TRANSPARENCY INTERNATIONAL
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EU OFFICE

DO CORPORATE CLAIMS ON PUBLIC DISCLOSURE STACK UP?

IMPACT OF PUBLIC REPORTING ON CORPORATE COMPETITIVENESS

Transparency International EU (TI EU) is the Brussels office of the global anti-corruption movement of Transparency International (TI), which includes over 100 chapters around the world. Since 2008, TI EU functions as a regional liaison office for the global movement and works closely with the Transparency International Secretariat (TI-S) in Berlin, Germany.

TI EU leads the movement's EU-focused advocacy, in close cooperation with national chapters worldwide, but particularly with the 25 national chapters in EU member states, EU accession candidate countries, and the European Neighbourhood region.

TI EU's mission is to prevent and address corruption and promote integrity, transparency and accountability in the EU institutions and in EU internal and external policies, programmes and legislation. This in turn enhances efforts at the national level to fight corruption and promote equality and access to justice for citizens. To achieve this, we engage in research and advocacy work and perform outreach activities aimed at officials and politicians from EU institutions and a range of other stakeholders in Brussels.

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CONTENTS

ACRONYMS

BEPS	Base Erosion and Profit Shifting
CBC	Country-by-country
CBCR	Country-by-country reporting
CEO	Chief Executive Officer
EC	European Commission
EITI	Extractive Industries Transparency Initiative
EPS	Earnings Per Share
ESTM	Extractive Sector Transparency Measures Act (Canada)
EU	European Union
GRI	Global Reporting Initiative
MNE	Multinational enterprise
OECD	Organisation for Economic Co-operation and Development
P/E	Price-to-Earnings (Ratio)
ROA	Return on Assets
ROE	Return on Equity
SBS	Subsidiary-by-subsidiary
TI	Transparency International
TI EU	Transparency International EU
TTM	Trailing Twelve Months

1. INTRODUCTION

As the European Union (EU) considers introducing public country-by-country reporting (CBCR) for European multinationals as well as for non-EU multinationals operating in the EU, Transparency International EU (TI EU) has looked at what evidence there is about the impact of this kind of reporting in terms of company competitiveness. What the research found is that, while public CBC disclosures by European multinationals are on the increase, there is no definitive trend in terms of impact on standard measures of competitiveness.

Communicating company financial performance information takes many forms. Consolidated group level information is often broken down on a regional or sectoral basis in accordance with regulation and business norms to help a company's audience (often investors) assess their performance. **Breaking down company performance information further at a country level is an important step towards monitoring financial flows for the shared benefit of countries and communities alike**.

The primary purpose of public CBCR is to increase companies' accountability and transparency. In fact, the current opacity of the structure and operation of multinationals may lead to corruption risks – for example, through the use of subsidiaries based in offshore jurisdictions for the purpose of money laundering of stolen assets.[1] Public CBCR will help raise red flags on potential cases of collusion between corrupt governments or tax authorities and big multinationals. Anomalies in the financial data may show close links to governments, which could be an indicator of corruption. This is particularly important in the developing world where there is a higher risk of regulatory capture.

THE MOMENTUM FOR PUBLIC CBCR BY MULTINATIONALS IS BUILDING WORLDWIDE.

In the EU, financial and credit institutions now disclose CBC information under the EU Capital Requirements Directive,[2] while companies active in the extractives and logging industries disclose their payments to governments in accordance with the EU Accounting and Transparency Directive.[3] Members of the Organisation for Economic Co-operation and Development (OECD) will soon report under the Base Erosion and Profit Shifting (BEPS) Action Plan. However, the OECD's BEPS project only recommends information exchange between tax administrations without proposing the public disclosure of data.

One frequent objection raised by the business world against introducing measures on public reporting is the alleged negative impact they would have on the competitiveness of EU companies.[4] **In order to examine this argument and others in more detail, Transparency International EU has set out to better understand the impact of corporate reporting on company competitiveness**.

This report explores evidence about the impact of public CBCR on corporate performance. The scope includes European multinationals that report on a public CBC basis (proactively or due to other legislative drivers such as the EU Capital Requirements Directive), European multinationals that do not report on a CBC basis and Indian multinationals that report on a public subsidiary-by-subsidiary (SBS) basis under the Indian Companies Act (2013).

The analysis showed that the competitiveness of European public CBC reporters and non-CBC reporters was generally comparable, while Indian SBS reporters performed well in their global sectors. The revenue growth performance of European CBC and non-CBC reporters was comparable against their global sector competitors – a key finding to support a future scenario where all European companies may be required to report on a CBC basis. The impact of public CBC or SBS reporting was not raised as a key factor or detractor from performance by any of the companies assessed. The research found that a range of local, sector-based and global factors influence the performance of multinational companies, regardless of their listing origin or propensity for public CBCR.

These findings come at a critical time as the EU discusses CBCR-related legislation.

Proposed changes by the European Parliament to the EU Accounting Directive[5] may greatly enhance European corporate disclosures, if these proposals are adopted. At the time of writing, the EU is discussing these amendments. Moreover, in April 2016, the European Commission published a legislative proposal that would also amend the Accounting Directive.[6] Both draft pieces of legislation include measures that aim to improve corporate tax transparency by introducing public CBCR for European multinationals as well as non-EU multinationals operating in the EU through medium-sized and large subsidiaries and branches.

However, Transparency International believes that the latter proposal falls short of the European Commission's previously stated commitments to transparency and advocates for the development of genuine public CBCR legislation applicable to multinationals' activities in all countries and jurisdictions.

HIGHLIGHTS

No correlation

No evidence of negative impact of public CBC or SBS reporting on standard measures of competitiveness

Revenue

The majority of companies assessed maintained or improved their revenue performance during the assessment period

43%

of the European public CBC reporters assessed maintained or improved their competitiveness

More than

90%

of the Indian companies assessed have a revenue growth comparable or higher than their sector's median performance

The revenue growth performance of European CBC and non-CBC reporters was comparable against global sector competitors

The performance of the 28 companies assessed was mixed across the industries reviewed

Most European companies assessed will need to partially or significantly expand their CBCR if new legislation on public CBCR is adopted

The momentum for public CBCR by multinationals is building worldwide

More than 40% of European CBC reporters assessed had a revenue growth comparable or higher than their sector's median performance at a global level

the P/E Ratio performance of European CBC and non-CBC reporters was comparable against their global sector competitors

2. KEY FINDINGS

Drawing on the information assessed for this paper, the authors found **no definitive correlation between public CBC or SBS reporting and standard measures of competitiveness.**

NO LINK BETWEEN CBCR AND COMPETITIVENESS

Company competitiveness across time, regardless of sector, was not shown to be effected by reporting key company performance information on a CBC basis.

Regardless of listing origin or propensity for public CBCR, all companies assessed faced a range of factors that affected or drove their performance during the assessment period.

The relative performance of European companies that report on a CBC basis (CBC reporters) and countries that do not report on a CBC basis (non-CBC reporters) is generally found to be influenced by the sectors represented in the data set. The CBC reporters are from the oil and gas, banking and telecommunications industries, which have been generally impacted by declining commodity prices, global economic slowdown and intense consumer competition. By comparison, the overall performance of the non-CBC reporters is influenced by the comparatively strong revenue performance of the healthcare and automotive industries. Transparency International believes that companies would benefit from increased transparency in terms of their performance. Multiple studies[7] indicate that, when companies put in place measures to improve corporate transparency, they also experienced significantly increased profits compared to companies that did not. In addition, public CBCR could attract more investment, since the risk profile of the company would be lowered with the release of more information compared to competitors not engaged in public CBCR.

From interviews that Transparency International EU conducted as part of this research, it emerged that European public CBC reporters have opted for greater transparency for many reasons:

- it is material[8] to their stakeholders
- it is a natural fit with other aspects of the regulatory environment of their industry
- it supports the aspirations of their home country government
- it enhances their reputation and brand
- it supports other material issues relevant to their region of operation (for example, the demonstration of broader socio-economic impact)
- it supports other material issues relevant to their sector, such as fair market arrangements.

Please note that the assessment of company competitiveness described in this report is limited in scope and is not intended for decision-making on investments.

3. METHODOLOGY

KEY ELEMENTS OF THE RESEARCH APPROACH INCLUDED:

1. Identifying measures of corporate disclosure
The following corporate disclosure measures were selected for assessment from the July 2015 draft amendments to Directive 2013/34/EU Article 2 (2a):

- Turnover
- Profit or loss before tax
- Tax on profit or loss
- List of subsidiaries[9]

2. Identifying measures of company competitiveness
Standard measures of company competitiveness were selected to assess each company on an individual historical basis and on a sector basis (regional and global). These are measures commonly used by investors to assess company performance, and for companies to self-assess.

Individual company historical assessment

Standard measures of company competitiveness were selected from publicly available information (i.e. company reports, corporate websites, financial news websites such as gurufocus.com).

The five measures chosen and their reasons for selection are as follows:[10]

1. **Revenue** – Revenue is the amount of money brought into a company by its business activities. It is a key measure of business performance, along with cost and profit. Revenue is known as the "top line" because it is displayed first on a company's income statement. A company's revenue and net income is often compared to determine the health of a business.

2. **Earnings Per Share (EPS)** – EPS is the portion of a company's profit allocated to each outstanding share of common stock. The measure serves as an indicator of a company's profitability. Diluted EPS (used in the analysis for this report) is a more conservative performance metric used to gauge the quality of a company's earnings per share (EPS) if all convertible securities were exercised.

3. **Price-to-Earnings Ratio (P/E Ratio)** – The P/E ratio is the dollar amount an investor can expect to invest in a company in order to receive one dollar of that company's earnings. Historically, the average P/E ratio in the market has been around 15/25. This fluctuates significantly depending on economic conditions and can also vary widely between different companies and industries. Stocks with a high P/E ratio can be overpriced so lower P/E ratio performance has been assumed to be preferred for the sake of simple ranking for this report. However, P/E ratio should be considered alongside a range of performance measures in terms of decision-making processes.

4. **Return on Equity (ROE)** – ROE is the amount of net income returned as a percentage of shareholder equity. The ratio may be used for comparisons with peer companies, industry sectors and the overall market. However, it should be recognised that there are variations in ROEs among some types of businesses. The rule of thumb for investment is an ROE of 15-20 per cent.

5. **Return on Assets (ROA)** – The ROA ratio indicates how profitable a company is relative to its total assets. The ROA measurement may be used historically for the company being analysed. As a rule of thumb, an ROA of no less than 5 per cent is preferred. Exceptions to the rule include the banking sector, which aim for an ROA of 1.5 per cent or above.

The competitiveness measures were selected to provide a reasonable overview of gross and net income and return on investment. The measures were used to compare each individual company's current performance against its own historical performance over the previous two reporting periods.

Sector performance – Regional and global

The performance of the 28 selected companies was also assessed against their relevant sector. Global and regional sector analysis was applied to all companies in the data set. The following measures were applied using current financial performance information from GuruFocus.com:[11]

Revenue[12]

- Revenue growth (3 years) (%) – comparison with global sector median
- Revenue growth (5 years) (%) – comparison with regional sector median

Return on Equity (ROE)

- ROE (1 year) (%) – comparison with global sector median
- ROE (1 year) (%) – comparison with regional sector median

Return on Assets (ROA)

- ROA (1 year) (%) – comparison with global sector median
- ROA (1 year) (%) – comparison with regional sector median

Earnings Per Share (EPS)

- EPS growth (3 years) (%) – comparison with global sector median
- EPS growth (5 years) (%) – comparison with regional sector median

Price-to-Earnings Ratio (P/E ratio)

- P/E trailing 12 months (ttm) – comparison with global sector median
- P/E (ttm) – comparison with regional sector median

3. Identifying companies and analysing reporting trends

28 Indian and European multinational companies were identified to be assessed for this report (see Table 1). Half of the European multinationals report financial information on a public CBC basis and half report on a regional or consolidated basis only.

The Indian companies were selected from those assessed as part of Transparency International's 2013 report, Transparency in Corporate Reporting: Assessing Emerging Market Multinationals.[13] Each company's annual report was reviewed to define whether key company disclosures were reported on a consolidated basis or at a subsidiary, regional or country level.

Each company's sector was selected for geographical analysis using the GuruFocus online investment research platform.

Table 1: Companies assessed for this report

European companies	Industry	Sub-industry
BASF	Chemicals	Chemicals
Bayer	Healthcare	Global drug manufacturers – major
BNP Paribas	Banks	Banks – Regional – Europe
Credit Suisse	Banks	Banks – Global
Deutsche Telekom	Communication services	Telecom services
Lloyds Banking Group	Banks	Banks – Regional – Europe
Novo Nordisk	Healthcare	Global biotechnology
Sanofi	Healthcare	Global drug manufacturers – major
Schlumberger	Energy	Oil & gas equipment and services
Statoil	Energy	Oil & gas integrated
Telefonica	Communication services	Global telecom services
Unilever	Household care products	Household and personal products
Vodafone	Communication services	Global telecom services
Volkswagen Group	Autos	Auto manufacturers
Indian companies		
Hindalco Industries	Metals & mining	Global aluminium
Infosys Technologies	Technology	Global information technology services
Larsen & Toubro	Global engineering and construction	Global engineering and construction
Lupin Limited	Healthcare	Drug manufacturers – specialty and generic
Mahindra & Mahindra	Autos	Auto manufacturers
Reliance Industries	Energy	Oil & gas – refining & marketing

Indian companies	Industry	Sub-industry
Suzlon Energy	Industrial products	Industrial products – diversified industrials
Tata Chemicals	Chemicals	Chemicals
Tata Communications	Communication services	Telecom services
Tata Consultancy Services	Application software	Information technology services
Tata Global Beverages	Consumer packaged goods	Packaged foods
Tata Motors	Autos	Auto manufacturers
Tata Steel	Steel	Steel
Vedanta Resources	Metals and mining	Industrial metals and minerals

4. Analysing trends

Individual company performance

Company performance was analysed using the measures agreed in Step 1 and 2. Performance was assessed over three full-year reporting periods using publicly available information (for European companies this was 2012, 2013 and 2014 and for Indian companies this was 2013, 2014 and 2015). Each company's latest full-year performance was assessed on an individual basis against the company's own performance in the previous two reporting periods to determine whether their performance against each competitiveness measure was:

- maintained (+/- 5%)
- improved (> 5%)
- declined (< 5%)

Information was represented in graph form to demonstrate the performance of the three reporting groups (European public CBC reporters, European non-CBC reporters and Indian SBS reporters). The observation of mixed performance was also included through the course of the research, recognising significant swings in company performance during the three-year assessment period due to a range of regional, industry specific or global macro-economic factors. Company chairman and CEO statements were reviewed to summarise key factors underlying their performance (see more in Key drivers of performance, Section 5.4).

Sector performance – Regional and Global

Company performance was analysed using the sector performance measures agreed in Step 2. Performance was assessed using current, three-year trend and five-year trend information provided in the GuruFocus.com online investment research platform.

Company performance was compared against regional and global sector median values to determine whether their performance was:

- comparable or higher than median performance (+/- 5%) or
- lower than median performance (< 5%).

Researchers made an overall assessment of competitiveness for the three reporting groups. This assessment was based on the predominant performance in at least three of the five measures of competitiveness assessed. The overall assessment is general in nature and should be considered alongside the more detailed assessment of individual competitiveness measures and underlying drivers of performance.

Note: Correlation in data analysis does not imply causation.

4. REGULATORY LANDSCAPE EUROPEAN UNION AND INDIA

European multinationals disclose their performance results under a range of local and international legislative frameworks relevant to their region(s) of operation, sector(s) and market listing(s).

Proposed changes by the European Parliament to the EU Accounting Directive 2013/34/EU as part of the review of the EU Shareholders Rights Directive 2007/36/EC introducing public CBCR for EU multinationals[14] may heavily enhance European corporate disclosures, if adopted.

By comparison, Indian companies report on a public subsidiary-by-subsidiary (SBS) basis under the Indian Companies Act (2013). The requirement has been in place in various forms since the Act's inception in 1956, providing a basis for evaluating subsidiary performance, related payments and inter-company flows within Indian multinational corporations. Read more about the regulatory landscape in Appendix A.

Table 2: Summary of key disclosure requirements under EU legislation (proposed 2013/34/EU and enacted 2013/36/EU) and Indian legislation

	Accounting Directive (as part of the review of the Shareholders' Rights Directive)	Accounting Directive (disclosure of income tax information by certain undertakings and branches)	Capital Requirements Directive	Indian Companies Act
Public disclosure requirement	European Parliament's proposed amendments (July 2015)	European Commission's proposed amendments (April 2016)	Article 89: (public CBCR)	General Circular No: 2 /2011*
Name(s), nature of activities and geographical location	Yes	Yes (nature only)	Yes	No
Turnover	Yes	Yes	Yes	Yes
Number of employees on a full-time equivalent basis	Yes	Yes	Yes	No
Value of assets/Total assets	Yes	No	No	Yes
Annual cost of maintaining those assets	Yes	No	No	No
Sales and purchases	Yes	No	No	No
Profit or loss before tax	Yes	Yes	Yes	Yes
Tax on profit or loss/provision for taxation	Yes	Yes (accrued and paid)	Yes	Yes
Public subsidies received	Yes	No	Yes	No
Parent companies shall provide a list of subsidiaries operating in each Member State or third country alongside the relevant data	Yes	No	No	No
Accumulated earnings	No	Yes	No	No
Capital	No	No	No	Yes
Reserves	No	No	No	Yes
Total liabilities	No	No	No	Yes
Details of investment (except in case of investment in the subsidiaries)	No	No	No	Yes
Profit after tax	No	No	No	Yes
Proposed dividend	No	No	No	Yes

* Note: the Indian Companies Act (2013) 129 (3) does not specify the SBS disclosure requirements, rather stating: "Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed".

5. ANALYSIS

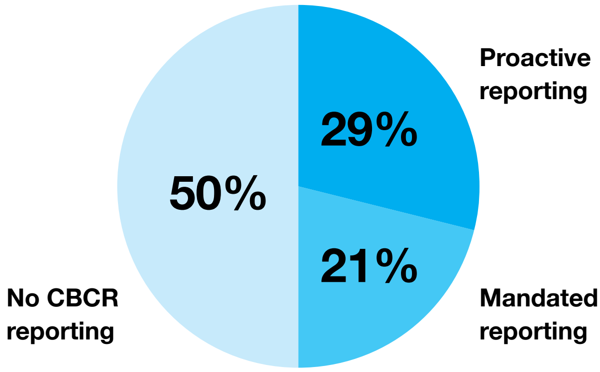
5.1. WHO REPORTS WHAT – A SNAPSHOT OF DISCLOSURE

EUROPE

PUBLIC COUNTRY-BY-COUNTRY (CBC) DISCLOSURES BY EUROPEAN MULTI-NATIONALS ARE ON THE RISE

- Half of the 14 European multi-nationals assessed report on a public CBC basis (four proactively and three under the Capital Requirements Directive (Directive 2013/36/EU).

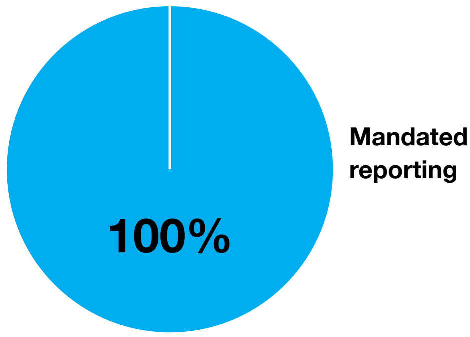
Graph 1: Public CBCR by European companies



INDIA

- All Indian companies report on a public subsidiary-by-subsidiary basis (SBS).
- With due consideration for subsidiary operating boundaries, the information can in some instances be comparable to public CBCR.

Graph 2: SBS reporting by Indian companies



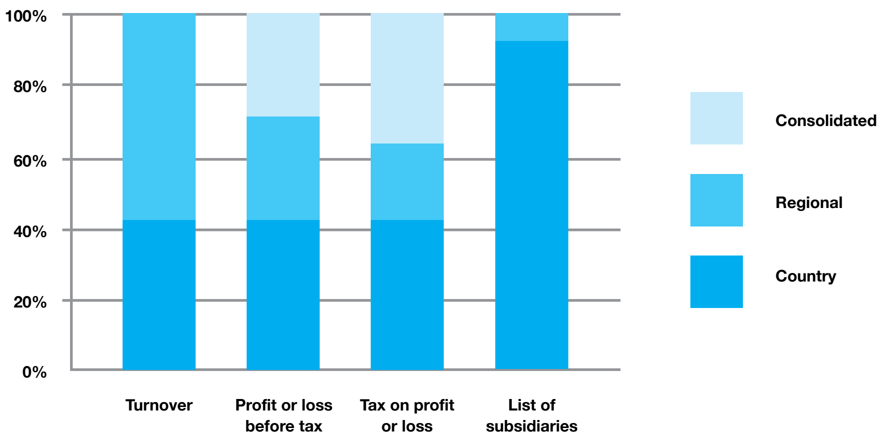
5.2. GRANULARITY OF KEY CORPORATE DISCLOSURES

EUROPE

The 14 European companies assessed for this report vary in their public presentation of key corporate disclosures. Half elect to report on a consolidated or regional basis, while half have generally moved to more granular CBCR in recent years.

Graph 3 demonstrates the 14 European companies' current approach to reporting key company performance measures. This is using data from the July 2015 draft amendments to Directive 2013/34/EU Article 2 (2a), looking at turnover, profit or loss before tax, tax on profit or loss and the provision of a list of subsidiaries operating in each Member State or third country.

Graph 3: Granularity of corporate disclosures – overview of European companies assessed



Statoil, Telefonica, Deutsche Telekom, BNP Paribas, Credit Suisse Group and Lloyds Banking Group generally report the key measures on a country basis. Vodafone uses a mixture of country and regionally-based reporting. The remaining seven European companies assessed report on a regional and consolidated basis (i.e. the aggregated financial information of the parent company and its subsidiaries). The level of disclosure adopted by each of the 14 European companies assessed is described in Table 3.

From this analysis, it is clear that

MOST EUROPEAN COMPANIES ASSESSED WILL NEED TO PARTIALLY OR SIGNIFICANTLY EXPAND THEIR CBCR IF NEW LEGISLATION ON PUBLIC CBCR IS ADOPTED.

Table 3: Granularity of corporate disclosures – details of European companies assessed

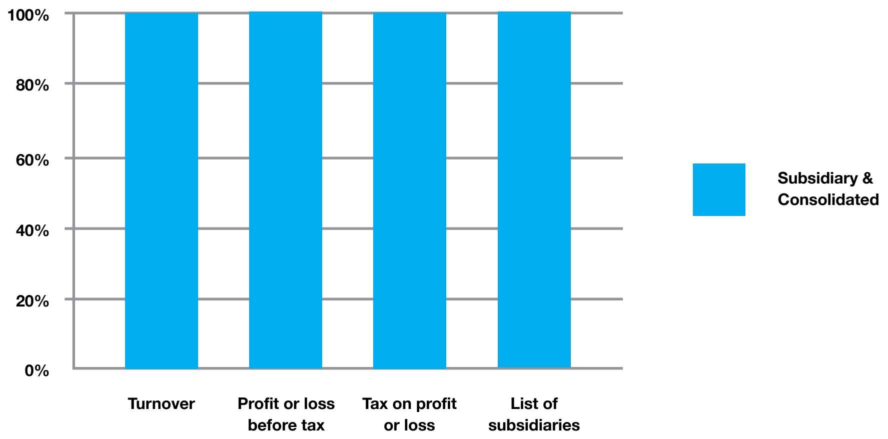
Company details	Public CBCR (additional draft criteria proposed for Directive 2013/34/EU by the European Parliament)				
Company name	**Sector**	**Turnover**	**Profit or loss before tax**	**Tax on profit or loss**	**List of subsidiaries**
BASF	Chemicals	Regional	Consolidated	Consolidated	Country
Bayer	Healthcare	Regional	Regional	Regional (Germany or other)	Country
BNP Paribas	Banks	Country	Country	Country	Country
Credit Suisse	Banks	Country	Country	Country	Country
Deutsche Telekom	Communication services	Country	Country	Regional	Country
Lloyds Banking Group	Banks	Country	Country	Country	Country
Novo Nordisk	Healthcare	Regional	Consolidated	Consolidated	Country
Sanofi	Healthcare	Regional	Consolidated	Consolidated	Country
Schlumberger	Energy	Regional	Regional	Regional (US and outside US only)	Country
Statoil	Energy	Country	Regional	Country	Country
Telefonica	Communication services	Country	Country	Country	Country
Unilever	Household care products	Regional	Regional	Consolidated	Country
Vodafone	Communication services	Regional	Regional	Country	Country
Volkswagen Group	Autos	Regional	Consolidated	Regional	Germany only

INDIA

In accordance with the Companies Act (2013), Section 129 (3), the 14 Indian companies assessed for this report do not vary in their presentation of key corporate disclosures. The performance of Indian multinationals is assessable on a consolidated basis (through annual company reports) and a subsidiary basis (subsidiary financials are accessible from the relevant parent company websites). Graph 4 demonstrates the 14 Indian companies' current approach to reporting key company performance measures from the July 2015 draft amendments to Directive 2013/34/EU Article 2 (2a).

Note: Indian companies are not required to comply with current or draft EU legislation for company disclosures. The information is provided only as a point of comparison with Graph 3.

Graph 4: Granularity of corporate disclosures – Indian companies assessed



The level of disclosure adopted by each of the 14 Indian companies assessed is described in Table 4.
Table 4: Granularity of corporate disclosures – details of Indian companies assessed

Company details		Public subsidiary-by-subsidiary reporting under the 2013 Companies Act			
Company name	**Sector**	**Turnover**	**Profit or loss before tax**	**Tax on profit or loss**	**List of subsidiaries**
Hindalco Industries	**Metals and mining**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Infosys Technologies	**Technology**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Larsen & Toubro	**Global engineering and construction**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Lupin Limited	**Healthcare**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Mahindra & Mahindra	**Autos**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Reliance Industries	**Energy**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Suzlon Energy	**Industrial products**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Tata Chemicals	**Chemicals**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Tata Communications	**Communication services**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Tata Consultancy Services	**Application software**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Tata Global Beverages	**Consumer packaged goods**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Tata Motors	**Autos**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Tata Steel	**Steel**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated
Vedanta Resources	**Metals and mining**	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated / subsidiary	Consolidated

5.3. HOW DO PUBLIC CBC REPORTERS COMPETE A SNAPSHOT OF PERFORMANCE

HISTORICAL COMPANY PERFORMANCE

The current performance of each company was assessed against their historical performance over the previous two reporting periods using standard measures of company competitiveness (return on assets, price to earnings ratio, revenue, earnings per share and return on equity).

The historical company performance information assessed for this report found

NO DEFINITIVE TREND BETWEEN PUBLIC CBC OR SBS REPORTING AND STANDARD MEASURES OF COMPETITIVENESS.

The performance of the 28 companies assessed was mixed over the three-year assessment period. Three out of seven

(43 PER CENT) OF THE EUROPEAN PUBLIC CBC REPORTERS ASSESSED GENERALLY MAINTAINED OR IMPROVED THEIR COMPETITIVENESS

over the period, compared with four out of seven (57 per cent) of European non-CBC reporters and four out of ten (40 per cent) Indian SBS reporters (see Graph 5).

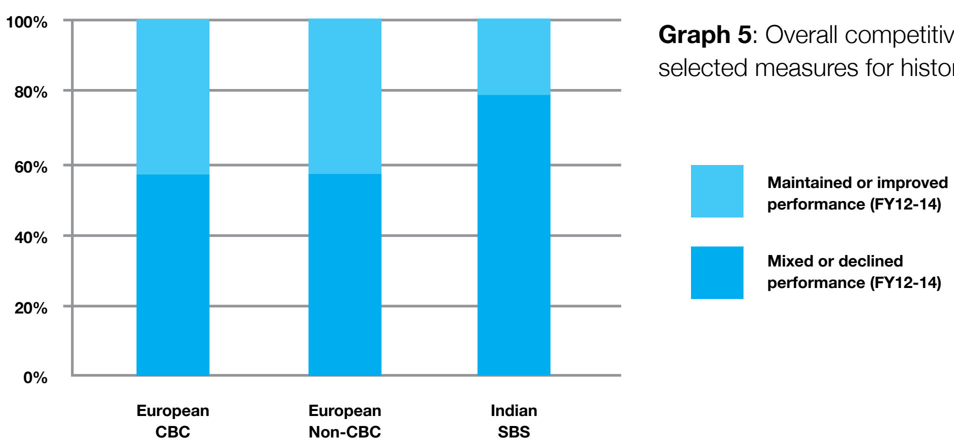
All companies aimed for a strong headline revenue result, with various internal and external market factors affecting the gap to net income (demonstrated as EPS), with subsequent variation in the other competitiveness measures assessed.

Key findings by competitiveness measure were as follows:

REVENUE – THE MAJORITY OF COMPANIES ASSESSED MAINTAINED OR IMPROVED THEIR REVENUE PERFORMANCE DURING THE ASSESSMENT PERIOD.

- **Earnings Per Share** – Comparable performance in net income management (demonstrated as Earnings Per Share) between the European CBC and non-CBC reporters.
- **Price-to-Earnings Ratio** – Comparable performance between the three reporting groups (European CBC reporters, European non-CBC reporters and Indian SBS reporters).
- **Return on Equity** – Comparable performance between the three reporting groups.
- **Return on Assets** – Varied performance between the three reporting groups, led by the European non-CBC reporters (higher proportion of healthcare and pharmaceuticals), European CBC reporters (influenced by challenges in the banking sector and commodities) and Indian SBS reporters (influenced by difficult market conditions for the basic materials/commodities sector).

Movements in competitiveness performance are addressed in all company annual reports, with no reference made to public CBC or SBS reporting as the underlying cause of performance improvement or decline.



Graph 5: Overall competitiveness performance using selected measures for historical company performance

Graphs 5 and 6, as well as Graphs 8 to 15 in Appendix C and Appendix D, use the following general categories for data presentation:

European CBC – European multinationals that predominantly report key financial information on a public CBC basis.

European non-CBC – European multinationals that predominantly report key financial information on a consolidated or regional/segment basis only.

Indian SBS – Indian multinationals that report key financial information on a public SBS basis.
Table 5: Competitiveness performance by company (historical performance basis)[15]

Company details			Competitiveness					
Company name	**Sector**	**Disclosure approach (CBC, non-CBC, SBS*)**	**Overall**	**Revenue**	**Earnings Per Share**	**P/E Ratio[16]**	**Return on Equity**	**Return on Assets**
European companies								
BNP Paribas	Banks	CBC	Declined	Improved	Declined	Mixed	Declined	Declined
Credit Suisse	Banks	CBC	Maintained	Improved	Maintained	Maintained	Maintained	Maintained
Deutsche Telekom	Communication services	CBC	Improved	Improved	Improved	Mixed	Improved	Improved
Lloyds Banking Group	Banks	CBC	Improved	Maintained	Improved	Declined	Improved	Improved
Statoil	Energy	CBC	Declined	Maintained	Declined	Declined	Declined	Declined
Telefonica	Communication services	CBC	Declined	Declined	Mixed	Declined	Declined	Declined
Vodafone	Communication services	CBC	Mixed	Maintained	Improved	Mixed	Mixed	Mixed
BASF	Chemicals	Non-CBC	Maintained	Improved	Maintained	Mixed	Declined	Maintained
Bayer	Healthcare	Non-CBC	Maintained	Improved	Improved	Maintained	Maintained	Maintained
Novo Nordisk	Healthcare	Non-CBC	Mixed	Improved	Improved	Mixed	Maintained	Mixed
Sanofi	Healthcare	Non-CBC	Mixed	Maintained	Mixed	Mixed	Mixed	Mixed
Schlumberger	Energy	Non-CBC	Mixed	Improved	Mixed	Declined	Declined	Maintained
Unilever	Household care products	Non-CBC	Maintained	Maintained	Improved	Maintained	Improved	Maintained
Volkswagen Group	Autos	Non-CBC	Mixed	Improved	Mixed	Mixed	Mixed	Mixed
Indian companies								
Hindalco Industries	Metals & mining	SBS	Declined	Improved	Declined	Declined	Declined	Declined
Infosys Technologies	Technology	SBS	Mixed	Improved	Mixed	Declined	Maintained	Maintained
Larsen & Toubro	Global engineering and construction	SBS	Declined	Mixed	Declined	Declined	Declined	Mixed
Lupin Limited	Healthcare	SBS	Improved	Improved	Improved	Declined	Improved	Improved
Mahindra & Mahindra	Autos	SBS	Declined	Maintained	Maintained	Declined	Declined	Declined
Reliance Industries	Energy	SBS	Mixed	Mixed	Improved	Mixed	Maintained	Declined
Suzlon Energy	Industrial products	SBS	Mixed	Improved	Declined	Mixed	Mixed	Declined
Tata Chemicals	Chemicals	SBS	Mixed	Improved	Mixed	Mixed	Mixed	Mixed
Tata Communications	Communication services	SBS	Mixed	Maintained	Mixed	Declined	Mixed	Mixed
Tata Consultancy Services	Application software	SBS	Improved	Improved	Improved	Declined	Improved	Mixed
Tata Global Beverages	Consumer packaged goods	SBS	Mixed	Maintained	Mixed	Mixed	Mixed	Mixed
Tata Motors	Autos	SBS	Maintained	Improved	Improved	Declined	Maintained	Maintained
Tata Steel	Steel	SBS	Mixed	Maintained	Mixed	Mixed	Mixed	Mixed
Vedanta Resources	Metals & mining	SBS	Declined	Maintained	Declined	Mixed	Declined	Declined

* CBC (key financial information is disclosed on a public CBC basis), non-CBC (data is predominantly presented on a consolidated and/or regional or segment basis only), SBS (data is presented on a public SBS basis).

While the findings presented in Graph 5 and Table 5 indicate a somewhat weaker performance by the Indian SBS reporters, an understanding of the underlying drivers of performance shows that the variance is generally influenced by the sectors represented in their data set (i.e. basic materials and commodities) and local economy growth and reforms.

Like all multinational organisations, the performance of European public CBC reporters is driven by their business strategy and management approach, within the overriding landscape of their sectoral, regional and global framework. While some comments on individual performance is provided in the following subsections on each competitiveness measure assessed, overall trends and views on competitiveness performance should be sourced from the Key drivers of performance (Section 5.4) and the information publicly disclosed by the individual companies.

SECTOR-BASED PERFORMANCE

The sector-based performance information assessed for this report found **no definite trend between public CBC or SBS reporting and standard measures of competitiveness**. The performance of the 14 European companies was assessed against sector peers headquartered in Europe (regional sector) while the performance of the 14 Indian companies was assessed against sector peers headquartered in India. All companies in the data set were assessed against their global sector peers.

THE PERFORMANCE OF THE 28 COMPANIES ASSESSED WAS MIXED ACROSS THE INDUSTRIES REVIEWED.

European non-CBC reporters generally performed better on a sectoral basis while

INDIAN SBS REPORTERS PERFORMED WELL AGAINST THEIR REGIONAL AND GLOBAL SECTOR PEERS.

Key findings by competitiveness measure were:

REVENUE – THE REVENUE GROWTH PERFORMANCE OF EUROPEAN CBC AND NON-CBC REPORTERS WAS COMPARABLE AGAINST GLOBAL SECTOR COMPETITORS, A KEY FINDING TO SUPPORT A FUTURE SCENARIO WHERE ALL EUROPEAN COMPANIES MAY BE REQUIRED TO REPORT ON A CBC BASIS. MORE THAN 40 PER CENT OF EUROPEAN CBC REPORTERS ASSESSED HAD A REVENUE GROWTH COMPARABLE OR HIGHER THAN THEIR SECTOR'S MEDIAN PERFORMANCE AT A GLOBAL LEVEL.

INDIAN SBS REPORTERS DEMONSTRATED STRONG PERFORMANCE AGAINST THEIR GLOBAL SECTORS, WITH MORE THAN 90 PER CENT OF THE INDIAN COMPANIES ASSESSED HAVING A REVENUE GROWTH COMPARABLE OR HIGHER THAN THEIR SECTOR'S MEDIAN PERFORMANCE.

- **Price-to-Earnings (P/E) Ratio** – Similar to revenue results,

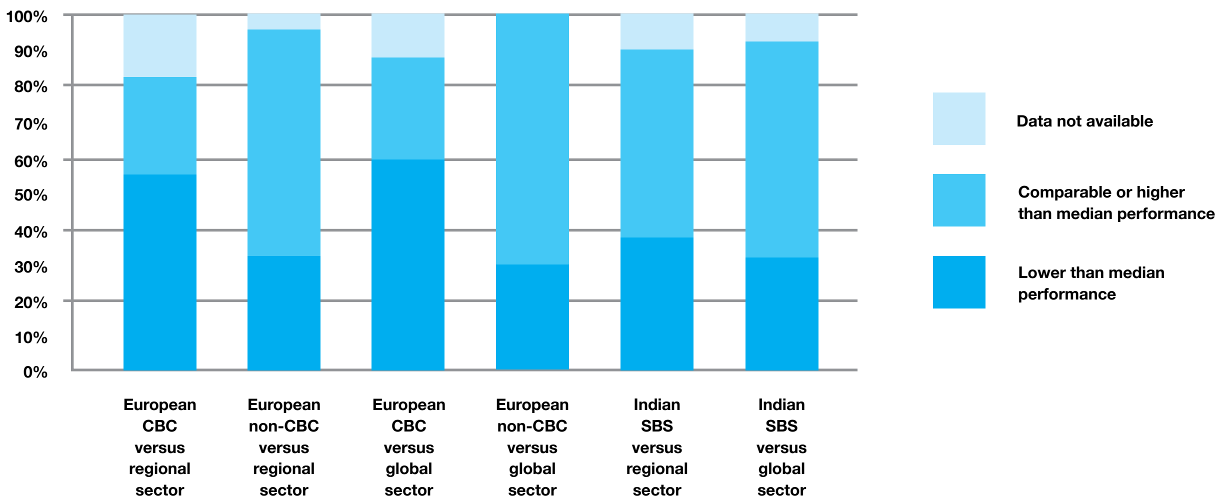
THE P/E RATIO PERFORMANCE OF EUROPEAN CBC AND NON-CBC REPORTERS WAS COMPARABLE AGAINST THEIR GLOBAL SECTOR COMPETITORS

(see Graph 15). Indian SBS reporters demonstrated a mixed performance against their regional and global sectors, while the non-CBC reporters comparably higher P/E Ratio results on a regional basis reflects the local market expectations for company growth

- **Return on Equity and Return on Assets** – European CBC reporters performed poorly against European non-CBC and Indian SBS reporters on a regional sector and global basis (see Graph 14 in Appendix D). While Deutsche Telekom exceeded their ROE global sector median by 40 per cent, and Telefonica and BNP Paribas performed well at a regional level, the remaining energy, banking and telecommunication companies faced challenges.

- **Earnings Per Share** – There was insufficient data to assess the EPS growth performance of European CBC reporters on a sector basis, due to the reporting of at least one negative EPS result in the last five years by five of the seven companies. European CBC reporters and Indian SBS reporters demonstrated mixed results when compared to their global peers.

Graph 6: Overall competitiveness performance using selected measures for sector-based performance



SECTORS REPRESENTED IN THE DATA SET

The relative performance of European CBC and non-CBC reporters is generally found to be influenced by the sectors represented in the data set. The CBC reporters are from the oil and gas, banking and telecommunications industries, which have been generally impacted by declining commodity prices, global economic slowdown and intense consumer competition. By comparison, the overall performance of the non-CBC reporters is influenced by the comparatively strong revenue performance of the healthcare and automotive industries.

Table 6: Revenue growth performance by company (sector median comparison)[17]

Company details		Revenue growth – company comparison with sector median	
Company name	Disclosure approach (CBC, non-CBC, SBS*)	Revenue growth (3Y) Global sector median	Revenue growth (5Y) Regional sector median
European companies			
BNP Paribas	CBC	Higher	Comparable
Credit Suisse	CBC	Lower	Lower
Deutsche Telekom	CBC	Higher	Higher
Lloyds Banking Group	CBC	Lower	Lower
Statoil	CBC	Lower	Lower
Telefonica	CBC	Lower	Lower
Vodafone	CBC	Higher	Lower
BASF	Non-CBC	Lower	Lower
Bayer	Non-CBC	Lower	Higher
Novo Nordisk	Non-CBC	Higher	Higher
Sanofi	Non-CBC	Lower	Lower
Schlumberger	Non-CBC	Higher	Higher
Unilever	Non-CBC	Lower	Higher
Volkswagen Group	Non-CBC	Higher	No data

Company details		Revenue growth – company comparison with sector median	
Company name	Disclosure approach (CBC, non-CBC, SBS*)	Revenue growth (3Y) Global sector median	Revenue growth (5Y) Regional sector median
Indian companies			
Hindalco Industries	SBS	Higher	Higher
Infosys Technologies	SBS	Higher	Higher
Larsen & Toubro	SBS	Higher	Higher
Lupin Limited	SBS	Higher	Lower
Mahindra & Mahindra	SBS	Higher	Lower
Reliance Industries	SBS	Higher	Comparable
Suzlon Energy	SBS	Lower	Lower
Tata Chemicals	SBS	Higher	Higher
Tata Communications	SBS	Higher	Higher
Tata Consultancy Services	SBS	Higher	Higher
Tata Global Beverages	SBS	Higher	Lower
Tata Motors	SBS	Higher	Comparable
Tata Steel	SBS	Higher	Higher
Vedanta Resources	SBS	Higher	Higher

5.4. KEY DRIVERS OF PERFORMANCE

Regardless of listing origin,

ALL COMPANIES ASSESSED FACED A RANGE OF GLOBAL, REGIONAL, SECTORAL AND COMPANY-SPECIFIC FACTORS THAT AFFECTED OR DROVE THEIR PERFORMANCE DURING THE ASSESSMENT PERIOD.

The factors highlighted in Graph 7 were identified by each company in their most recent annual report assessed (i.e. the chairman and CEO statements) and are therefore deemed to be the key drivers of organisational performance.

The impact of public CBC or SBS reporting was not raised as a key factor or detractor from performance by any of the companies assessed.

The key drivers of performance, regardless of sector or region, for the companies assessed were:

Global factors

- Economic slowdown or the slow pace of economic recovery
- Commodity or oil prices

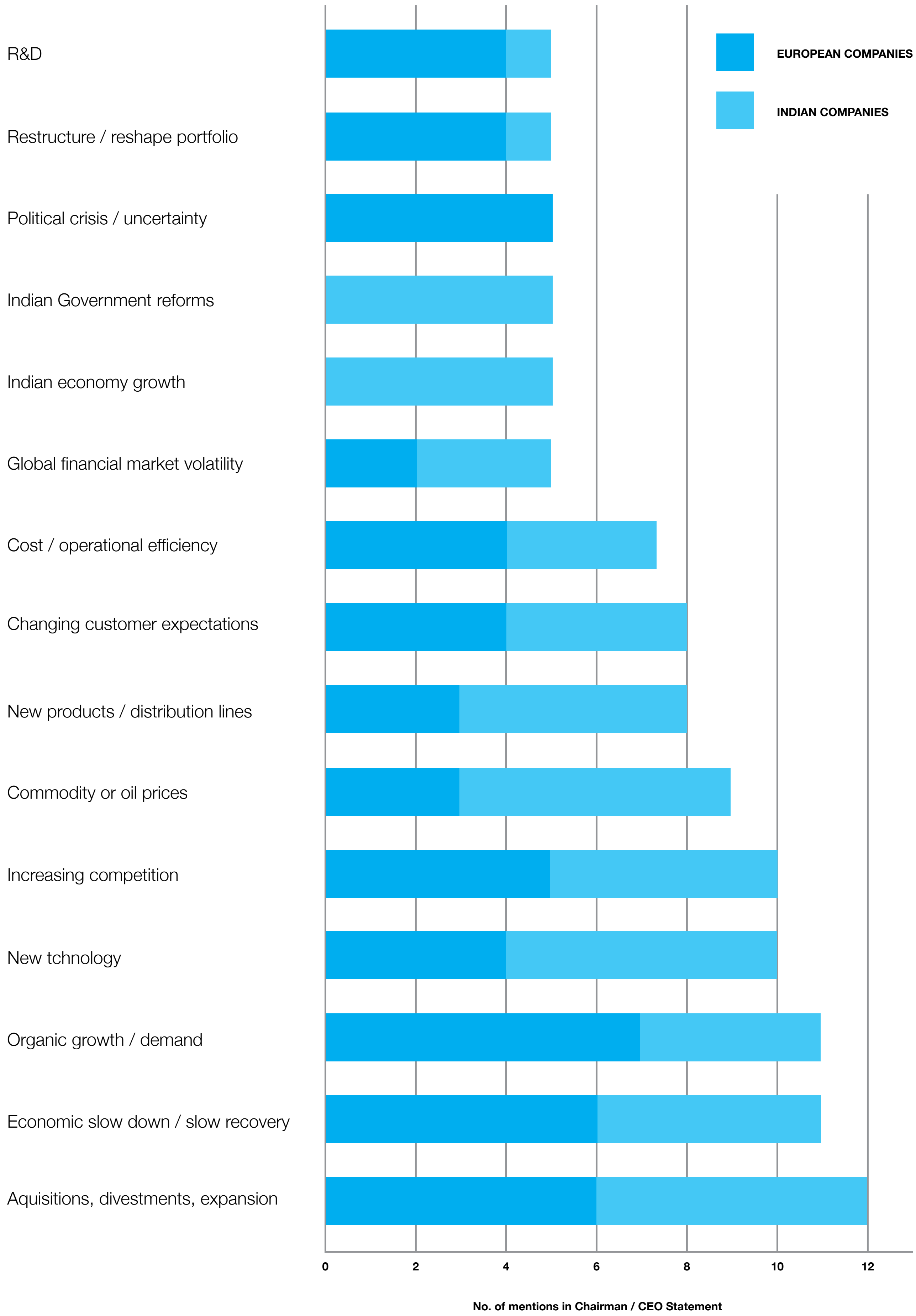
Sector-based factors

- Changing client/consumer expectations
- New technology
- Increasing competition
- Organic growth / demand

Company factors

- Cost /operational efficiency
- Acquisitions, divestment and expansions
- New products and/or distribution lines.

Graph 7: Key drivers of performance during the assessment period



While the performance drivers were not entirely dissimilar between the European and Indian companies assessed, the analysis highlighted that:

- **Indian companies** felt a greater impact from falling commodity or oil prices, local economy growth and reforms, new products and technology due to the higher proportion of basic materials/commodities and technology companies considered.

- **European companies**, on the other hand, felt a greater impact from political crises and uncertainty, legislative and regulatory changes (e.g. climate change and banking reforms), portfolio restructuring, litigation and settlements and organic growth due to the higher proportion of banking and healthcare/ pharmaceutical companies considered.

Further comments about the influence of sectors represented in the European data set are provided in Sectors represented in the data set in Section 5.3. Reported individual company performance details are provided in Appendix E (Table 7: Key drivers of performance by company).

6. RECOMMENDATIONS

This research report has been a useful pilot study into the broad assessment of corporate disclosure and competitiveness across sectors and regions.

Based on the information assessed, this research found no definite trend between public CBC or SBS reporting and standard measures of competitiveness.

It remains Transparency International's view, however, that CBCR is preferable to SBS reporting because larger subsidiaries may have cross-border operations and the omission of smaller, 'non-material' subsidiaries may obscure a company's presence in some countries.[18]

As a result, Transparency International EU makes the following recommendations to the EU institutions and Member States in terms of: (1) extending public country-by-country reporting legislation and (2) requiring companies to publish lists of all their subsidiaries.

1. Extend EU legislation on public country-by-country reporting (CBCR)

Based on its existing legislation on public CBCR in the banking sector, the EU and its Member States should extend CBCR to all other sectors of the economy. This should be done either by adopting the proposal made by the European Parliament in July 2015 as part of the review of the Shareholders' Rights Directive or by strongly improving the European Commission's recent proposal as part of the Accounting Directive. The legislation should:

- Foresee multinational companies' public disclosure of key financial information broken down on a CBC basis **for each country and jurisdiction of operation, both inside and outside the EU**.
- Apply to all multinationals with an annual consolidated **turnover of €40 million** in accordance with the EU's own definition of "large undertakings" included in the Accounting Directive. Both EU companies and non-EU companies that are operating in the EU through subsidiaries of any size should be covered by the directive.
- Include, as a bare minimum, the following reporting requirements: **a) name(s), nature of activities and geographical location; b) turnover; c) number of employees; d) value of assets and annual cost of maintaining those assets; e) sales and purchases; f) profit or loss before tax; g) tax on profit or loss (both accrued and paid); h) public subsidies received; i) list of subsidiaries; j) payments to governments**. This is already to be considered a compromise solution. Each element is meaningful only when disclosed in connection with the other ones.
- Ensure that the data is reported using a common template to allow adequate comparability and is available in a central register in an open data format.

2. Require companies to publish lists of all their subsidiaries

Most laws and regulations applying to publicly listed companies limit disclosure of holdings to material investments. Although this standard provides a starting point for improved transparency it often results in limited disclosure and can lead to the omission of many group holdings. Where such requirements already exist, they should be expanded and materiality thresholds should be removed, to ensure a complete picture of the company's operations across countries. An exhaustive list of related entities for each multinational company should be publicly available. This list should include:

- subsidiaries
- affiliates
- joint ventures
- branches.

APPENDIX A
REGULATORY LANDSCAPE

European multinationals disclose their performance results under a range of local and international legislative frameworks that are relevant to their region(s) of operation, sector(s) and market listing(s).

Locally, the momentum for public CBCR is building in Europe. Financial institutions now disclose CBC information under the EU Capital Requirements Directive while extractives and logging companies disclose their payments to governments in accordance with the Accounting and Transparency Directives (2013/34/EU and 2013/50/EU).

Proposed changes by the European Parliament to the EU Accounting Directive 2013/34/EU as part of the review of the EU Shareholders Rights Directive 2007/36/EC introduce public CBCR for EU multinationals,[19] which may heavily enhance European corporate disclosures, if adopted.

In April 2016, the European Commission published a legislative proposal requiring corporate tax disclosures on a CBC basis for multinationals' activities inside the EU and nominated tax havens,[20] as well as aggregated data for the rest of the world. This proposal would also amend the Accounting Directive 2013/34/EU. However, Transparency International believes that the latter proposal falls short of the European Commission's previously stated commitments to transparency and advocates for the development of genuine public CBCR legislation applicable to multinationals' activities in all countries and jurisdictions.

This section outlines the key European and Indian legislation (proposed and/or enacted) that is used as the basis for this corporate reporting study. Other relevant CBCR legislation is summarised in Appendix B.

EUROPEAN UNION

Shareholders Rights Directive 2007/36/EC – Proposed amendments regarding the corporate governance statement (July 2015)

The EU's Shareholders Rights Directive was introduced in 2007 to modernise company law and enhance corporate governance. In July 2015, the European Parliament successfully included an array of amendments to Directive 2013/34/EU as part of the review of the Shareholders Rights Directive, including a move to public CBCR for EU multinationals that meet two of the following three conditions: a) minimum annual turnover of €40 million; b) more than 250 employees; and c) a balance sheet exceeding €20 million. The move may include an expansion of Article 18 (1a) as follows:

In Article 18, the following paragraph is inserted after paragraph 2:

> 2a. In the notes to the financial statements large undertakings and public-interest entities shall also disclose, specifying by Member State and by third country in which they have an establishment, the following information on a consolidated basis for the financial year:
>
> (a) name(s), nature of activities and geographical location; (b) turnover; (c) number of employees on a full time equivalent basis; (d) value of assets and annual cost of maintaining those assets; (e) sales and purchases; (f) profit or loss before tax; (g) tax on profit or loss; (h) public subsidies received; (i) parent companies shall provide a list of subsidiaries operating in each Member State or third country alongside the relevant data.

The Directive is currently being discussed in negotiations between the European Commission, Council and Parliament.

Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches (April 2016)

In April 2016, the European Commission introduced its draft legislative proposal for corporate tax disclosures by EU and non-EU companies active in the single market with a total consolidated group revenue exceeding €750 million. Under the draft legislation, multinationals will be required to publish information on a CBC basis for activities inside the EU and for countries on a yet to be published EU list of tax havens. For the rest of the world, companies will only disclose an aggregate figure.

The information proposed for disclosure under the Commission's April 2016 proposal is smaller in scope and reach than the European Parliament's July 2015 proposal, and includes:

- activity description

- employee numbers
- net turnover
- profit or loss before income tax
- income tax accrued
- income tax paid
- accumulated earnings.

THE EUROPEAN COMMISSION'S DRAFT LEGISLATIVE PROPOSAL FOR CORPORATE TAX DISCLOSURES FALLS SHORT OF THEIR PREVIOUSLY STATED COMMITMENT TO TRANSPARENCY.

Capital Requirements Directive 2013/36/EU (CRD IV) – on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (June 2013)

The EU Capital Requirements Directive 2013/36/EU aims to strengthen the regulation of the banking sector. The directive governs access to deposit-taking activities, while the regulation establishes the prudential requirements institutions need to respect.[21] Article 89 of the directive introduces a new public CBCR obligation for banks and investment firms. These institutions will have to report annually, for each country in which they have an establishment, including data on: (a) name(s), activities, geographical location; (b) turnover; (c) staff numbers; (d) profit or loss before tax; (e) tax on profit or loss; and (f) public subsidies received. The disclosure requirements were partially mandated in 2014, with full public disclosure required on all items by all institutions from 1 January 2015.[22]

Fourth Directive on Administrative Cooperation (DAC4)

In 2016, EU Member States agreed on a proposal by the European Commission aimed at amending Directive 2011/16/EU, the Fourth Directive on Administrative Cooperation (DAC4), included in the European Commission's Anti-Tax Avoidance Package.[23]

DAC4 requires EU multinationals with revenues in excess of €750 million to share key financial information on a CBC basis with tax authorities. Disclosure requirements include revenues, profits, taxes paid and number of employees by country of operation. Non-EU companies operating inside the EU through different subsidiaries are also covered by the DAC4 agreement, which is modelled on the OECD's Base Erosion and Profit Shifting (BEPS) Project[24] (see below).

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

OECD/G20 Base Erosion and Profit Shifting Project (BEPS Project)

The BEPS Project aims to reform the international tax framework and ensure that profits are reported where economic activities are carried out and value is created. Action 13 of the BEPS guidelines proposes CBCR requirements to tax administrations. This will require multinational enterprises (MNEs) to provide key financial information annually, in each jurisdiction where they do business. This information relates to the global allocation of income and taxes paid, together with other indicators of local economic activity with the MNE group, as well as information about which entities do business in a particular jurisdiction and the business activities each entity engages in.[25]

Countries participating in the OECD/G20 BEPS Project agree that they will not need to file a CBC report based on the new template for MNE fiscal years beginning prior to 1 January 2016.[26]

Note: The new measure is directed at tax administrations. In other words, the information will not be made available to the general public.

INDIA

Companies Act

The Indian Companies Act (2013) requires that companies report on a public subsidiary-by-subsidiary (SBS) basis. The requirement has been place in various forms since the Act's inception in 1956, providing a basis for evaluating subsidiary performance, related payments and inter-company flows within Indian multinational corporations.

The original Companies Act required Indian companies to "attach to the balance sheet [of the holding company] the balance sheets, P&L statement and statement of holding company's interest in the subsidiary".[27] With increasing globalisation and pressure from Indian companies on the Government to reduce their reporting burden, the Government issued a General Circular[28] in 2011 to reduce the disclosure requirements to the preparation of a consolidated financial statement and key financial information for each subsidiary (i.e. capital, reserves, total assets, total liabilities, details of investment – except in the case of investment in the subsidiaries – turnover, profit before taxation, provision for taxation, profit after taxation and proposed dividend). The revised 2011 requirements were committed to legislation in 2013,[29] with the additional requirement to make the subsidiary information available on the parent company's website.

While the public SBS disclosure requirements have somewhat reduced over time, the subsidiary headline disclosure requirements introduced in 2011 are similar to those proposed under the amendments in the two draft EU legislations introducing public CBCR. It remains Transparency International's view, however, that CBCR is preferable to SBS reporting because larger subsidiaries may have cross-border operations and the omission of smaller, 'non-material' subsidiaries may obscure a company's presence in some countries.[30]

APPENDIX B
OTHER RELEVANT LEGISLATION

UNITED STATES

US Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) (Dodd-Frank)

The Dodd-Frank requires all oil, gas and mining companies reporting to the US Securities and Exchange Commission (i.e. US domestic companies that file Form 10-K and foreign companies that file Forms 20-F or 40-F) to publish taxes (levied on profits, corporate income and production), royalties, fees (including licence fees), production entitlements, bonuses, payments in kind, dividends and infrastructure improvements. Payments include those to foreign government (including states, provinces and counties, districts, municipalities, territories), or to a department, agency, instrumentality or a company owned by a foreign government.

CANADA

Canadian Extractive Sector Transparency Measures Act (2014) (ESTM)

The Canadian ESTM Act specifies public disclosure obligations for Canadian businesses and their subsidiaries engaged in the extractives sector. These include taxes, royalties, fees, production entitlements, bonuses, dividends and infrastructure improvement payments. Information must be collected and reported at a project level. Under the Act, the disclosure of payments made to aboriginal governments is required from 1 June 2017.[31]

GLOBAL STANDARDS

Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative (EITI) is a global Standard to promote open and accountable management of natural resources. Countries implementing the EITI disclose information on tax payments, licences, contracts, production and other key elements around resource extraction. The information is disclosed in an annual EITI Report, allowing citizens to see for themselves how their country's natural resources are being managed and how much revenue they are generating.[32]

APPENDIX C
COMPETITIVE MEASURES AND HISTORICAL COMPANY PERFORMANCE

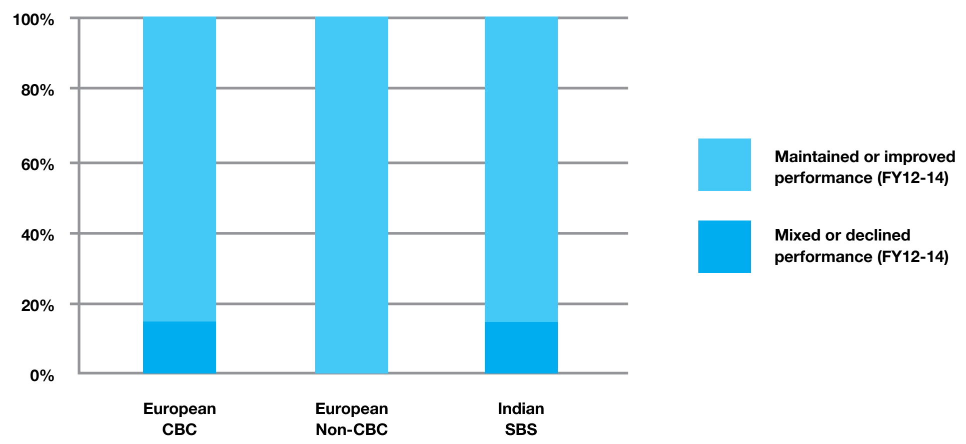
The current performance for each of the companies was assessed against their historical performance over the previous two reporting periods using standard measures of company competitiveness (Return on Assets, Price-to-Earnings Ratio, Revenue, Earnings Per Share and Return on Equity).

REVENUE

Revenue is the amount of money brought into a company by its business activities and is a key measure of business performance, along with cost and profit. Graph 8 demonstrates that all companies assessed maintained a keen focus on revenue performance. Only one European public CBC multinational reported a decline in revenue performance, due to macro-economic factors such as exchange rate differences and the effect of hyperinflation in Venezuela (Telefonica).

Two Indian SBS reporters demonstrated mixed revenue results due to the global decline in oil prices and local political and economic factors such as currency appreciation against most major global currencies, subsidy cutbacks, inflation reduction measures, improved transparency in the allocation of telecom and coal resources and a reduction in backlog for environmental clearances for infrastructure projects (Larsen Toubro and Reliance Industries).

Graph 8: Revenue performance FY12-14



EARNINGS PER SHARE

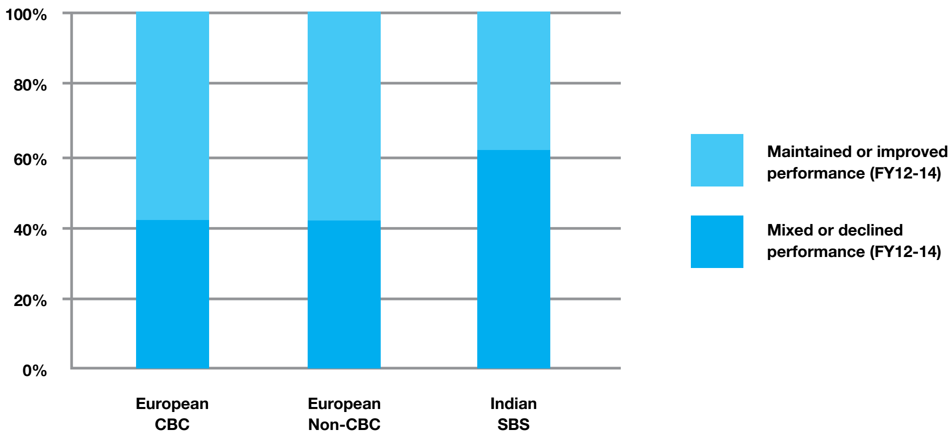
Diluted Earnings Per Share (EPS) is a profitability measure that calculates the portion of a company's profit allocated to each outstanding share of common stock if all convertible securities were exercised.

Graph 9 demonstrates

THAT DILUTED EPS RESULTS WERE COMPARABLE BETWEEN THE EUROPEAN PUBLIC CBC AND NON-CBC REPORTERS.

While the performance of the Indian SBS reporters was generally weaker, it should be recognised that the Indian companies assessed included a higher proportion of basic materials and oil/gas/energy companies that were affected by a drop in demand in key regions and falling commodity and oil prices.

Graph 9: Diluted Earnings Per Share FY12-14



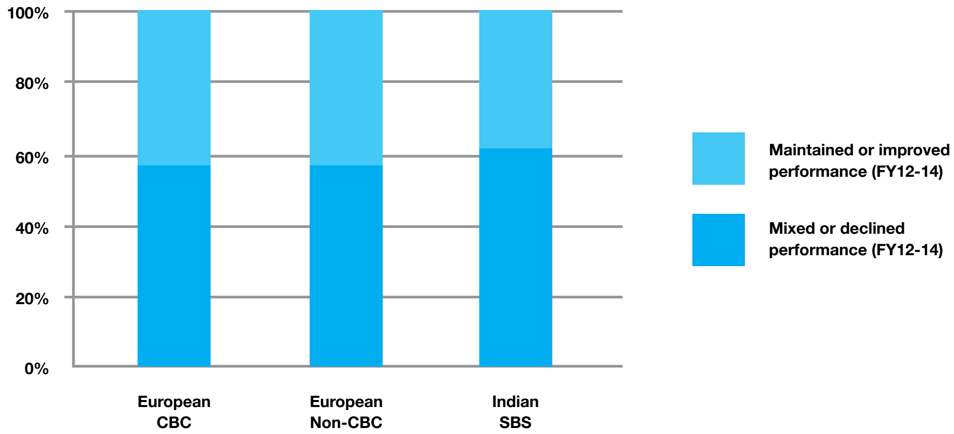
RETURN ON EQUITY

Return on Equity (ROE) measures the amount of net income returned as a percentage of shareholders equity.

Graph 10 demonstrates that ROE was comparable between the three reporting groups during the assessment period.

All assessed companies reported a range of contributing factors that varied between sector and region (See Key drivers of performance, Section 5.4).

Graph 10: Return on equity FY12-14

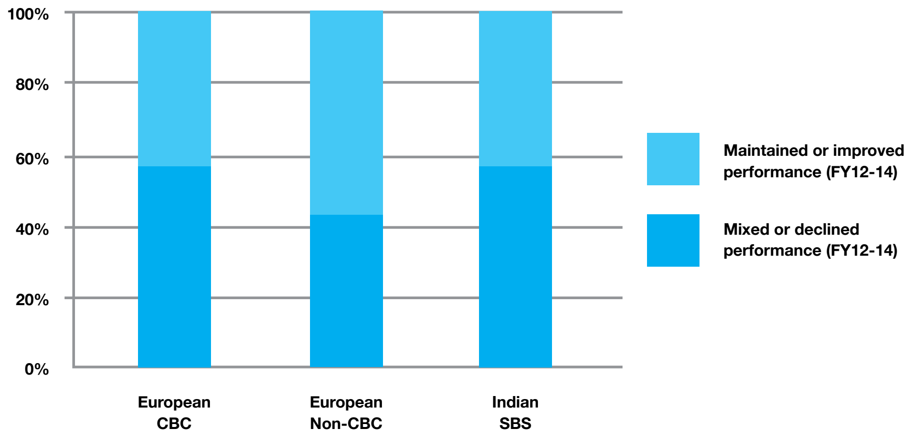


RETURN ON ASSETS

Return on Assets (ROA) measures how profitable a company is relative to its total assets.

Graph 11 demonstrates that the European companies assessed generally reported a higher return on assets during the period. While the performance of the Indian SBS reporters was generally weaker, it should be recognised that the Indian companies assessed included a higher proportion of basic materials and oil/gas/energy companies, which were affected by a drop in demand in key regions and falling commodity and oil prices.

Graph 11: Return on Assets FY12-14

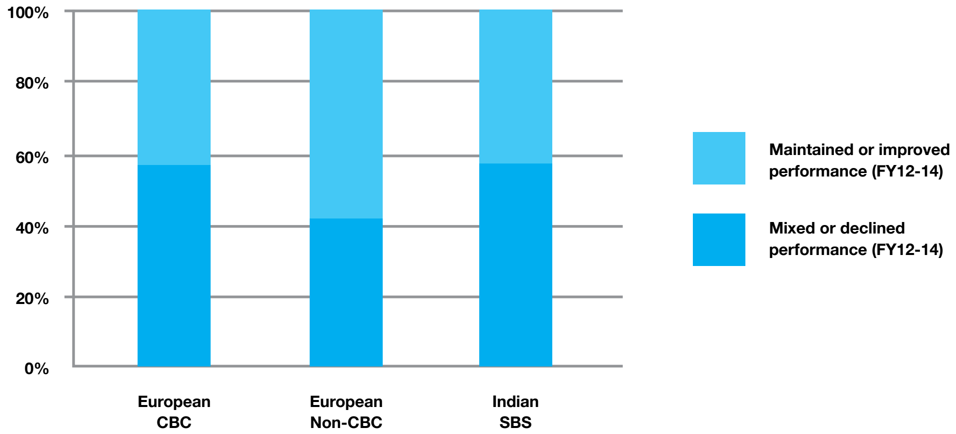


PRICE-TO-EARNINGS RATIO

Price-to-Earnings Ratio (P/E ratio) measures the dollar amount an investor can expect to invest in a company in order to receive one dollar of that company's earnings.

The measure varied significantly between the different companies, sectors and regions assessed (Graph 12).

Graph 12: Price-to-Earnings ratio FY12-14



APPENDIX D
COMPETITIVE MEASURES AND SECTOR-BASED PERFORMANCE

The current performance for each of the companies was assessed against their sectors' performance (on a regional and global basis) using standard measures of company competitiveness (Return on Assets, Price-to-Earnings Ratio, Revenue, Earnings Per Share and Return on Equity). Financial performance information was sourced from GuruFocus.com.[33] An overall summary of sector-based performance was presented in Graph 6.

REVENUE

THE REVENUE GROWTH PERFORMANCE OF EUROPEAN CBC AND NON-CBC REPORTERS WAS COMPARABLE AGAINST THEIR GLOBAL SECTOR COMPETITORS, A KEY FINDING TO SUPPORT A FUTURE SCENARIO WHERE ALL EUROPEAN COMPANIES MAY BE REQUIRED TO REPORT ON A CBC BASIS

(see Graph 13 and Table 6).

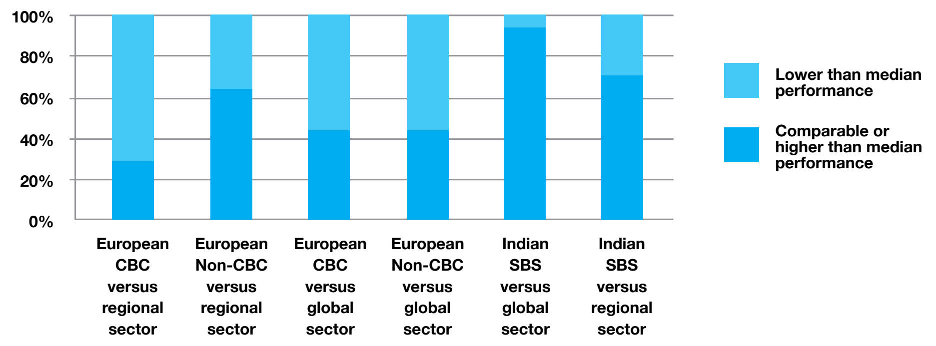
MORE THAN 40 PER CENT OF EUROPEAN CBC REPORTERS ASSESSED HAD A REVENUE GROWTH COMPARABLE OR HIGHER THAN THEIR SECTORS' MEDIAN PERFORMANCE AT A GLOBAL LEVEL.

European CBC reporters Deutsche Telekom and BNP Paribas maintained or improved their revenue growth relative to global and regional sector medians, while Vodafone improved against the regional sector median.

INDIAN SBS REPORTERS DEMONSTRATED STRONG PERFORMANCE AGAINST THEIR GLOBAL SECTORS, WITH MORE THAN 90 PER CENT OF THE INDIAN COMPANIES ASSESSED SHOWING A REVENUE GROWTH COMPARABLE OR HIGHER THAN THEIR SECTORS' MEDIAN PERFORMANCE.

While the performance of the non-CBC reporters was stronger on the smaller, regional dataset (for companies headquartered in Europe), the influence of the sectors represented in the data set should be taken into account (see Sectors represented in the data in Section 5.3).

Graph 13: Revenue performance against sector (Europe region and global region)



The above information has been prepared using current financial performance information from GuruFocus.com.

Note: The calculation of regional sector medians for revenue growth has an upward bias due to the exclusion of companies with insufficient data to calculate five-year growth rate or those with at least one negative Earnings Per Share (EPS) result in the last five years.

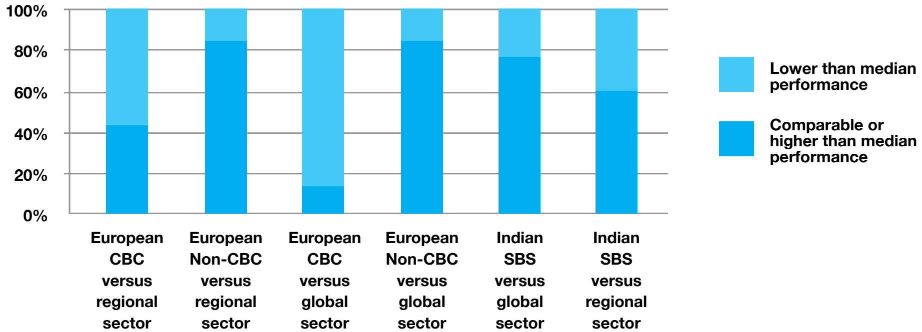
RETURN ON EQUITY AND RETURN ON ASSETS

European CBC reporters performed poorly against European non-CBC and Indian SBS reporters on a regional sector and global basis (see Graph 14). While Deutsche Telekom exceeded their global sector median by 40 per cent, and Telefonica and BNP Paribas performed well at a regional level, the remaining energy, banking and telecommunication companies faced challenges. Reasons for the variation in performance may include:

- The ROE regional sector medians are lower than the relevant global sector medians for the three sectors represented by European CBC reporters (Energy, Communication Services and Banks), highlighting the challenging local market conditions for these sectors. Factors include the fall in oil price, soft commodity prices and low interest rates. Deutsche Telekom reversed this trend, mitigating European revenue losses in FY14 with strong acquisition of new US customers. Local market challenges are not as pronounced with the non-CBC European reporters, with some regional sectors showing higher medians than the relevant global sectors (i.e. Chemicals, Biotechnology and Consumer Goods).

- A more diverse mix of sectors represented by the Indian SBS group (their results are similar to the overall performance of the combined European CBC and non-CBC group, demonstrating a broader spread of sectors).

Graph 14: Return on Equity (ROE) performance against sector (Europe region and global region)



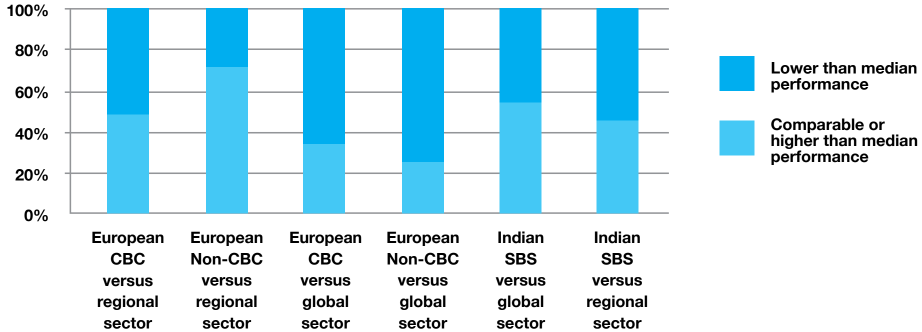
PRICE-TO-EARNINGS (P/E) RATIO

Similar to revenue results,

THE P/E RATIO PERFORMANCE OF EUROPEAN CBC AND NON-CBC REPORTERS WAS COMPARABLE AGAINST THEIR GLOBAL SECTOR COMPETITORS

(see Graph 15). Indian SBS reporters demonstrated mixed performance against their regional and global sectors, while the non-CBC reporters' comparably higher P/E ratio results on a regional basis reflects the local market expectations for company growth.

Graph 15: Price-to-Earnings Ratio (P/E) performance against sector (Europe region and global region)



The above information has been prepared using current financial performance information from GuruFocus.com. **Note**: Price/earnings (PE) results are not calculated for those companies with at least one negative EPS result in the last five years.

EARNINGS PER SHARE

There was insufficient data to assess the EPS growth performance of European CBC reporters on a sector basis, due to the reporting of at least one negative EPS result in the last five years by five of the seven companies.

European CBC reporters and Indian SBS reporters demonstrated mixed results against global peers.

APPENDIX E
KEY DRIVERS OF PERFORMANCE BY COMPANY

Table 7 summarises the key drivers of company performance for each European and Indian company, as generally described in the chairman and/or CEO messages of the latest company report assessed (FY14 for European companies and FY15 for Indian companies).

Table 7: Key drivers of performance by company

		Global Factors							Regional / local factors								
Company Name		Economic slow down / slow recovery	Commodity or oil prices	Monetary easing by central banks	Global financial market volatility	Low interest rates	Exchange rates & inflation	International sanctions	Greek debt uncertainty	Indian economy growth	Indian Government reforms	Seasonal / weather impacts	Climate change legislation	Delay in subsidy recovery	Political crisis / uncertainty	Legislative / regulatory change
European companies	**Sector**																
BASF	Chemicals	1					1								1	
Bayer	Chemicals/ Pharmaceuticals															
BNP Paribas	Banking	1				1										1
Credit Suisse	Banking	1	1			1	1								1	1
Deutsche Telekom	Telecommunications	1														
Lloyds Banking Group	Banking	1														1
Novo Nordisk	Healthcare															
Sanofi	Healthcare															
Schlumberger	Oil field services		1					1							1	
Statoil	Oil, gas and energy		1		1	1							1			
Telefonica	Telecommunications	1					1									
Unilever	Household care products											1			1	
Vodafone	Telecommunications	1														
Volkswagen Group	Automobile				1										1	

Table 7 continued: Key drivers of performance by company

		Global Factors							Regional / local factors							
Company Name		Economic slow down / slow recovery	Commodity or oil prices	Monetary easing by central banks	Global financial market volatility	Low interest rates	Exchange rates & inflation	International sanctions	Greek debt uncertainty	Indian economy growth	Indian Government reforms	Seasonal / weather impacts	Climate change legislation	Delay in subsidy recovery	Political crisis / uncertainty	Legislative / regulatory change
Indian companies	**Sector**															
Hindalco Industries	Basic materials	1	1	1	1				1	1	1					
Infosys Technologies	Technology															
Larsen & Toubro	Industrials		1								1					
Lupin Limited	Healthcare															
Mahindra & Mahindra	Industrials									1	1	1				
Reliance Industries	Oil, gas and energy	1	1		1											
Suzlon Energy	Oil, gas and energy												1			
Tata Chemicals	Basic materials	1								1				1		
Tata Communications	Telecommunications															
Tata Consultancy Services	Technology									1						
Tata Global Beverages	Consumer goods															
Tata Motors	Automobiles	1	1		1				1	1						
Tata Steel	Basic materials	1	1								1					
Vedanta Resources	Basic materials		1								1					

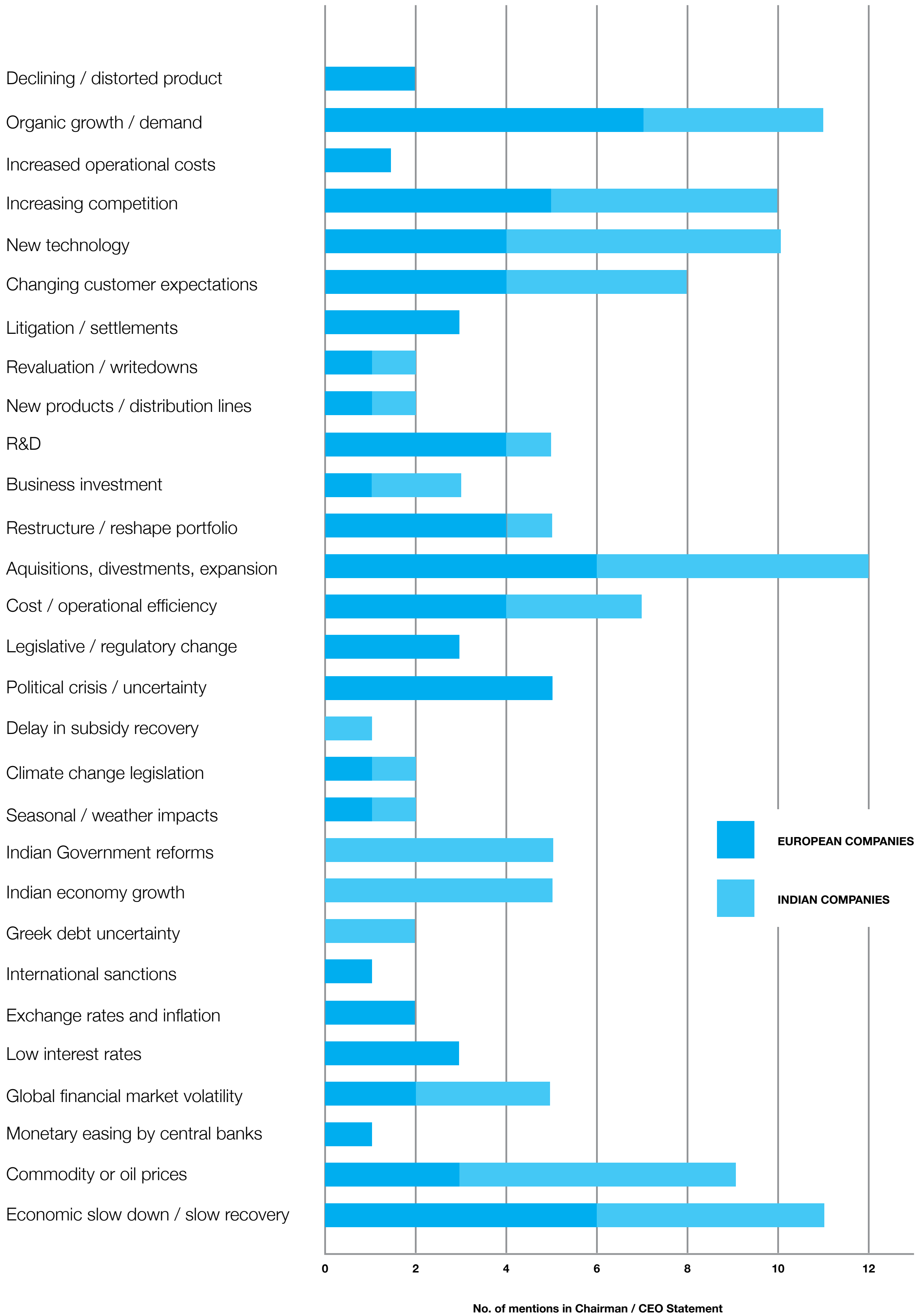
Table 7 continued: Key drivers of performance by company

		Sectoral factors						Company factors							
Company Name		Changing customer expectations	New technology	Increasing competition	Increased operational costs	Organic growth / demand	Declining / distorted product pricing	Cost / operational efficiency	Acquisitions, divestments, expansion	Restructure / reshape portfolio	Business investment	R&D	New products / distribution lines	Revaluation / writedowns	Litigation / settlements
European companies	**Sector**														
BASF	Chemicals								1	1		1			
Bayer	Chemicals/ Pharmaceuticals					1			1			1			
BNP Paribas	Banking		1					1							1
Credit Suisse	Banking							1							1
Deutsche Telekom	Telecommunications		1	1		1		1	1				1	1	
Lloyds Banking Group	Banking	1	1	1											1
Novo Nordisk	Healthcare			1		1						1	1		
Sanofi	Healthcare			1		1			1			1			
Schlumberger	Oil field services		1					1		1					
Statoil	Oil, gas and energy					1									
Telefonica	Telecommunications								1	1					
Unilever	Household care products	1							1	1					
Vodafone	Telecommunications	1		1		1									
Volkswagen Group	Automobile	1				1					1		1		

Table 7 continued: Key drivers of performance by company

		Sectoral factors						Company factors							
Company Name		Changing customer expectations	New technology	Increasing competition	Increased operational costs	Organic growth / demand	Declining / distorted product pricing	Cost / operational efficiency	Acquisitions, divestments, expansion	Restructure / reshape portfolio	Business investment	R&D	New products / distribution lines	Revaluation / writedowns	Litigation / settlements
Indian companies	**Sector**														
Hindalco Industries	Basic materials							1	1						
Infosys Technologies	Technology	1	1	1	1				1	1					
Larsen & Toubro	Industrials														
Lupin Limited	Healthcare		1			1						1	1		
Mahindra & Mahindra	Industrials														
Reliance Industries	Oil, gas and energy										1				
Suzlon Energy	Oil, gas and energy	1	1					1	1				1		
Tata Chemicals	Basic materials			1					1				1		
Tata Communications	Telecommunications		1	1					1						
Tata Consultancy Services	Technology	1	1	1		1									
Tata Global Beverages	Consumer goods			1		1			1				1		
Tata Motors	Automobiles	1	1			1									
Tata Steel	Basic materials						1	1			1		1		
Vedanta Resources	Basic materials						1							1	

Graph 16: Key drivers of performance during the assessment period



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Materiality is defined by the Global Reporting Initiative (GRI) as relevant topics "...that may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders….These material aspects often have a significant financial impact in the short term or long term on an organization. They are therefore also relevant for stakeholders who focus strictly on the financial condition of an organization." Source: Global Reporting Initiative (GRI), GRI G4 Sustainability Reporting Guidelines Implementation Manual (Amsterdam: Global Reporting Initiative, 2013), p.11.

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Note: This item is not a disclosure requirement under the April 2016 proposed amendments to the European Commission's Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches (Strasbourg: European Commission, 12 April 2016). See: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016PC0198&from=EN

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Commentary on the five measures selected has been sourced from online content such as Investopedia.com and GuruFocus.com.

11
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12
Note: The calculation of regional sector medians for revenue growth has an upward bias due to the exclusion of companies with insufficient data to calculate five-year growth rates or those with at least one negative EPS result in the last five years. See GuruFocus.com.

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Note: Refer to the Methodology section for details of the approach taken to general categorisation of competitiveness performance. The assessment of company competitiveness described in Table 5 is limited in scope and is not intended for decision-making on investments.

16
Stocks with a high P/E Ratio can be overpriced so lower P/E Ratio performance has been assumed to be preferred for the sake of simple ranking for this research paper. See Methodology.

17
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GuruFocus.com is an online investment research platform.

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