GBP	8,842	1,154	13%
Raiffeisen Bank Intl	RBIV.VI	Banks	Austria	EUR	3,568	455	13%
OTE	OTEr.AT	Telecoms Services	Greece	EUR	1,544	194	13%
Banco Popular Espanol	POP.MC	Banks	Spain	EUR	4,651	582	13%
BBVA SA	BBVA.MC	Banks	Spain	EUR	31,635	3,945	12%
Almirall S.A.	ALM.MC	Pharma	Spain	EUR	852	106	12%

Source: DataStream, dataCentral, CIRA. Market cap as of 2 December 2011, tax information as of last annual report.

Appendix 6: CIRA Europe analysts

Figure 113. CIRA Europe Analysts *For Informational Purposes Only* (part 1)

Name	Tel. Number	Email	Name	Tel. Number	Email
UK/Pan–European Equity Strategy			**General Retail**		
Jonathan Stubbs[1]	+44 207 986 4218	jonathan.stubbs@citi.com	Richard Edwards[1]	+44 207 986 4006	richard.edwards@citi.com
Adrian Cattley[1]	+44 207 986 4454	adrian.cattley@citi.com	Ben Spruntulis[1]	+44 207 986 8139	ben.spruntulis@citi.com
Anna Esposito[1]	+44 207 986 4039	anna.z.esposito@citi.com	Simon Bowler[1]	+44 207 986 4112	simon.bowler@citi.com
András Vig[1]	+44 207 986 3940	andras.vig@citi.com	**Infrastructure**		
UK/Eurozone Economists			Mike Pinkney, CFA[1]	+34 91 538 4350	mike.pinkney@citi.com
Michael Saunders[1]	+44 207 986 3299	michael.saunders@citi.com	Sergio Fernandez[1]	+34 91 538 4037	sergio1.fernandez@citi.com
Jürgen Michels[1]	+44 207 986 3294	juergen.michels@citi.com	**Insurance**		
Guillaume Menuet[1]	+44 207 986 1314	guillaume.menuet@citi.com	Raghu Hariharan[1]	+44 207 986 3975	raghu.hariharan@citi.com
Giada Giani[1]	+44 207 986 3281	Giada.giani@citi.com	Paul Bradley[1]	+44 207 986 4032	paul.l.bradley@citi.com
Tina Mortensen[1]	+44 207 986 3284	Tina.mortensen@citi.com	Thomas Dorner[1]	+44 207 986 9929	thomas.dorner@citi.com
Ann O'Kelly[1]	+44 207 986 3297	Ann.okelly@citi.com	Indranil Talukdar[2]	+44 207 986 2672	Indranil.talukdar@citi.com
Aerospace & Defense			**Leisure**		
Jeremy Bragg[1]	+44 207 986 1089	jeremy.bragg@citi.com	James Ainley[1]	+44 20 7986 3935	james.ainley@citi.com
Devang Doshi[2]	+44 207 986 6108	devang1.doshi@citi.com	**Luxury Goods**		
Automobiles & Parts			Thomas Chauvet[1]	+44 207 986 4147	thomas.chauvet@citi.com
John Lawson[1]	+44 207 986 4095	john.lawson@citi.com	Kamal Suri[2]	+44 207 986 5107	kamal.suri@citi.com
Philip Watkins[1]	+44 207 986 3949	philip.watkins@citi.com	**Media**		
Kumar Saurabh[2]	+44 207 986 6230	kumar1.saurabh@citi.com	Thomas Singlehurst, CFA[1]	+44 207 986 4051	thomas.singlehurst@citi.com
Banks			Ruchi Malaiya, CFA[1]	+44 207 986 4819	ruchi.malaiya@citi.com
Ronit Ghose[1]	+44 207 986 4028	ronit.ghose@citi.com	Catherine O'Neill[1]	+44 207 986 8053	catherine.oneill@citi.com
Kinner Lakhani[1]	+44 207 986 4258	kinner.lakhani@citi.com	Pierre-Francois de Bernardi[1]	+44 207 986 4263	Pierrefrancois.debenardi@citi.com
Leigh Goodwin[1]	+44 207 986 4181	leigh.goodwin@citi.com	**Metals & Mining**		
Azzurra Guelfi[1]	+44 207 986 4174	azzurra.guelfi@citi.com	Heath Jansen[1]	+44 207 986 3921	heath.jansen@citi.com
Stefan Nedialkov[1]	+44 207 986 4188	stefan.nedialkov@citi.com	Anindya Mohinta[1]	+44 207 986 4210	anindya.mohinta@citi.com
Henrik Christiansson[1]	+44 207 986 4100	henrik.christiansson@citi.com	Jon H Bergtheil[1]	+44 207 986 4453	jon.bergtheil@citi.com
Andrew Coombs[1]	+44 207 986 4053	andrew.coombs@citi.com	Thomas O'Hara[1]	+44 207 986 4557	thomas.joseph.ohara@citi.com
Ignacio Moreno[1]	+44 207 986 4107	ignacio.moreno@citi.com	Michael E Flitton[1]	+44 207 986 3943	michael.flitton@citi.com
Sentoor Kanagasabapathy[1]	+44 207 986 4203	sentoor.kanagasabapathy@citi.com	Jatinder Goel, CFA[1]	+44 207 986 9924	jatinder.goel@citi.com
Florent Nitu[1]	+44 207 986 3907	florent.nitu@citi.com	**Oil & Gas**		
Ian Sealey[1]	+44 207 986 4294	ian.sealey@citi.com	Alastair Syme[1]	+44 207 986 4030	alastair.syme@citi.com
Alex Atienza[1]	+44 207 986 3985	alex.atienza@citi.com	Michael J Alsford[1]	+44 207 986 4426	michael.alsford@citi.com
Building Materials & Housebuilders			Ioanna Exarchou[1]	+44 207 986 5704	ioanna.exarchou@citi.com
Clyde Lewis[1]	+44 207 986 4272	Clyde.lewis@citi.com	Ryan W Kauppila[1]	+44 207 986 4467	ryan.kauppila@citi.com
Aynsley Lammin[1]	+44 207 986 4092	Aynsley.lammin@citi.com	Mukhtar Garadaghi[1]	+44 207 986 4417	mukhtar.garadaghi@citi.com
Ami Galla[2]	+91 22 4277 5070	Ami.galla@citi.com	Kapil Kandoi[2]	+44 207 986 4575	kapil.kandoi@citi.com
Business Services			**Pharmaceuticals & Medical Technology**		
Marc Van't Sant[1]	+44 207 986 4059	Marc.vantsant@citi.com	Andrew Baum, MD[1]	+44 207 986 4498	andrew.baum@citi.com
Ed Steele[1]	+44 207 986 2154	ed.steele@citi.com	Cora McCallum, CFA[1]	+44 20 7986 4047	cora.mccallum@citi.com
Shailja Periwal[2]	+44 207 986 8534	Shailja.periwal@citi.com	Liav Abraham[1]	+44 207 986 5592	liav.abraham@citi.com
Chemicals			Mark Dainty, ACA[1]	+44 207 986 4164	mark.dainty@citi.com
Andrew Benson[1]	+44 207 986 3925	andrew.benson@citi.com	Joanne Jerman[1]	+44 207 986 4207	joanne.jerman@citi.com
Dominik Frauendienst[1]	+44 207 986 4299	dominik.frauendienst@citi.com	Jonathan Beake[1]	+44 20 7986 5441	jonathan.beake@citi.com
Diversified Financials			Matthew Hartley[1]	+44 207 986 8562	matthew.hartley@citi.com
Haley Tam[1]	+44 20 7986 4220	haley.tam@citi.com	Ramaswamy Narayanan[2]	+44 207 986 3991	ramaswamy.narayanan@citi.com
Nese Guner[1]	+44 20 7986 4521	nese.guner@citi.com	Mehul Somaiya[2]	+44 20 7986 4035	mehul.somaiya@citi.com
Engineering			**Technology**		
Mark Fielding[1]	+44 207 986 4018	mark.fielding@citi.com	Gunnar Plagge[1]	+44 207 986 4234	Gunnar.plagge@citi.com
Natalia Mamaeva[1]	+44 207 986 4077	natalia.mamaeva@citi.com	Zahid Hussein[1]	+44 207 986 6333	Zahid.hussein@citi.com
Martti R Palosuo[1]	+44 207 986 4244	martti.rafael.palosuo@citi.com	Amit Harchandani[1]	+44 207 986 4246	Amit.harchandani@citi.com
Mallika Shah[2]	+44 207 986 7190	mallika.shah@citi.com	Robert Lamb[1]	+44 207 986 4319	Robert.lamb@citi.com
Bilal Aziz[1]	+44 207 986 4101	bilal.aziz@citi.com	Samir Diwan[2]	+44 207 986 7589	Samir.diwan@citi.com
Food & HPC			**Telecoms**		
Robert Dickinson[1]	+44 207 986 4431	robert.dickinson@citi.com	Simon Weeden[1]	+44 207 986 4204	simon.weeden@citi.com
Dan F Homan[1]	+44 207 986 9853	dan.homan@citi.com	Georgios Ierodiaconou[1]	+44 207 986 4086	georgios.ierodiaconou@citi.com
Claire de Groot[1]	+44 207 986 4431	claire.degroot@citi.com	Dimitri Kallianiotis[1]	+44 207 986 4253	dimitri.kallianiotis@citi.com
Sara Welford[1]	+44 207 986 4179	sara.welford@citi.com	Laurie Fitzjohn-Sykes[1]	+44 207 986 4114	laurie.fitzjohnsykes@citi.com
Food Retail			Tania Valiente[1]	+44 207 986 4140	tania.valiente@citi.com
Al Johnston[1]	+44 207 986 3908	al.johnston@citi.com	Josh Lipman[1]	+44 207 986 2529	josh.lipman@citi.com

Figure 114. CIRA Europe Analysts *For Informational Purposes Only* (part 2)

Name	Tel. Number	Email	Name	Tel. Number	Email
Tobacco & Beverages			**Greece**		
Adam Spielman[1]	+44 207 986 4211	adam.spielman@citi.com	Lambros Papadopoulos[1]	+44 207 9864154	Lambros.papadopoulos@citi.com
Andrea Pistacchi[1]	+44 207 986 0767	andrea.pistacchi@citi.com	Erofili Tziveli[1]	+44 207 9864135	Erofili.tziveli@citi.com
Pooja Shirangi[2]	+44 207 986 4842	pooja.shirangi@citi.com	**Italy**		
Transport			Mauro Baragiola[1]	+39 02 8906 8703	mauro.baragiola@citi.com
Andrew Light[1]	+44 20 7986 4102	andrew.light@citi.com	Nicolo' Rolando[1]	+39 02 8906 8211	nicolo.rolando@citi.com
Roger Elliott[1]	+44 20 7986 4010	Roger.elliott@citi.com	**UK**		
Nithin Pejaver[2]	+44 20 7986 2818	nithin.pejaver@citi.com	Hugo Mills[1]	+44 207 986 4460	Hugo.mills@citi.com
Utilities			David Phillips[1]	+44 207 986 4130	David.phillips@citi.com
Peter Atherton[1]	+44 207 986 3912	Peter.Atherton@citi.com	Jessan John[2]	+44 207 986 4393	Jessan.john@citi.com
Sofia Savvantidou[1]	+44 207 986 3932	Sofia.Savvantidou@citi.com			
Antonella Bianchessi[1]	+39 028 906 8715	Antonella.Bianchessi@citi.com			
Manuel Palomo[1]	+34 91 538 4356	Manuel.Palomo@citi.com			
Andrew Simms[1]	+44 207 986 4371	Andrew.Simms@citi.com			
Manuel Losa[1]	+34 91 538 4352	Manuel.Losa@citi.com			
Robert Coates[1]	+44 207 986 6974	Robert.Coates@citi.com			
Arjun Mehta[1]	+44 207 986 2826	arjun.mehta@citi.com			

1 Citigroup Global Markets Ltd.; 2 Citigroup Global Markets Inc.; 3 Citigroup Pty Limited; 4 Citigroup Global Markets Asia; 5 Citigroup Global Markets India Private Limited; 6 Citigroup Global Markets Japan Inc.; 7 Citigroup Global Markets Malaysia SDN BHD; 8 Citigroup Global Markets Brazil; 9 ZAO Citibank

NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Unless indicated in Appendix A-1 of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.

SALES AND TRADING TEAMS: People designated as working in the sales or trading departments of Citi are not independent research analysts and have not contributed to this document or any of the referenced documents.

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			***Relative Rating***		
Data current as of 9 Oct 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	42%	37%	50%	43%	46%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:
CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.
Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to

review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Sarah Deans; Neil Dawson

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.
Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets

Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the

Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST EU11212A