PWYP NORWAY

Making Transparency Possible

DECEMBER 2018 pwyp.no

- Extended Country-by-Country Reporting (ECBCR) is a measure to equate all businesses and ensure that key figures are reported for each country in which the company is present.
- The basis for the reporting must be the financial accounts - no other option for reporting provide trustworthy information to stakeholders and the wider society.
- To make sense, the information must be reported as it is included in the consolidated financial statements - before elimination. Eliminations must therefore be reported separately.

Written by: Frian Aarsnes

Guide to extended country-by-country reporting (ECBCR) for businesses

A guide to transparency as a mechanism for equal competition between companies

Published by: Publish What You Pay Norway (PWYP Norway)
Year of publication: 2018
ISBN 978-82-93212-87-4

Author: Frian Aarsnes
Print: Copy Cat

Legal disclaimer:

This publication is based on information provided to Publish What You Pay Norway ('PWYP Norway') and individuals acting on behalf of PWYP Norway. The conclusions presented herein are based only on information so provided. PWYP Norway and those acting on behalf of PWYP Norway have strived towards acquiring full overview of all relevant information and data to prepare this publication. We do not accept liability whatsoever for any insufficiency or inadequacy of the information and data that this publication is based upon.

While PWYP Norway has taken all reasonable care to ensure that the information contained in this publication is accurate, publicly available information and data has not been verified by the companies or users and neither PWYP Norway nor any person acting on behalf of PWYP Norway in the drafting and preparation of this publication can be held legally responsible for the content or guarantee that it is totally free from errors or inaccuracies.

Any references contained in this publication pertaining to any kind of sources, publications or websites from third parties, are inserted for convenience only and are purely for informative purposes. They do not constitute endorsement of material on those sites, publications or sources. PWYP Norway and those acting on its behalf accept no liability whatsoever for any loss or damage arising from the use of such information.

Guide to extended country-by-country reporting (ECBCR) for businesses

CONTENT

1. WHAT IS (EXTENDED) COUNTRY-BY-COUNTRY REPORTING? 4
2. WHY IS EXTENDED COUNTRY-BY-COUNTRY REPORTING IMPORTANT? 5
3. WHY REPORT EXTENDED CBCR? 5
4. WHO SHOULD REPORT? 6
5. WHY IS EXTENDED CBCR THE MINIMUM REPORTING? 6
6. ELEMENTS IN THE MINIMUM REPORTING 7
7. WHAT IS BEST PRACTICE? 12
8. REFERENCES 13

1. WHAT IS (EXTENDED) COUNTRY-BY-COUNTRY REPORTING?

Country-by-Country Reporting (CBCR) is an expression that now has several meanings. It is therefore important to explain what we mean by country-by-country reporting, and clear away some misconceptions related to country-by-country reporting that we have noticed.

In this business guide, we are not concerned with the version of country-by-country reporting that was established by the OECD during its work on Base Erosion and Profit Shifting (BEPS) to obtain information for tax authorities for tax purposes (here called country-by-country reporting for BEPS-purposes or CBCR-BEPS).

In this guide we are concerned with the open reporting of taxes by country (CBCR) and the reporting of the context these taxes and fees occur in, country by country (Extended CBCR or ECBCR for short). This reporting should take place in, or in connection with, the companies' financial reporting because this is reporting of accounting information.

The regulation on country-by-country reporting (Regulation 2013-12-20-1682) is based on the Accounting Act. Currently, it only applies to the extractive industries, including forestry. Nevertheless, it is also possible to apply the regulation to other sectors. It will be important to do so in the long term to ensure that other forms of reporting do not develop for industries other than those already applicable to extractive industries and forestry. The regulations, according to their wording at the end of 2018, contain some weaknesses that will be reviewed under the individual points on reporting below.

Extended CBC Reporting is two-fold:

- CBC-reporting consists of reporting all forms of payments and allowances to governments, country by country, in accordance with Regulation §3, Section 5.
- Extended CBC-reporting consists of country by country reporting of 8 key numbers that give the context of the taxes that are included in the CBC reporting:
    - (1) Investments, (2) (sales) revenue, (3) production volume (relevant only for extractives) and (4) costs in accordance with Regulation §4, Section 3.
    - (5) Number of employees and (6) calculated payable income tax, as covered by Regulation §5, Section 3 (see calculated deferred income tax below).
    - In addition, PWYP Norway is of the opinion that companies must report the following balance sheet numbers: (7) Payable Tax 1.1. (year opening) and (8) Payable Tax 31.12 (year-end) to provide the link between taxes in the accounts and the CBC reporting of taxes.

Other information in the regulations is desirable, but not critical to the reporting or is unnecessary and thus belongs somewhere other than in the open CBC reporting regulation:

- Desirable: where the subsidiary is resident, and descriptions of its activities
- Unnecessary: interest cost, net income, profit before tax, calculated deferred income tax, paid income tax and accumulated earnings.

Guide to extended country-by-country reporting (ECBCR) for businesses

2. WHY IS EXTENDED COUNTRY-BY-COUNTRY REPORTING IMPORTANT?

Transparency is critical for countries that are based on the principle of equality and the principle that all people have equal rights and equal opportunities. In order to have equal opportunities, one must have information. This applies to equal opportunities for insight into the activities of government authorities and equal opportunities for insight into the activities of companies. Lack of transparency allows for differing information and thus different rights and different opportunities. This asymmetry of information directly distort competition, and reporting of CBCR and ECBCR is therefore not only an instrument for keeping authorities accountable for the taxes and fees companies have paid, but also an important instrument for ensuring equal competitive conditions between companies.

Transparency, however, is not just about the authorities and the companies themselves. Transparency is also about companies that seek funding in open financial markets, or that are so large that they are of general interest among customers and other social interests, and thus must be transparent in return towards the society and the markets of which they are a part. Consequently, transparency is about:

- giving investors the same type of country by country information (both CBCR and ECBCR) regardless of the size of the enterprise or business activity so that investors can compare businesses across sizes and countries and can make more accurate risk assessments concerning the companies in which they may want to invest.
- giving financial markets the same type of information so that funding is made available in an open market where funders are equitably informed regarding key information, country by country.
- giving customers the same type of information so that they can compare companies based on key information and then act without some companies attempting to gain information benefits over others by keeping important information from the customers.
- giving society at large sufficient information to compare companies across sizes and countries, including being able to obtain better statistics on trade and taxation across national borders.

Transparency is hence a critical part of seeking funding in open financial markets, as well as selling products and services in open markets. When a company seeks funding in open markets – it must be open in return.

3. WHY REPORT EXTENDED CBCR?

As of the end of 2018, transparent reporting of taxes by country (CBCR), and the context in which these taxes occur in (ECBCR), is only legally required for the extractive industries (oil, gas, mining) and forestry. Outside of Norway, only country-by-country reporting of taxes and fees (CBCR) is required in the EU. Simultaneously, due to lack of context in the EU, it is also expected that reporting of context (equal or similar to ECBCR) will become obligatory in order for country-by-country reporting to be meaningful. In a recent analysis of the effectiveness of the rule in the EU, several weaknesses have been revealed. In round tables carried out in Norway, the dialogue indicates so far that ECBCR will be able to address several of the weaknesses that have been mapped in the EU regulations. It is likely that other industries will also be covered by CBCR and ECBCR reporting as the regulation improves.

Companies interested in ensuring equal competition between national and international companies should report CBCR and ECBCR, if taxes and fees have been paid to multiple countries. Some companies will do this voluntarily while some have to be "forced" to do so through laws and regulations. Publish What You Pay Norway (PWYP Norway) is interested in having a dialogue with companies about the benefits of reporting CBCR and ECBCR, where relevant. Support from several sectors in the business community suggests that several companies see that such reporting is in their own interest.

There is a fundamental connection between businesses, society and the environment. The companies' most important contribution is to develop a responsible, profitable and sustainable business model for production of goods and services that are in demand. Companies provide resources, and use expertise and technology to produce these goods and services and thereby create jobs, revenue and wealth. This must be done by integrating social and environmental responsibility into the business model. This is part of being a financially sustainable business.

Reporting CBCR and ECBCR is part of social responsibility in business operations, and ensures equal information from all companies, regardless of size and activity, to investors, financial markets, governments and the wider community. Those companies that are only engaged domestically will, through their financial reporting, satisfy the information needs. However, as soon as a company is engaged in more than one country, it will become necessary to report a minimum of key information country by country so that information from one company can be compared with any other company, and that the companies thereby are equated with regard to the information supplied.

PWYP Norway is convinced that companies that voluntarily integrate CBCR and ECBCR into their accounting and social reporting will benefit from this among investors and others.

4. WHO SHOULD REPORT?

Any company that has operations or activities in multiple countries should report according to ECBCR. This business guide presupposes reporting according to an ECBCR minimum standard, and does not discuss reporting beyond the minimum standard. Furthermore, it is not a requirement that the minimum standard be introduced as law or regulation. Rather, it is assumed that this is the minimum amount of information that companies should report for Country-by-Country Reporting (CBCR) to be meaningful. Accordingly, the only prerequisite for reporting according to the ECBCR, is that the entity as a whole, or their representatives, have paid taxes or fees in more than one country, other than the home country, regardless of the form in which the taxes or fees were paid.

ECBCR is a measure to equate all businesses and ensure that key figures are reported for each country in which operations or activities take place. The exception is pure exports from one country to a company outside the group in another country, without any payment of taxes or fees; however, the information on income from these countries should still be included in the revenue note country by country so that information on all countries where a company has revenues, with or without payments to the other country's authorities, will exist. This is because it is also essential for statistical purposes that cross-border trade be openly documented so that investors and others can freely assess the risks and income potential of the individual enterprise's business model.

5. WHY IS EXTENDED CBCR THE MINIMUM REPORTING?

The eight key figures identified have been carefully selected to ensure equal reporting between the various companies. The other reporting requirements are set by the authorities in the formulation of the regulation and seem to cover different purposes, including reporting to the tax authorities. PWYP Norway doesn't believe that reporting to the tax authorities is helpful when establishing the minimum reporting to the rest of society. Our recommendation is consequently that the other reporting requirements be removed the next time the regulations are adjusted, and that these reporting requirements be coordinated with other reporting requirements to the tax authorities.

Each element of the minimum reporting (8 key figures) will be reviewed individually below, but here we will only comment on why the other elements that are included in the Norwegian regulation on country-by-country reporting should not be continued in general for other companies (and why they should be removed for the extractive industries and forest industry).

These elements in the regulation should not be continued for other companies that report CBCR and ECBCR voluntarily, and the regulation should be changed in these areas for companies with mandatory reporting:

a) Where subsidiaries claim residence, and description of their activities
This information belongs under other notes to the accounts instead of Extended CBC.

b) Interest cost
This information belongs in the tax reporting, not in an open Extended CBCR.

c) Net income
Revenues are already included in the reporting, and net income does not give additional information in itself. All revenues should be reported based on gross revenues before elimination and/or before cost of goods.

d) Profit before Tax
This information belongs in the tax reporting, not in an open Extended CBCR.

e) (Calculated deferred) income tax
Only calculated payable income tax should be reported, not deferred taxes.

f) Payable income tax
Already part of the CBC-reporting and should not be reported more than once.

g) Accumulated earnings
This information belongs in the tax reporting, not in an open Extended CBCR. This information does not equalize companies and cannot be defended as part of an open Extended CBCR for competition purposes.

Interested companies are encouraged to support PWYP Norway when it comes to changing the regulation so that the goal of equal information for competition purposes can be achieved.

6. ELEMENTS IN THE MINIMUM REPORTING

Here we will review each of the eight key figures identified and explain why these are the critical key figures to report. First, however, we will explain two aspects of reporting that are essential to achieve accurate and comparable reporting across businesses and across countries:

- **Eliminations reported separately as "own country"**

  Through its transactions the individual company has distributed income and costs between the various companies in the group, or the various parts of the company, in the way the group / company believes is correct. This means that a profit (or loss) occurs in each country. It is this profit or loss (income minus costs) together with investments, production volume for extracting companies, number of employees, and estimated payable income tax / tax payable 1.1 / payable tax 31.12. which shows the extent and outcome of the business activity in each country. Therefore, reporting of each country in country-by-country reporting must occur before eliminations, not after eliminations. It is natural for eliminations to be reported as "a separate country" so that the individual countries and eliminations can be summed up separately and controlled against the main accounting lines in the financial reporting.

- **No double reporting of investments by including depreciation**
  It is already within the ECBCR reporting that the company must report investments according to the regulations. When investments are reported, there will be an unnecessary double reporting if accounting depreciation is included in the reporting of costs by country. Revenue less costs shall therefore sum up to EBITDA, i.e. Earnings Before Interest, Tax and Depreciation and Amortization (income before interest, tax and depreciation). EBITDA is a standard measure which, when summarizing the individual countries and eliminations, can be controlled against reported EBITDA at group level / for the entire company.

For all practical purposes, the ECBCR reporting must hence consist of the "cash" items (revenues and costs) in an account, as the CBCR reporting consists of all cash flows (regardless of form) from the company to the authorities of different countries.

(1) Investments

Theoretically, investments should have been the equity investment a company makes, since loan financing of investments goes net in zero for the company (loans are repaid to the same amount that was raised and interest expenses are not included in costs). **Until there are accounting standards in this area, the simplest thing to do is ensure that the investments reported in ECBCR are those that are included as investments in the cash flow analysis. For the cash flow analysis**, there are accounting standards that enable reporting of investments to be standardized across companies.

Investments are both the purchase (and sale) of operating assets and the purchase (and sale) of shares and units, and any other payments for goods and services that are capitalized in the accounts and which are associated with the investment activities. Anyone reporting by ECBCR should not normally need to make any adjustments or comment on investments, if the investments by country plus eliminations add up to investments in the cash flow analysis. If there are deviations in relation to investments in the cash flow analysis, this should be commented on.

Investments consist of the following three elements:

- direct investments a company makes in a country through a permanent establishment
- indirect investments a company makes in a country through equity investments in subsidiaries
- reinvestments that subsidiaries make with their own cash flows

All of these investments are expected to result in returns (profits) that are either paid out as interest expenses (returns on loans) or as dividends (returns on equity).

Repayment of invested capital from a permanent establishment or from a subsidiary will, according to accounting standards, normally be included as a negative investment. Capital will therefore remain invested unless it is returned. If it is not returned, and a permanent establishment or subsidiary is wound up, capital is considered to have been lost (negative return).

Interest expenses in connection with loans are not supposed to be reported as an expense because interest expenses are not part of EBITDA. EBITDA is income before interest, taxes and depreciation. Why is it not important to report interest costs? Due to several factors:

- EBITDA is "cash profit" that is available for several different purposes: reinvestment, tax payments, interest payments, or payment of dividends. Reinvestment is included in the ECBCR reporting. Tax payments are included in the CBCR reporting. The remainder of EBITDA will, therefore, be paid out as interest and dividends.
- Interest internally within a group becomes a zero-sum game. In an internal company that receives interest you will get EBITDA plus interest while in another internal company that pays interest you will get EBITDA minus interest. Interest paid minus interest received equals zero for the group.

- Normally, untaxed interest income in a (low tax) country plus tax deductions obtained on interest cost in a (high tax) country rarely exceed the return requirement on equity. This will normally mean two things: (1) the required equity investment is reduced as a result of (internal) debt (less capital that needs return) and (2) the return on the actual deposited equity goes up (loan capital is normally less expensive than equity financing). The effect is that it will be easier to achieve a satisfactory return on the equity part of the investment.
- For the individual authority, the right to deduct interest is not a problem to handle. There are good practices internationally for intercepting high interest rates, limiting the right of deduction for interest based on thin capitalization and otherwise good opportunities for each country's authority to determine the size of interest deductions that are accepted in the tax assessment. Interest rates are consequently largely a matter for the tax authorities and do not belong in an open ECBCR.

For the reasons stated above, it was previously pointed out that "b) Interest expense - This information belongs in the tax reporting, not open Extended CBCR". Therefore, interest rate reporting can, in an open ECBCR, appear to be "noise" rather than a real source of information. That being said, if a company includes interest income under revenues and thus as part of EBITDA, then they must take in the corresponding interest expenses below costs in other countries so that EBITDA remains unaffected.

(2) (Sales) revenue

Norwegian regulations specify that companies must report sales revenues as part of ECBCR. Initially, "Sales" in sales revenues should have been removed. The companies should report all revenues included in EBITDA, regardless of whether this is due to income from sales, income from derivative contracts, income from the sale of operating assets, or other income. If the income is part of EBITDA then it must be reported. If the income is not part of EBITDA, (for example, interest income normally is not) then it should not be reported either. See justification above.

Revenues should never be reported in any country after elimination. That is, revenues allocated to a country through transactions must be reported in full. Any eliminations that affect the country's income in connection with consolidation into the consolidated financial statements shall never affect the income in the country-by-country reporting. Instead, revenue eliminations should be reported together in the same way as individual countries are reported. In practice, this is equivalent to "a separate country". If country reports are in columns, then eliminations must be reported together with them but in a separate column. If countries are reported in rows, then eliminations must be reported together with them but in a separate row.

The only normal exception to the main rule above is if eliminations must be carried out both before and after EBITDA because in one of the accounts there is an item before EBITDA whereas in the second account, the corresponding item is after EBITDA. In such cases, the elimination changes EBITDA (revenues less costs) in the group compared to one in which one summarizes EBITDA on all companies included in the consolidation. Such eliminations must be reported together in a separate column. Companies that have such eliminations must then split elimination reporting into two columns or two rows (depending on how countries are reported in the layout).

Companies that report both the income and the cost of internal transactions outside EBITDA, when these are not interest income and interest expenses, must report income and expenses included in EBITDA, and on a separate line the income and expenses not included in EBITDA. This must be done in order for the reporting to be comparable between companies. Any attempt to keep internal transactions outside of revenues and expenses, and at the same time to not report them on their own line, must be considered as sabotage of the reporting because the objective of reporting is comparability, and failure to report items normally included in EBITDA effectively destroys comparability.

(3) Production volume (relevant only for extraction companies)

For most companies, reporting production volume will not be relevant because companies are not involved in primary production. By primary production is meant (1) the extraction of non-renewable resources or (2) the production of vulnerable renewable resources.

Non-renewable resources include coal, oil, gas, metals, minerals and rare earth minerals. It does not matter if the extraction takes place within the jurisdiction of a country or if the extraction takes place in international waters.

Vulnerable renewable resources currently only include forestry products (deforestation). In a sustainability context, however, companies should expect fish to be included over time due to the tendency to overfish when a fishery resource is being harvested.

Where more than one type of resource is produced, the production volume should be stated for each type. This is because statistics in the area have significant shortcomings and sources of error for most countries. In a sustainability context, it is essential to obtain good statistics on the production of the individual raw material and to know in which total context said resource extraction takes place: as a by-product of other production, or as the main resource. For sustainable management, information at this level is absolutely essential. At the same time, reporting of production volume down to the individual type is helping to give investors and others a more nuanced picture of the company's income.

(4) Costs

Just as for revenue, companies should report all costs included in EBITDA regardless of whether they are the cost of goods, labor costs, other operating costs, administration, or others. If the cost is part of EBITDA then it must be reported. If the cost is not part of EBITDA (such as interest costs, which normally are not) then it should not be reported either. See the corresponding discussion on revenue above.

Costs should never be reported in any country after elimination. That is, costs allocated to a country through transactions must be reported in full. Any eliminations that affect the country's cost in connection with consolidation into the consolidated accounts should never affect the cost. Instead, cost eliminations, like revenue eliminations, should be reported separately "as a country".

The only normal exception to the main rule above is if eliminations must be carried out both before and after EBITDA because in one of the accounts there is an item before EBITDA whereas in the second account, the corresponding item is after EBITDA. In such cases, the elimination changes EBITDA (revenues less costs) in the group, as compared to if one summarizes EBITDA on all companies included in the consolidation. Such eliminations must be reported together in a separate column, that is separate from other eliminations.

The goal of reporting is always comparability. As long as costs are reported in such a way that EBITDA becomes comparable across companies and industries, the goal has been achieved. See the discussion on revenues above.

(5) Number of employees

How many employees the company has in each country is a key piece of information with regards to analyses and statistics. It is desirable that the number of man-years be reported, and this is what should be reported for the extraction companies and forest industry according to the CBC regulations. Such information is not always available on a uniform basis across businesses, industries and countries. The second-best solution would therefore be to use the company's existing information on the number of employees. This is a uniformly accessible piece of information in all industries. At the same time, when a person is an employee, this is a signal that their labor is of a longer duration that does not vary with the business cycle. This means that the number of employees in many contexts is equally interesting for analytical purposes, such as the number of man-years, and in the context of statistics, the risk of double-counting is minimized by focusing on the number of employees. Man-years could potentially be counted both in the company in which the man-year work was actually performed (hired), and in the company that contributed to the man-years (employee). There are a small number of people who have more jobs, but the likelihood that they have jobs in several companies within the same industry is absolutely minimal because most companies do not hire people who also have jobs in a competing company.

Until the number of full-time equivalents becomes standard reporting in all industries, the number of employees is hence also a good measure of how many people acquire their long-term main income from the companies in question. It is also not the peripheral employees that are most interesting, but where the majority of employees' work. It is data on employees at the end of the financial year that are normally collected, and it is therefore natural that it is the same information that is reported country by country. The company must state whether the number of employees is reported, or whether the company has switched to reporting the number of man-years country by country.

(6) Calculated, payable income tax

Norwegian regulations on country-by-country reporting §5, third section, subsection g) states that reporting companies shall report "income tax in the fiscal year as calculated by the taxpayer's profit or loss in the fiscal year". The problem with this provision is that it is ambiguous. Country by country reporting is about paid taxes, and it will hence be natural to interpret the text as meaning that payable income tax is calculated as provided for in §5, section 3, subsection g) of the regulations. At the same time, the wording is such that it can be interpreted as the year's estimated tax on profits or losses to be reported, and this tax also includes a deferred tax element that does not belong in a country-by-country reporting.

The goal of introducing CBCR is to report on payments to authorities and the information regarding context that ECBCR provides must therefore address the context of payments. At this point the regulation should be clarified to mean "payable income tax in the financial year as calculated on taxable profit". Companies that voluntarily start reporting CBCR and ECBCR should report what is calculated in payable income tax for the year, to be consistent in the reported number material.

(7) Payable tax 1.1 and (8) Payable tax 31.12.

The relationship between payable calculated income tax in the ECBCR and paid tax to the authorities goes via accrued tax payable at the beginning and end of the financial year. For companies with deviating accounting years, 1.1. and 31.12 are accordingly interpreted as the beginning and end of their fiscal year.

The relationship is as follows:

Payable Tax 1.1 + This Year's Payable Income Tax – Payable Tax 31.12 = Paid Tax.

This connection is the link between the accounts / ECBCR and countries in the CBCR reporting of taxes. CBCR's tax reporting, however, contains many more types of taxes than income taxes, and therefore the above context must only be reconciled with "taxes and duties imposed on the enterprise's income, production or profit" as defined in §3, section 5, subsection b) of the Norwegian regulations. If Paid Tax according to ECBCR does not match Paid Tax according to subsection b) in the CBCR reporting, this should be commented on in the CBCR reporting.

7. WHAT IS BEST PRACTICE?

Best Practice would be to

- Report the CBCR in connection with the annual accounts. This is done, among other things, by Equinor. As of today, the regulations require that a separate report be made for payments to the authorities, but such a report separately from the annual accounts means that the information is less accessible to users than if the information were reported in the same report as the annual accounts. Such a joint report also limits the reporting and distribution costs.
- Report ECBCR as a note to the accounts. This has not been done so far because the regulations do not require ECBCR as note information. However, the ECBCR is accounting information and should be included as note information. This is important in order for ECBCR, when summing up individual countries + eliminations, to correspond to key figures in the accounts.

Best practice is to report all 8 key figures together and not spread them across reports. This is to assist the reader in seeing cross-country relationships and to facilitate the collection of information for analysis and statistics.

When it comes to the individual key figures, best practices are:

For investments: investments in a permanent establishment, in paid-in equity, and reinvested cash flow in subsidiaries, must be reported. Investments should normally be summed up to investments in the cash flow analysis in the financial accounts, and deviations from this should therefore be commented on.

For production: production volume must be reported per type of production, without exception, to ensure correct collection of this information for statistical purposes.

Revenue and costs must be reported in such a way that each individual country appears without eliminations, and eliminations are reported in separate columns (rows). It is important that the result of revenues less costs, EBITDA, be comparable across companies, and eliminations, where one side is included in EBITDA and the other side not included in EBIDTA, are reported separately from other eliminations so that total EBITDA, adjusted for these the eliminations, are in line with EBITDA in the income statement. In order for revenues less costs to yield EBITDA, costs must not include depreciation. This is in line with the fact that investments are reported, and thus investments must not be counted twice by including depreciation in costs.

The best practice for the number of employees in extractive industries and forestry (mandatory reporting according to the country-by-country regulation) is to report the number of man-years. Since the regulation specifies the number of employees, there is room for interpretation as to whether that means the number of physical employees or the number of employees in the form of man-years. Reporters must, therefore, specify which is being reported.

Best practice for companies reporting CBCR and ECBCR voluntarily is to use the industry standard. Normally, this means that the number of physical employees is reported, and it is only natural to switch to the number of man-years when and if such reporting becomes standard and specifically states that it is the number of man-years that is to be reported.

Best practice is to understand "income tax calculated" as payable income tax calculated. Best practice is also to include taxes payable in the balance sheet at the beginning and end of the fiscal year so that income tax in the accounts and the ECBCR reporting can be reconciled with Paid Tax in the CBCR LLR reporting.

It is quite possible to report more than this country by country, but in that case it should be based on developing industry standards or good accounting practices that develop the reporting in that direction.

Reporting less than these 8 key figures is not best practice, even if public regulation requires less information than this. This is because there are weighty arguments behind each of the 8 key figures, and there are weighty arguments behind a standardization of the minimum information required in an ECBCR reporting to serve as a context for the CBCR reporting of payments to governments.

The eight key figures identified have been carefully selected to ensure equal reporting between the various companies. In total, such reporting will help promote better statistics across countries, and thus contribute to the UN sustainability goals.

Two of the UN Sustainability Goals underline the importance of tax and capital flight for sustainable development, especially to reduce inequalities both between and inside countries, and to build peaceful and inclusive societies. The UN has asked the private sector to help implement measures and ensure interaction across the public and private sectors and in collaboration with civil society organizations. The role of business is very important.

8. REFERENCES

For more information about Extended Country-by-Country Reporting, we refer to the web pages of Publish What You Pay Norway (PWYP Norway) at:

http://www.publishwhatyoupay.no.

Extended Country-by-Country Reporting is originally based on a report by PWYP Norway:

«An extended country-by-country reporting standard. A policy proposal to the EU. Vol 2 " – Author Richard Murphy, edited by Frian Aarsnes, PWYP Norway, November 2013.

We expect this report to be updated during 2020 so that the ECBCR can be compared to other initiatives discussed today to ensure understanding of how they differ.

Reports analyzing Extended CBCR in Norway 2014 to 2017 (and look for the upcoming 2018-report)

Downstream pollution of upstream numbers (2015)

- Numbers in Statoil's upstream country-by-country report the report is not transparent
- Reporting only the purchase of goods and services, and not all costs, creates the illusion that profits from the extraction activities (upstream) are higher than they actually were.
- Statoil's report is so misleading that Statoil should republish with correct numbers for upstream activities

What Statoil reported and what Statoil should have reported (2016)

- Statoil reported on the minimum transparency requirement, called a country by country reporting, on a half page in its sustainability report for 2014.
- PWYP Norway shows that Statoil could have easily reported on a meaningful transparency requirement, called an extended country by country reporting, on that half page.
- When companies can show their country-by-country presence on a half page, why will politicians not demand it from them?

The holes are becoming smaller (2017, only available in Norwegian)

- Statoil's country-by-country report is steadily improving. It is positive that the CBCR information is now reported together with the financial statement.
- There is still no complete report in one place. The reader must collect numbers from multiple locations in order to see the complete picture.
- It is still not possible to reconcile tax in the accounts with paid taxes per country.

The weaknesses are clearly showing...but the regulator is sleeping (2018)

- It is very positive that Statoil reports country-by-country information together with its annual accounts, and the legislator should ensure that this become standard
- Statoil still does not report eliminations separately, but here it is the legislator that needs to change the regulation to get a meaningful reporting
- It is still not possible, due to lack of information, to use the formula 1.1. Tax + Payable Tax – 31.12. Tax to reconcile tax in the accounts against taxes paid

@PWYPNorway facebook.com/PWYPNorway PublishWhatYouPay Norway

PWYP Norway is the Norwegian chapter in a network of 800 organisations from more than 70 countries worldwide. We work for financial transparency in the extractive industry to promote sustainable societies.

ISBN 978-82-93212-87-4

Making Transparency Possible