Notes to the consolidated financial statements continued

6. Taxation

Income tax expense

	2011 £m	2010 £m	2009 £m
United Kingdom corporation tax expense/(income):			
Current year	141	40	(132)
Adjustments in respect of prior years	(5)	(4)	(318)
	136	**36**	**(450)**
Overseas current tax expense/(income):			
Current year	2,152	2,377	2,111
Adjustments in respect of prior years	(477)	(1,718)	(934)
	1,675	**659**	**1,177**
Total current tax expense	**1,811**	**695**	**727**
Deferred tax on origination and reversal of temporary differences:			
United Kingdom deferred tax	(275)	(166)	20
Overseas deferred tax	92	(473)	362
Total deferred tax (income)/expense	**(183)**	**(639)**	**382**
Total income tax expense	**1,628**	**56**	**1,109**

Tax (credited)/charged directly to other comprehensive income

	2011 £m	2010 £m	2009 £m
Current tax (credit)/charge	(14)	(38)	133
Deferred tax (credit)/charge	(117)	137	(72)
Total tax (credited)/charged directly to other comprehensive income	**(131)**	**99**	**61**

Tax (credited)/charged directly to equity

	2011 £m	2010 £m	2009 £m
Current tax (credit)/charge	(5)	(1)	1
Deferred tax (credit)/charge	(19)	(10)	8
Total tax (credited)/charged directly to equity	**(24)**	**(11)**	**9**

Factors affecting tax expense for the year

The table below explains the differences between the expected tax expense on continuing operations, at the UK statutory tax rate of 28%, and the Group's total tax expense for each year. Further discussion of the current year tax expenses can be found in the section titled "Operating results" on page 35. Subsequently, the UK statutory tax rate reduced to 26%, effective from 1 April 2011 and the impact on the year end tax balances is included in 'effect of current year changes in statutory tax rates' below.

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

Notes:
(1) See "Taxation" on page 40.
(2) 2011 includes the impact of the disposal of China Mobile Limited.
(3) See note below regarding deferred tax asset recognition in Luxembourg.

Deferred tax

Analysis of movements in the net deferred tax balance during the year:

	£m
1 April 2010	(6,344)
Exchange movements	305
Credited to the income statement	183
Credited directly to OCI	117
Credited directly to equity	19
Reclassification to current tax[1]	1,249
Arising on acquisition	3
31 March 2011	**(4,468)**

Note:
(1) See note below regarding CFC settlement.

Deferred tax assets and liabilities, before offset of balances within countries, are as follows:

	Amount credited/ (charged) in income statement £m	Gross deferred tax asset £m	Gross deferred tax liability £m	Less amounts unrecognised £m	Net recognised deferred tax asset/ (liability) £m
Accelerated tax depreciation	(1,374)	253	(3,682)	–	(3,429)
Tax losses	1,198	27,882	–	(25,784)	2,098
Deferred tax on overseas earnings	764	–	(1,775)	–	(1,775)
Other short-term temporary differences	(405)	4,890	(2,844)	(3,408)	(1,362)
31 March 2011	**183**	**33,025**	**(8,301)**	**(29,192)**	**(4,468)**

Analysed in the statement of financial position, after offset of balances within countries, as:

	£m
Deferred tax asset	2,018
Deferred tax liability	(6,486)
31 March 2011	**(4,468)**

	Amount credited/ (charged) in income statement £m	Gross deferred tax asset £m	Gross deferred tax liability £m	Less amounts unrecognised £m	Net recognised deferred tax asset/ (liability) £m
Accelerated tax depreciation	(577)	627	(2,881)	(1)	(2,255)
Tax losses	493	27,816	–	(27,185)	631
Deferred tax on overseas earnings	(22)	–	(4,086)	–	(4,086)
Other short-term temporary differences	745	4,796	(3,135)	(2,295)	(634)
31 March 2010	**639**	**33,239**	**(10,102)**	**(29,481)**	**(6,344)**

Analysed in the statement of financial position, after offset of balances within countries, as:

	£m
Deferred tax asset	1,033
Deferred tax liability	(7,377)
31 March 2010	**(6,344)**

Factors affecting the tax charge in future years

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

The Group is routinely subject to audit by tax authorities in the territories in which it operates, and the items discussed below have reached litigation. The Group holds provisions in respect of the potential tax liability that may arise, however, the amount ultimately paid may differ materially from the amount accrued and could therefore affect the Group's overall profitability and cash flows in future periods.

On 22 July 2010 Vodafone reached agreement with the UK tax authorities with respect to the UK Controlled Foreign Company ('CFC') tax case. Vodafone will pay £1.25 billion to settle all outstanding CFC issues from 2001 to date and has also reached agreement that no further UK CFC tax liabilities will arise in the near future under current legislation. Longer term, no CFC liabilities are expected to arise as a consequence of the likely reforms of the UK CFC regime due to the facts established in this agreement.

A Spanish subsidiary, Vodafone Holdings Europe SL ('VHESL'), has resolved its dispute with the Spanish tax authorities regarding the tax treatment of interest expenses claimed in the accounting periods ended 31 March 2003 and 31 March 2004.

Notes to the consolidated financial statements continued

6. Taxation continued

At 31 March 2011 the gross amount and expiry dates of losses available for carry forward are as follows:

	Expiring within 5 years £m	Expiring within 6-10 years £m	Unlimited £m	Total £m
Losses for which a deferred tax asset is recognised	1	–	8,081	8,082
Losses for which no deferred tax is recognised	2,197	559	94,851	97,607
	2,198	**559**	**102,932**	**105,689**

The losses arising on the write down of investments in Germany are available to use against both German federal and trade tax liabilities. Losses of £3,892 million (2010: £3,922 million) are included in the above table on which a deferred tax asset has been recognised. The Group has not recognised a deferred tax asset on £13,389 million (2010: £14,544) of the losses as it is uncertain that these losses will be utilised.

Included in the table above are losses amounting to £1,907 million (2010: £1,909 million) in respect of UK subsidiaries which are only available for offset against future capital gains and since it is uncertain whether these losses will be utilised, no deferred tax asset has been recognised.

The losses above also include £82,725 million (2010: £83,168 million) that have arisen in overseas holding companies as a result of revaluations of those companies' investments for local GAAP purposes. No deferred tax asset is recognised in respect of £78,757 million of these losses as it is uncertain whether these losses will be utilised. A deferred tax asset has been recognised for the remainder of these losses (see below).

A total deferred tax asset of £1,143 million has been recognised in relation to some of the losses of a fiscal unity in Luxembourg as the members of this fiscal unity are expected to generate taxable profits against which these losses will be used. £856 million of the asset has been recognised as a result of the agreement reached with the UK tax authorities in respect of the CFC tax case (discussed above).

The Group holds provisions in respect of deferred taxation that would arise if temporary differences on investments in subsidiaries, associates and interests in joint ventures were to be realised after the year end reporting date. No deferred tax liability has been recognised in respect of a further £41,607 million (2010: £51,783 million) of unremitted earnings of subsidiaries and joint ventures because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. It is not practicable to estimate the amount of unrecognised deferred tax liabilities in respect of these unremitted earnings.

7. Equity dividends

	2011 £m	2010 £m	2009 £m
Declared during the financial year:			
Final dividend for the year ended 31 March 2010: 5.65 pence per share (2009: 5.20 pence per share, 2008: 5.02 pence per share)	2,976	2,731	2,667
Interim dividend for the year ended 31 March 2011: 2.85 pence per share (2010: 2.66 pence per share, 2009: 2.57 pence per share)	1,492	1,400	1,350
	4,468	**4,131**	**4,017**
Proposed after the end of reporting period and not recognised as a liability:			
Final dividend for the year ended 31 March 2011: 6.05 pence per share (2010: 5.65 pence per share, 2009: 5.20 pence per share)	3,106	2,976	2,731

8. Earnings per share

	2011 Millions	2010 Millions	2009 Millions
Weighted average number of shares for basic earnings per share	52,408	52,595	52,737
Effect of dilutive potential shares: restricted shares and share options	340	254	232
Weighted average number of shares for diluted earnings per share	**52,748**	**52,849**	**52,969**

	£m	£m	£m
Earnings for basic and diluted earnings per share	**7,968**	**8,645**	**3,078**