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TRANSPARENCY IN CORPORATE REPORTING

Assessing the World's Largest Telecommunications Companies 2015 Report

Transparency International is a global movement with one vision: a world in which government, business, civil society and the daily lives of people are free of corruption. With more than 100 chapters worldwide and an international secretariat in Berlin, we are leading the fight against corruption to turn this vision into reality.

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Transparency International Hungary is an independent non-governmental civil society organisation and is a member of Transparency International's global network. It aims to fight corruption, to promote transparency and accountability in the public and private sectors and to facilitate access to information of public interest.

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1

INTRODUCTION

With currently more than 7 billion mobile subscriptions worldwide and 3.2 billion internet users, the growth of the telecoms sector has enabled unprecedented opportunities for social and economic development.[1] Unfortunately this impressive progress has not meant an end to the dangers of corrupt practices.

Transparency International views transparency and accountability as the cornerstones of the fight against corruption, in both the public and private sectors. Companies do have a particularly important role to play in stemming the flow of corruption. This is why responsible businesses must implement comprehensive anti-corruption programmes, be transparent in their operations and organisational structures and provide accountability to their stakeholders.

Not only does the business sector in general face alarming risks of corruption around the world, the telecommunications sector in particular is affected by the risks of corruption inherent in its business transactions. The telecommunications sector, which is defined for the purposes of this report as the information and communication technologies (ICT) sector, plays a critical role in today's social, cultural and business life. The total market value of the major publicly listed companies in the sector is approximately US$2 trillion.

This report ranks the world's largest telecommunications companies based on their disclosure practices in three dimensions: anti-corruption programmes, organisational transparency, and country-by-country reporting.

Public reporting demonstrates whether basic anti-corruption measures are in place and shows a company's level of commitment to anti-corruption. Assessing organisational transparency indicates the level of transparency of the company structure. Country-level disclosure makes it possible to collect financial data across all countries of operations.

Twenty-nine per cent of the world's 3.4 billion people living in rural areas are expected to be covered by 3G mobile broadband by the end of 2015, opening up new perspectives never anticipated before. This expansion also brings with it considerable risks of corruption as mobile services are increasingly provided in challenging environments where the rule of law is weak.

In some cases, this rapid growth, particularly into new markets, may have actually exacerbated the problem. Because it is a regulated industry that requires government approvals and necessitates large capital outlays, the telecommunications industry is particularly susceptible to a range of corrupt practices. Key areas where the threat of corruption is significant include: the licensing process; market regulation and price-setting; the supply chain; and third-party management and customer services. The costs of this corruption can be high, raising prices for services for consumers and businesses and obstructing fair access by users to competitive services. Corrupt practices in the sector are familiar: bribery; misuse of gifts and entertainment; political corruption, cronyism, nepotism and conflict of interest; money laundering; corporate misconduct; and lack of integrity.

Companies in the telecommunications sector also face particularly high corruption risks as a result of their market expansion into challenging environments in under-served parts of the world. According to Transparency International's 2011 Bribe Payers Index sector analysis,[2] the telecommunications sector scored 6.7 on a scale of zero to ten in regard to the likelihood of paying bribes abroad.

The "interconnectedness" within the telecoms sector critically impacts the operation of all players, including their vulnerability to corruption. Developments such as liberalisation, where known risks of corruption were ignored and safeguard mechanisms were not put in place, led to high exposure to corruption, along with high incentives and opportunities for corruption that came with large licence fees, equipment contracts, purchase of state operators and mergers and acquisitions.

[1] International Telecommunications Union's (ITU's) ICT Facts and Figures 2015 report.
[2] www.transparency.org/bpi2011/interactive2

The telecommunications sector is thought to be particularly vulnerable to risks of corruption due to historical failures and structural weaknesses. As a result, a number of leading telecommunications companies have been subject to investigations:

- TeliaSonera acquired licences for US$300 million from Takilant Ltd for 3G service rights in Uzbekistan.[3] Takilant Ltd.'s ownership is allegedly linked to the daughter of the president of Uzbekistan.[4] Failure to conduct more than superficial legal due diligence at the time of acquisition led to major criticism in Sweden, with related court actions in a number of countries. The CEO, a number of directors and senior employees resigned as a consequence.
- In 2009 China Mobile Communications Corporation vice chairman Zhang Chunkiang received a suspended death sentence for taking more than US$1.2 million in bribes.[5] In 2013, former vice president Lu Xiandong received a life sentence for taking US$4.10 million in bribes.[6]
- Magyar Telekom (and its majority owner Deutsche Telekom) paid close to US$95 million in criminal penalties to settle a Foreign Corrupt Practices Act investigation by the US Department of Justice.[7] According to the DOJ Magyar Telekom used Greek subsidiaries to lobby and bribe FYR of Macedonia government officials to prevent a disadvantageous change to the country's telecommunications market policy.[8] According to court documents[9] approximately US$6 million was paid in sham contracts. Magyar Telekom also falsified its books relating to its activities in Montenegro.[10]
- Alcatel-Lucent paid US$137 million to settle criminal charges with the US Department of Justice and in disgorgement to the US Securities and Exchange Commission.[11] The corrupt acts, which were cases of bribery of government officials to obtain better contracts (disguised as payments to consultants), took place between 1999 and 2006, in Honduras, Costa Rica and Taiwan.[12]

To ensure compliance with laws and to manage the broader risk of corruption, telecommunications companies must adopt strong and coherent policies and management systems to curb bribery and corruption. The public disclosure of anti-corruption policies, organisational transparency and country-by-country results can be a strong indicator of the quality and comprehensiveness of a company's efforts in addressing bribery and corruption, and of its commitment to transparency.

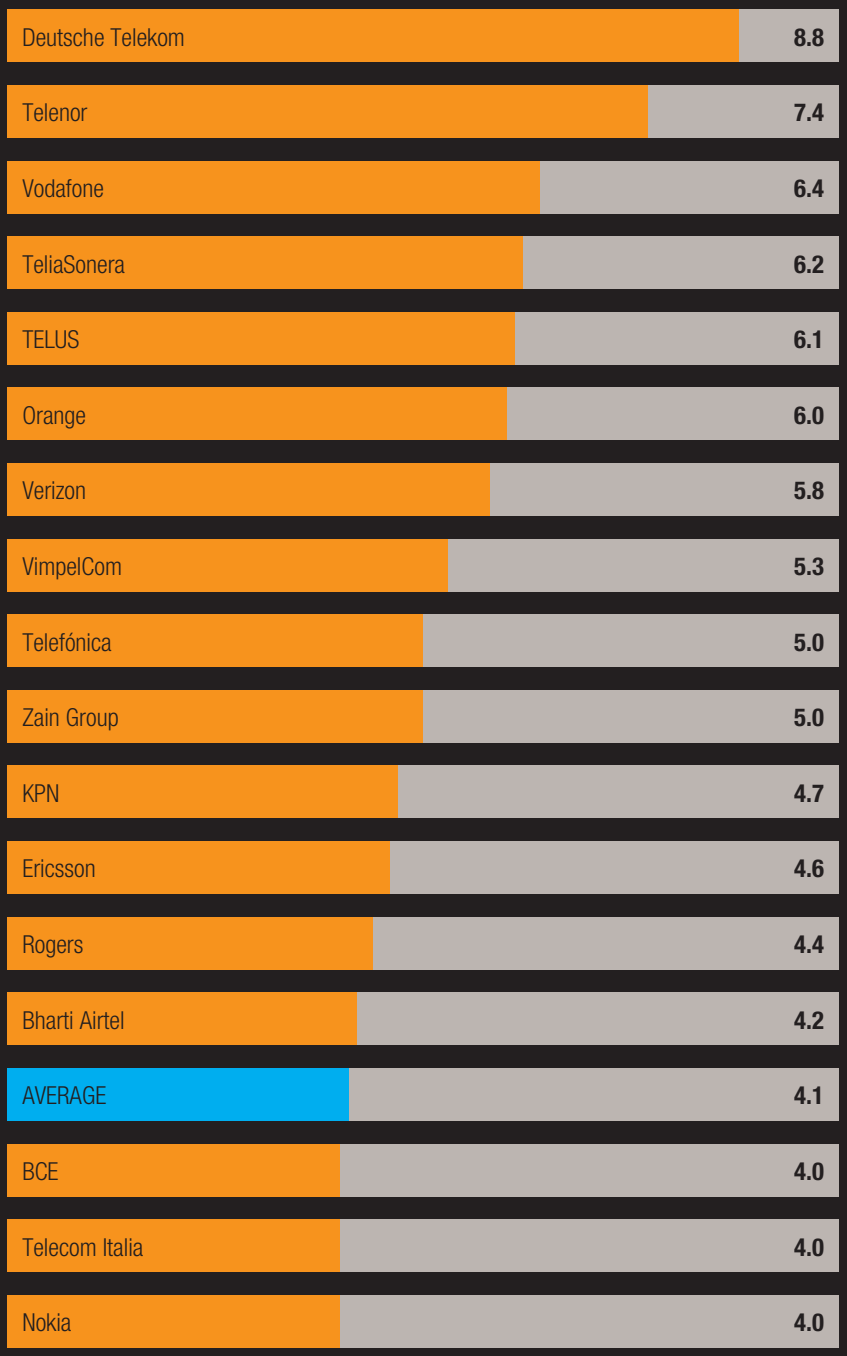
While the report tracks companies' disclosure practices, it is important to note that it does not establish whether or not individual companies are corrupt. Transparency International believes that comprehensive reporting leads to the improvement of anti-corruption policies and practices, although it cannot guarantee that a company is corruption-free.

The selection of the companies assessed in this report is based on the 2014 Forbes Global 2000 list of publicly listed companies, narrowed down to 73 tele-communications companies and eight telecoms equipment companies. From this list, the 29[13] largest telecommunications companies were chosen, as were six communication equipment companies. All told, 35 companies are included in this assessment. The methodology for this report is based on similar Transparency International reports, including the most recently published 2014 report, *Transparency in Corporate Reporting: Assessing the World's Largest Companies.*[14] The data for this report was collected from corporate websites and relevant embedded links and submitted to the assessed companies for verification.[15]

3 The Foreign Corrupt Practices Act (FCPA) Blog, "Switzerland launches probe of Uzbek first daughter", www.fcpablog.com/blog/2014/3/13/switzerland-launches-probe-of-uzbek-first-daughter.html.
4 The Financial Times, "Uzbek telecoms corruption probe widens to include VimpelCom", www.ft.com/intl/cms/s/0/d5692ff8-a9ff-11e3-8497-00144feab7de.html#axzz3qipZ6emE.
5 The FCPA Blog, "China Mobile corruption saga continues", www.fcpablog.com/blog/2013/4/30/china-mobile-corruption-saga-continues.html
6 Reuters, "Former China Mobile exec gets life sentence for taking bribes", www.reuters.com/article/2013/11/22/china-corruption-idUSL4N0J700920131122.
7 The United States Department of Justice, "Magyar Telekom and Deutsche Telekom Resolve Foreign Corrupt Practices Act Investigation and Agree to Pay Nearly $64 Million in Combined Criminal Penalties", www.justice.gov/opa/pr/magyar-telekom-and-deutsche-telekom-resolve-foreign-corrupt-practices-act-investigation-and
8 The United States Department of Justice.
9 The United States Department of Justice.
10 The United States Department of Justice.
11 The FCPA Blog, "Alcatel-Lucent Settles Bribery Case", www.fcpablog.com/blog/2010/12/28/alcatel-lucent-settles-bribery-case.html.
12 The United States Department of Justice.
13 Originally, the 30 largest telecommunications were retained but since the publication of the 2014 Forbes Global 2000 list América Móvil S.A.B. de C.V. merged with Carso Global Telecom S.A.B. de C.V. Therefore 29 telecommunications companies remained on our list.
14 transparency.hu/uploads/docs/TRAC_report_final_clean.pdf.
15 The data was collected in July and August 2015.

OVERALL INDEX RESULTS[16]

ACP = ANTI-CORRUPTION PROGRAMME
OT = ORGANISATIONAL TRANSPARENCY
CBC = COUNTRY-BY-COUNTRY REPORTING

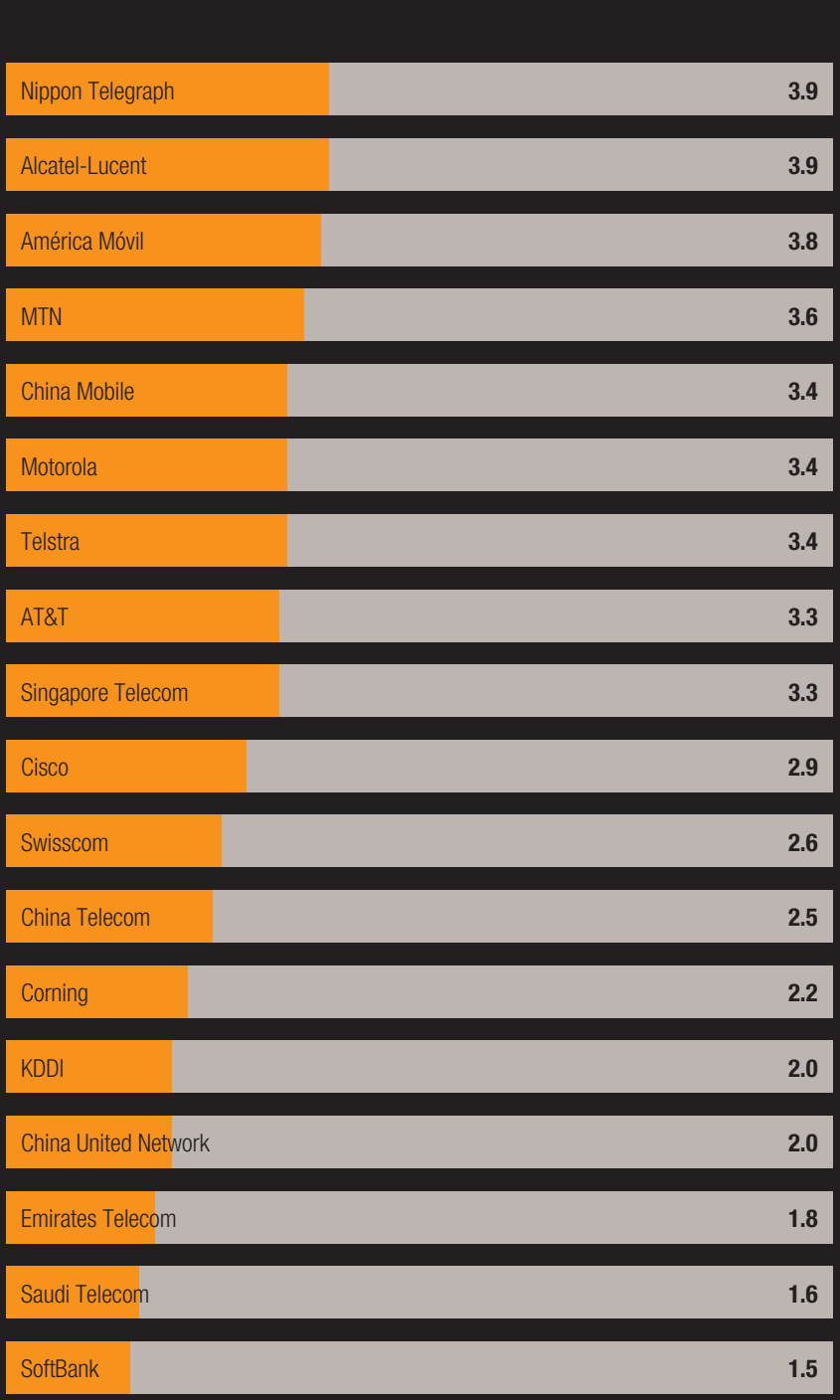


		ACP	OT	CBC
Deutsche Telekom	8.8	100%	81%	84%
Telenor	7.4	96%	56%	69%
Vodafone	6.4	88%	50%	54%
TeliaSonera	6.2	96%	31%	58%
TELUS	6.1	85%	19%	80%
Orange	6.0	100%	75%	5%
Verizon	5.8	92%	13%	70%
VimpelCom	5.3	88%	50%	19%
Telefónica	5.0	65%	31%	54%
Zain Group	5.0	81%	38%	31%
KPN	4.7	73%	38%	28%
Ericsson	4.6	96%	38%	4%
Rogers	4.4	58%	31%	0%
Bharti Airtel	4.2	73%	50%	3%
AVERAGE	4.1	65%	34%	22%
BCE	4.0	62%	19%	0%
Telecom Italia	4.0	88%	25%	6%
Nokia	4.0	77%	25%	17%

[16] Two Canadian telecoms companies (BCE and Rogers) operate exclusively in Canada; therefore, they were excluded from the score calculation for this dimension. These two companies' overall score was calculated based on the average of two dimensions only, i.e. reporting on anti-corruption programmes and organisational transparency.

Scale 0–10, where 0 is least transparent and 10 is most transparent. This index is based on the unweighted average of results in all three categories.

Note: The Hungarian subsidiary of Telenor is paying member of Transparency International Hungary's Corporate Supporters Forum. Other companies covered in this report may also provide support to Transparency International chapters worldwide.



	ACP	OT	CBC
Nippon Telegraph	77%	38%	2%
Alcatel-Lucent	100%	13%	3%
América Móvil	69%	31%	14%
MTN	65%	25%	17%
China Mobile	38%	50%	15%
Motorola	77%	6%	20%
Telstra	62%	38%	4%
AT&T	73%	25%	1%
Singapore Telecom	50%	44%	5%
Cisco	73%	13%	2%
Swisscom	35%	38%	6%
China Telecom	35%	38%	2%
Corning	42%	13%	11%
KDDI	23%	38%	4%
China United Network	8%	50%	2%
Emirates Telecom	0%	38%	17%
Saudi Telecom	12%	25%	10%
SoftBank	19%	19%	7%

3

HIGHLIGHTS

3
companies

Deutsche Telekom, Telenor and Vodafone scored over 50 per cent in all three dimensions

3
companies

Alcatel-Lucent, Deutsche Telekom and Orange scored 100 per cent in anti-corruption programmes

26
companies

scored less than 5 out of 10 overall

Best performing

7 of the top 10 companies are from Europe

Worst performing

7 of the bottom 10 companies are from Asia

27 companies do not disclose where their subsidiaries operate

4 companies reveal information on their tax payments in each of the countries in which they operate

20 companies fail to report on the amount spent on community projects in foreign operations

MONEY AND POLITICS

15 companies do not make political donations public

10 Asian companies do not report on their political donations

TONE AT THE TOP

17 companies state that the company's anti-corruption policy applies to its directors

6 companies train their directors on anti-corruption measures

The average score for country-by-country reporting is 22 per cent, higher than the average 6 per cent in our 2014 report assessing the world's largest companies

4

KEY FINDINGS

Overall index result

average score **4.1/10**

Global public telecoms companies perform reasonably well in regard to disclosing their anti-corruption programmes but a significant number of corporate holdings are unreported, resulting in opaque corporate structures. Most of the companies fail to report on their operations on a country-by-country basis. This dimension shows the weakest results.

Anti-corruption programmes

average score **65%**

- The telecommunications equipment companies perform best in this category.[17]
- Three companies scored 100 per cent and 15 companies achieved more than 75 per cent in this dimension. One company, Emirates Telecom scored zero in this dimension: they disclose no information on their anti-corruption programmes on their website.
- The majority of the companies, 83 per cent, state publicly that they are committed to complying with all laws, including anti-corruption laws, and they operate a confidential reporting channel for whistleblowers.
- Only 43 per cent of assessed companies have a mechanism for regular monitoring of the anti-corruption programme in place.
- Senior members of the management or board in the majority of the companies (83 per cent) demonstrate support for anti-corruption. However, only half of the assessed companies make it clear that the anti-corruption policy or the code of ethics applies to their directors as well. Only six companies report that they have training programmes for their directors.
- Only half of the companies have anti-corruption training programmes for their employees.
- Only 61 per cent of the companies' codes of ethics apply to suppliers.
- European companies performed strongest against the criteria used to assess anti-corruption programmes in this report, while the average performance of companies from Asia is significantly weaker.
- Over 80 per cent of the telecommunications companies have confidential reporting channels.
- Political contributions, especially those made abroad, are not transparent enough.
- Only half of the companies prohibit facilitation payments.
- The score achieved by telecommunications companies is similar to the findings of Transparency International's 2014 report assessing the world's largest companies, where the average result was 70 per cent.

[17] This result may be due to the fact that the number of telecoms equipment manufacturers in the sample is lower than that of the service providers. In addition, it is our assumption that telecoms equipment manufacturers are required to meet higher contractual standards than suppliers to service providers.

Organisational transparency

average score **34%**

- The telecommunications service providers perform better than the telecommunications equipment companies in this dimension.
- No company achieved the maximum score in this dimension. Deutsche Telekom publicly discloses the most information on its subsidiaries and other affiliated companies. The lowest score, 6 per cent, was achieved by Motorola, which was the only company to score under 10 per cent.
- Due to their global presence, most telecoms companies have large numbers of subsidiaries or non-fully consolidated holdings. Most companies therefore tend to limit their disclosure to material or principal holdings, falling short of the benchmark criterion used for this report, which expects reporting on all subsidiaries, regardless of materiality.
- Only four companies disclose full lists of their consolidated subsidiaries.
- Some 77 per cent of the companies do not disclose where their subsidiaries operate and only partially disclose where they are incorporated. Subsidiaries operating in smaller markets are not considered to be material or "primary" and therefore no information is provided on them.
- Companies where legislation compels the disclosure of all subsidiaries regardless of materiality, as for example Germany and India, did better than companies from countries where the disclosure rules are less demanding, such as the US.
- European companies scored an average of 42 per cent, while companies from the Americas scored 19 per cent.
- With an average result of 34 per cent in this dimension, the telecoms companies obtained a similar result to the world's leading companies assessed in our 2014 report of 39 per cent.

Country-by-country reporting[18]

average score **22%**

- Telecommunications service providers achieved higher scores than telecommunications equipment companies in this dimension.
- 25 companies scored less than 30 per cent in this dimension, with AT&T scoring the lowest, with a score of 1 per cent.
- While most companies in the sample are present in a large number of countries, they fail to present financial data for each country of operation. Where they do report on financials, the disclosure is limited to discrete data on a few selected jurisdictions.
- Revenues are the most often disclosed data point; profit before tax, capital expenditure and community contributions are the least frequently disclosed.
- There is no major difference in regard to the level of reporting between European companies in our sample and those from the Americas. However, companies from Asia lag significantly behind in country-by-country reporting.
- Compared with the average result of 6 per cent achieved by the companies covered in Transparency International's 2014 report assessing the world's largest companies, the telecommunications companies in this report performed better, with an average score of 22 per cent. A small sample of nine telecoms companies included in the 2014 study achieved an average of 20 per cent in this dimension.

[18] In order to avoid any distortion of the results, we measured the country-by-country reporting of only 33 companies. Two Canadian telecoms companies operate exclusively in Canada and therefore could not be included in the calculation of the overall score in this dimension.

Industry highlights

- For the purpose of this report we selected 35 companies, out of which 29 were telecommunications service providers and six were equipment manufacturers.
- Service providers achieved higher scores in the country-by-country reporting and in terms of organisational transparency. This difference may be due to the fact that, compared to service providers, equipment manufacturers are present in more challenging environments, in less transparent countries, where they are not required to meet as high contractual standards as suppliers.
- Equipment manufacturers outperform the telecoms service companies in terms of disclosure of their anti-corruption programmes. However, this difference can be attributed to methodological factors as the sample of equipment manufacturers is smaller than that of service providers. In addition, it is our assumption that telecoms equipment manufacturers, as suppliers, are required to meet higher contractual standards when entering into agreements with service providers.

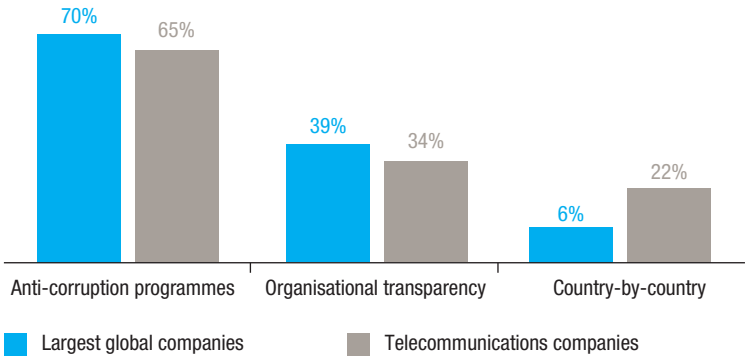
Geographical highlights

- European companies perform the best in all dimensions, with scores of 85 per cent, 42 per cent and 31 per cent, respectively. Our assumption is that this is due to the generally higher level of regulation in the European telecoms sector. Better performance may also be related to remediation measures applied by European companies following investigations.
- Companies from Asia are the poorest performers in reporting on anti-corruption programmes and in country-by-country reporting, with scores of 37 per cent and 9 per cent, respectively. Chinese and Japanese companies generally provide little financial data relating to the foreign countries in which they operate. In addition, they fail to show they are taking anti-corruption measures that are considered accepted practice for large international companies.
- Companies from the Americas received the lowest score, an average of 19 per cent, in regard to organisational transparency. This may be explained by the fact that of the 9 companies from the Americas, five are from the United States, where companies are not required to report on their non-material holdings.
- Overall, seven of the 10 best performing companies are from Europe and seven of the 10 worst performing companies are from Asia.
- Although the overall results of this study are similar to those reported in Transparency International's 2014 study of the world's largest companies, there still remains room for improvement in each dimension from a geographical point of view.

Comparing results with Transparency International's report on Transparency in Corporate Reporting – Assessing the World's Largest Companies

- In the 2014 study nine telecoms companies[19] were assessed. These nine companies have improved across all assessed dimensions in the current report.
- With an average score of 22 per cent in country-by-country reporting, telecoms companies achieved significantly higher scores than the average achieved by the world's largest companies (6 per cent). In the industry analysis for this dimension in the 2014 report the nine telecoms companies in the sample scored 20 per cent, on average. Four of the telecoms companies assessed in the present report, Deutsche Telekom, TELUS, Verizon and Telenor, actually performed better than the best performing company in the 2014 study, achieving a score of 66 per cent. Deutsche Telekom and Verizon experienced the most significant improvement in their performance achieving high marks of 84 and 70 per cent, respectively – moving up from very low scores of 6 and 0 per cent in the 2014 study. This improvement was achieved as a result of much more comprehensive disclosure of key financial information by these two companies.
- Out of the nine telecoms companies assessed in both reports, five significantly improved their score in this dimension.
- 83 per cent of the telecoms companies assessed in this report have a confidential reporting channel in place. By comparison, the companies included in the 2014 report scored 45 per cent, on average.
- The telecoms companies assessed in this report are more transparent about their political donations compared to the companies in the 2014 report.

Overall company performance – Telecoms companies vs largest global companies 2014



[19] The nine companies included in the Transparency International 2014 study assessing the transparency of the world's leading companies were: América Móvil, AT&T, Cisco, Deutsche Telekom, Nippon Telegraph and Telephone Corporation, Orange, Telefónica, Verizon Communications and Vodafone. All of these companies were included in the present research.

5

RECOMMENDATIONS

To global telecoms companies

1 Monitor anti-corruption programmes on a continuous basis

Transparency International's *Business Principles for Countering Bribery,*[20] a tool developed by Transparency International in collaboration with a multi-stakeholder group, state that enterprises should establish feedback mechanisms and internal processes for the continuous improvement and monitoring of their anti-corruption programmes. If an anti-corruption programme is to be applied effectively in practice, it is essential that its suitability and adequacy are regularly checked. Employee feedback and training are important, but they are not sufficient: regular monitoring is also required, to maintain sustainability.

2 Involve top management and the board to ensure that anti-corruption measures are more than rhetoric

Most companies assessed in this report endeavour to demonstrate their commitment to anti-corruption and explicitly condemn all forms of bribery through letters or video messages from the CEO. The code of ethics should apply to all employees. However, only in rare cases did we see statements to the effect that the code of ethics applies to the members of the board of directors. Indeed, only half of the assessed companies make it clear that the anti-corruption policy or the code of ethics applies to their directors as well. According to the *Resource Guide* to the Foreign Corrupt Practices Act, periodic training and certification for all directors, officers, relevant employees and, where appropriate, agents and business partners should be in place.[21] Negotiations with governments for licences and other business opportunities are often carried out at the highest level, with large amounts of money at stake. Therefore it is essential that corporate anti-corruption standards and the code of ethics explicitly apply to members of the board and the supervisory board.

3 Carry out due diligence on joint venture partners and third parties

Telecoms companies often find it necessary to enter into joint ventures, engage agents and undertake significant arrangements with third parties. Exhaustive anti-corruption due diligence must be undertaken to avoid substantial regulatory and legal risks. Risk-based due diligence of third parties is particularly important and is recognised by a number of regulators when assessing the effectiveness of a company's compliance programme.[22]

[20] www.transparency.org/whatwedo/tools/business_principles_for_countering_bribery.
[21] www.justice.gov/criminal-fraud/fcpa-guidance, p.59.
[22] www.justice.gov/criminal-fraud/fcpa-guidance, pp.60, 62.

4 **Prohibit facilitation payments**

More and more companies in the telecoms sector are recognising that facilitation payments pose legal and reputational risks and may have a cost that is not insignificant. However, many companies have not yet adopted a zero-tolerance policy and these companies need to recognise that facilitation payments are bribes, and must be treated as such.

5 **Publicly disclose all political donations**

The disclosure of political donations provides citizens with a window on the influence companies aim to exert in politics and insight into some of their lobbying activities. Transparency International's *Business Principles for Countering Bribery* state that a company and its employees, agents, lobbyists or other intermediaries should not make direct or indirect contributions to political parties, organisations or individuals engaged in politics, "as a way of obtaining unfair advantage in business transactions". As recommended in the *Business Principles,* companies that choose to make political contributions should make them public.

6 **Publicly disclose exhaustive lists of subsidiaries, affiliates, joint ventures and other entities**

Due to their global presence most telecommunications companies have operations in a large numbers of countries. In addition, they often have hundreds of subsidiaries and joint venture relationships. In the interest of openness, disclosure of all subsidiaries and holdings beyond those that are material or "primary" is necessary, in order to provide an accurate overview of a company's activities. In many cases the country of incorporation is different from the country of operation; therefore, Transparency International recommends disclosure of both the countries of incorporation and of operation. Such information is critical for multiple stakeholders (investors and citizens) in both types of countries, in order to allow them to understand the nature and extent of a company's activity.

7 **Publish financial accounts for each country of operation**

Such disclosure can also help mitigate political and reputational risks and enhance investment certainty by disclosing special tax arrangements and potential for regulatory capture. A number of telecoms companies have started to report their income and taxes on a country-by-country basis; however, community contributions, the amount of investments made and the profit generated before tax are seldom reported country-by-country and are usually reported on a consolidated basis. Country-by-country reporting is likely to be mandatory in the European Union in the near future.

To governments and regulatory bodies

1 Implement strong anti-bribery laws and provide the necessary resources to enforce them

Currently, most company reporting on anti-corruption programmes is carried out on a voluntary basis. In October 2014 the EU adopted a directive[23] that requires European companies with more than 500 employees to report on their anti-corruption programmes. Governments in non-European markets are encouraged to follow suit by passing legislation making anti-corruption reporting mandatory.

2 Require companies to make publicly available lists of all their subsidiaries, affiliates, joint ventures and other related entities

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. An exhaustive list of related entities for each multinational company should be publicly available. Where such requirements already exist, they should be expanded and materiality thresholds removed, to ensure a complete picture of the company's operations across countries.

3 Require transparency in the tendering process for spectrum licensing

Governments and regulators should define and set criteria regarding transparency in respect of ownership structures – including full and accurate details of beneficial ownership and of corporate entities (fully and non-fully consolidated holdings and country-by-country split of subsidiaries)[24] as mandatory elements of calls for bids during spectrum licensing. They should also require country-by-country reporting to make it possible to collect basic financial data across all countries of operation (e.g. profits and turnover and the geographic location of these activities). The structure, format and accuracy requirements should be set in agreement with the industry and aligned with other more generic corporate reporting requirements.[25] The information provided by the telecoms operators during any licensing process should be made publicly available by the national regulatory authority (in electronic format).

4 Require all companies to publish financial accounts on a country-by-country basis

Corporate transparency allows citizens to assess the impact of multinational companies in their communities and can help identify corruption. Some strides have been made in country-by-country reporting with the Dodd-Frank legislation in the US and negotiations in the EU on public country-by-country reporting for multinational corporations. Not only will requiring multinational companies to report publicly on key financial data on a country-by-country basis contribute to greater corporate transparency, it may also provide a useful tool to counter aggressive tax avoidance. Public country-by-country reporting will also help flag up corruption risks by shedding light on any special arrangements between companies and governments. All national governments should follow this lead and adopt laws that promote the highest possible reporting standards.

[23] eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095.

[24] The recent experience of the Danish Telecoms regulator requiring TeliaSonera to disclose its entire global corporate architecture when bidding for a spectrum licence has clearly shown the efficiency of this requirement, revealing sensitive information about the operator's subsidiary in Nepal (Sutherland 2013).

[25] www.transparency.org/whatwedo/answer/overview_of_corruption_in_the_telecommunications_sector.

To investors

1 Demand that companies use best practices in describing their anti-corruption policies and implementation and monitoring measures
Investors should demand higher standards of reporting on anti-corruption programmes and require the full implementation and monitoring of such programmes. In addition investors should require that companies periodically report on the implementation of their anti-corruption programmes.

2 Demand that companies report more comprehensively and use this information in investment decisions
Investors should demand that companies provide them with the information they need to make investment decisions that are consistent with their ethical standards and strategies. Investors need to ensure they evaluate all risks related to their investment, including risks of corruption. Investors should have a full understanding of a company's organisational structure, with clear identification of each subsidiary, affiliate or joint venture. This should be accompanied by the disclosure, on a country-by-country basis, of key financial information.

To civil society organisations

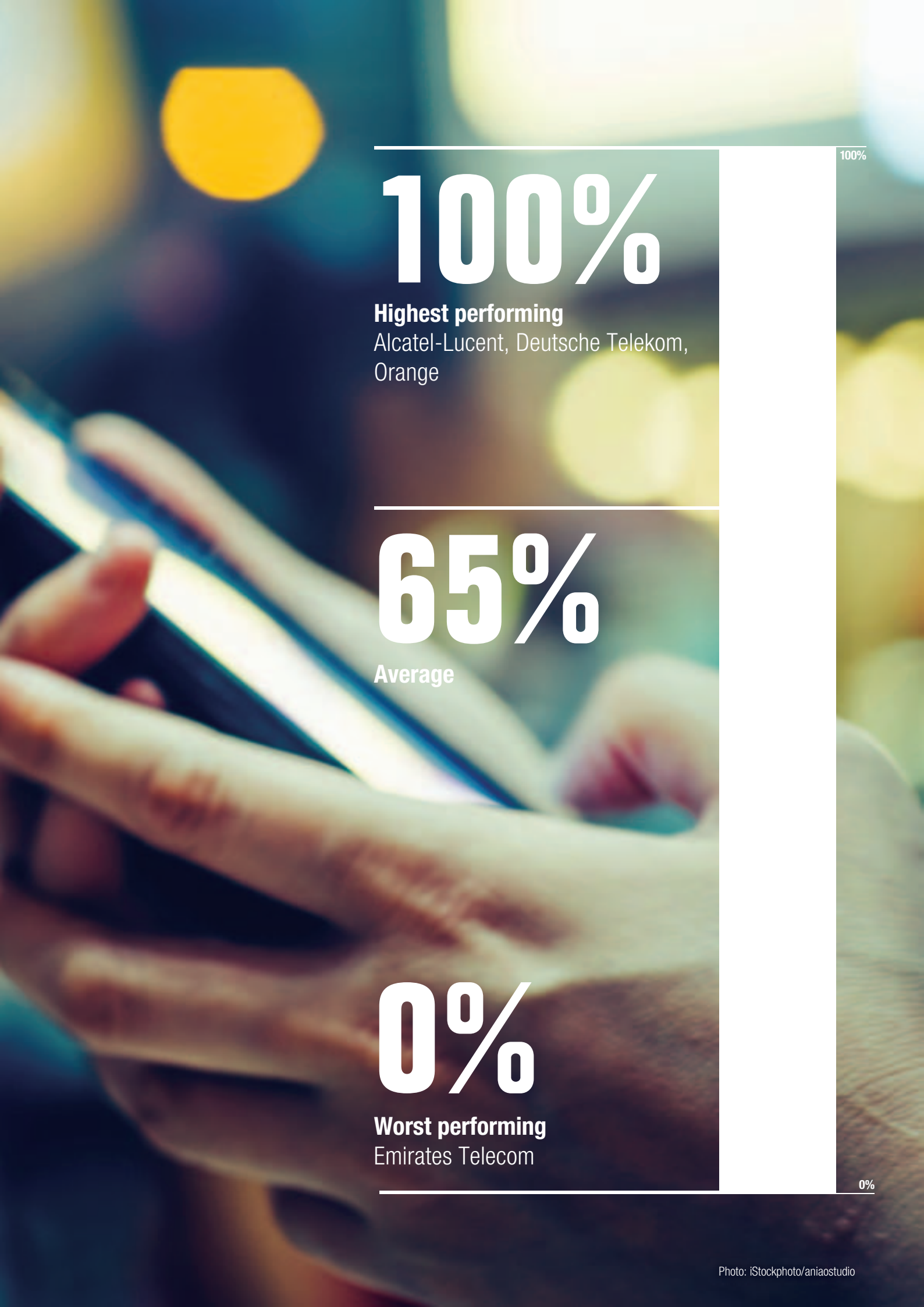
1 Promote greater transparency in local businesses
Civil society organisations should monitor the local operations of multinational businesses and promote greater transparency. Civil society should encourage telecoms businesses operating in challenging environments to apply anti-corruption standards and reporting that are consistent with best practice. Citizens have a right to expect companies to uphold high anti-corruption standards and to know which companies are operating in their country, as well as the extent of their operations.

2 Use, monitor, analyse and disseminate public corporate information
Civil society organisations should use this information to target governments, regulators and companies, with the objective of improving the standards of anti-bribery practices by companies and to counter illicit money flows and corruption generally.

3 Promote the adoption of country-by-country reporting
The concept of reporting key financial data on a country-by-country basis for all sectors of the economy is relatively new but it is gaining momentum. Civil society should mobilise more broadly to ensure that governments and companies take the necessary measures to foster the transparency needed for greater accountability.

6

REPORTING ON ANTI-CORRUPTION PROGRAMMES



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6

REPORTING ON ANTI-CORRUPTION PROGRAMMES

Telecoms companies are best performers in disclosing the elements of their programmes to prevent corruption

For telecoms companies, as for other companies, the first line of defence against the risk of bribery and corruption is a comprehensive anti-corruption programme that is fully implemented and monitored on a continuing basis.

Reporting on anti-corruption programmes demonstrates whether the basic anti-corruption measures are in place and shows the company's level of commitment to anti-corruption. The evaluation of corporate reporting on anti-corruption programmes is based on 13 questions derived from Transparency International's *Business Principles for Countering Bribery.* The *Business Principles* set clear recommendations for companies regarding the elements of their anti-corruption programmes, and encourages their public disclosure.

The public disclosure of measures to counter corruption demonstrates a company's commitment to fighting corruption and increases its responsibility and accountability to all its stakeholders and to the general public. The publication of anti-corruption policies by companies has a positive impact on employees at home and abroad because it underscores the company's, and its management's, commitment to, and support for, ethical behaviour. Public reporting also facilitates monitoring by the stakeholders and the general public. Moreover, the process of the reporting focuses attention on the company's own practices and drives continuous improvements in respect of the policies and the programmes.

Since 2008 Transparency International has conducted several studies assessing disclosure practices among companies with respect to their anti-corruption programmes. These studies have highlighted significant progress on this front, with many of the assessed companies having recognised the value of public reporting, thus responding to stakeholder demands for greater transparency. During this time, more stringent foreign bribery laws (such as the 2010 UK Bribery Act) have been introduced, and there has also been more aggressive enforcement of foreign bribery laws. Major changes in both the reporting practices of companies and the quality of anti-corruption programmes have been observed as a result of these pressures.

Changes in reporting practices are also being driven by demand for greater disclosure. For example, the European Parliament has adopted a new directive on the disclosure of non-financial and diversity information that will require some 6,000 companies in the EU to disclose information on policies, risks, and outcomes related to anti-corruption and bribery, among other areas.

International frameworks against corruption, such as the United Nations Convention Against Corruption, the efforts of the Organisation for Economic Co-operation and Development, legal instruments of the Council of Europe, and Transparency International's own initiatives in regard to private and public sector corruption, provide a strong basis for addressing corruption in business, but there is a clear need to narrow the focus to industry sector-specific vulnerabilities and ways to address them. In Europe corruption is felt by a significant number of companies in the telecoms/IT sector to be a serious problem.[26] Moreover, the global and European legal and regulatory standards on transparency and accountability in the telecommunications sector point to a lack of clear and enforceable requirements regarding the adoption of coherent policies and programmes to mitigate bribery and corruption, with direct and indirect consequences for telecoms companies.

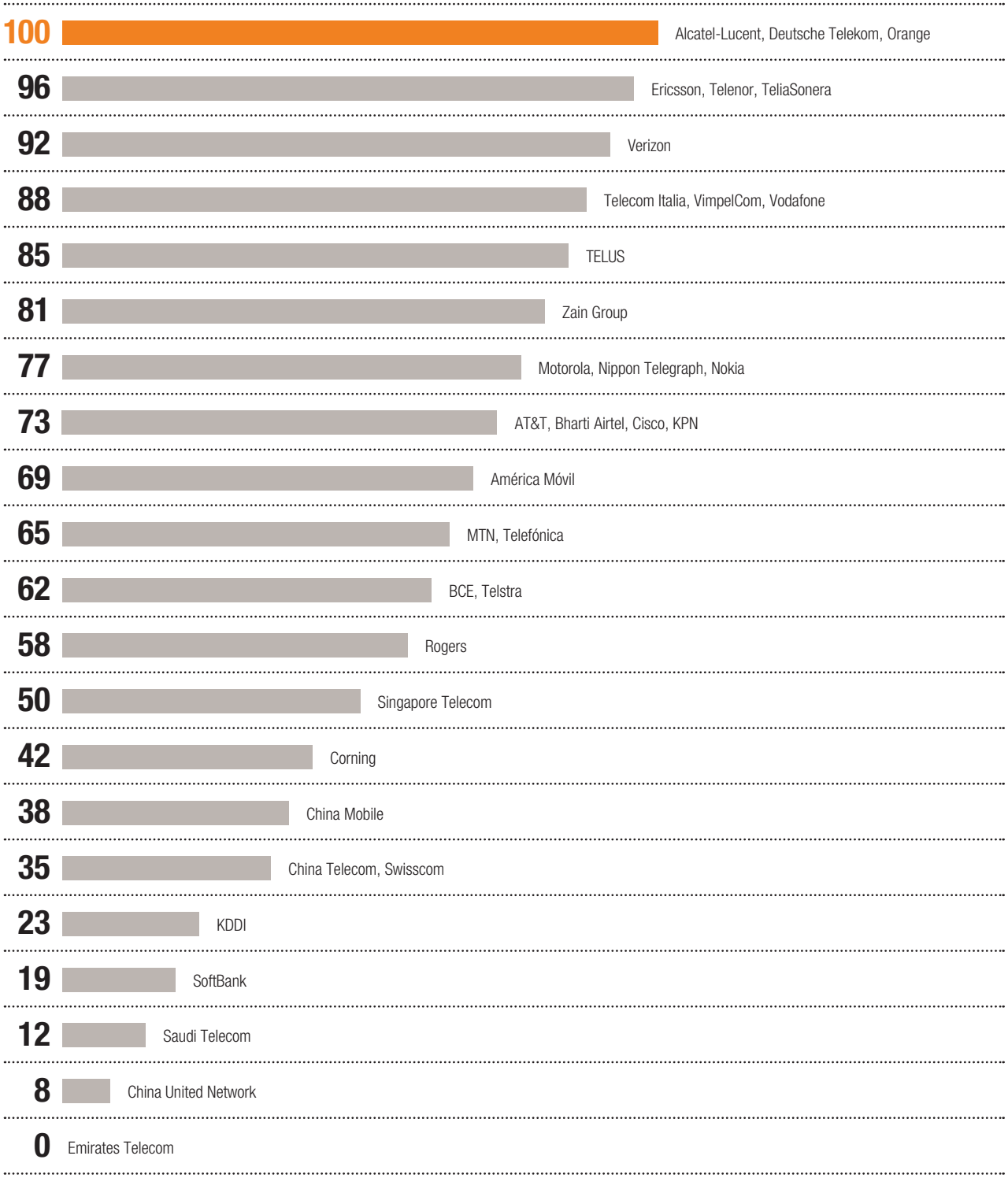
[26] "In Europe, more than 4 out of 10 companies consider corruption to be a problem for doing business, and this is true for patronage and nepotism as well. When asked specifically whether corruption is a problem for doing business, 50 per cent of the construction sector and 33 per cent of the telecoms/IT companies felt it was a problem to a serious extent" (EU Anti-Corruption Report 2014: 7).

FIGURE 2

Reporting on anti-corruption programmes – company ranking

% score, 100% means maximum score

3 companies scored 100%



Company results

65%

The 35 telecommunications companies assessed in this study achieved an average of 65 per cent, out of a possible 100 per cent, in regard to reporting on their anti-corruption programmes. The average result in this dimension was the best among the three dimensions that were evaluated.

Germany's Deutsche Telekom, France's Orange and Alcatel-Lucent achieved a perfect score of 100 per cent. Another group of three Nordic companies, Telenor, Ericsson and TeliaSonera, followed closely behind, with a result of 96 per cent. One company, Emirates Telecom, scored zero in this dimension. Of the nine worst performing companies, scoring below 50 per cent, four were Chinese, one Japanese, one from the US, one from Switzerland, one from Saudi Arabia and one from the United Arab Emirates. Most companies performed strongly in this dimension, with 15 out of the 35 companies scoring higher than 75 per cent, and 26 achieving scores of at least 50 per cent.

Telecoms equipment manufacturers outperformed telecoms service companies in the disclosure of their anti-corruption programmes, with an average score of 78 per cent.[27]

Three questions received the highest scores, with 29 of the companies receiving one full point, the maximum score for each of these questions. One question sought to assess whether companies' public documents included a commitment to complying with all relevant laws, including anti-corruption laws. Another question asked if companies had confidential reporting channels through which employees could report suspected breaches of the anti-corruption policy. The third question dealt with explicit leadership support for anti-corruption.

Eighteen of the assessed companies do not report on whether they have a mechanism for regular monitoring of the anti-corruption programme in place. Furthermore, 19 companies fail to state that their anti-corruption policy applies to those who act on behalf of, or represent, the company.

Half of the companies reported prohibiting facilitation payments, achieving approximately the same level as global publicly listed companies that were assessed in Transparency International's 2014 study of the transparency of the world's largest companies. This reflects evolving concerns about the risks posed by the practice of facilitation payments and new foreign bribery laws that prohibit facilitation payments.

Only half of the assessed companies make it clear that the anti-corruption policy or the code of ethics applies to their directors (senior members of the management and/or members of the board and supervisory board). The weakest scores related to the disclosure of an anti-corruption training programme for directors as well the application of the code of ethics or anti-corruption policy to directors in addition to all employees. Only six companies received a full point for this question. The three companies that rank second, with a score of 96 per cent, could have achieved maximum scores if they had stated that anti-corruption training was in place for their directors.

[27] On the one hand this difference can be accounted for by reference to methodological issues, as the number of the sample of telecoms equipment manufacturers is lower than that of the service providers. In addition, it is our assumption that telecoms equipment manufacturers, as suppliers to service providers, are required to meet higher contractual standards than telecoms service companies.

FIGURE 3

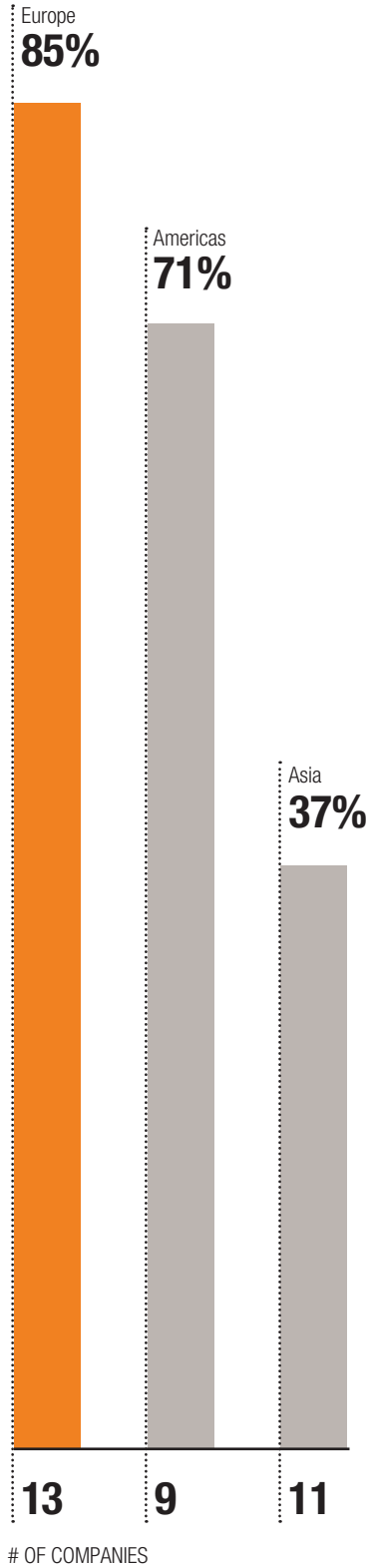
Reporting on anti-corruption programmes – analysis by question

number of companies

Question	1 point	0.5 point	0 point
Commitment to comply with laws	29	0	6
Confidential reporting channel	29	1	5
Leadership support	29	0	6
Zero-tolerance statement	21	10	4
Gifts, hospitality, travel	22	8	5
Prohibition of retaliation for reporting	26	0	9
Code applies to all employees and directors	17	12	6
Code applies to suppliers	15	13	7
Disclosure of political contributions	20	0	15
Training programme for employees and directors in place	6	22	7
Prohibition of facilitation payments	17	0	18
Code applies to agents	16	0	19
Regular programme monitoring	15	2	18

FIGURE 4

Reporting on anti-corruption programmes – geographical analysis for selected regions



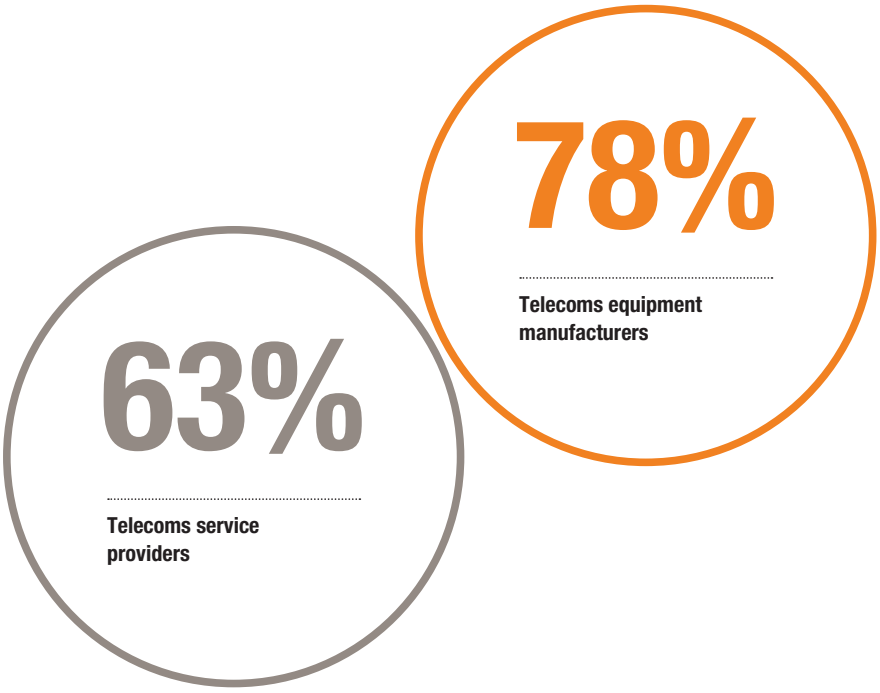
Geographical analysis

The 35 companies in the sample cover a total of 22 countries. The United States is represented by five companies; Canada, Japan and China each have three companies in the sample. The rest of the countries have only one or two companies. We therefore assessed the geographical performance of the companies on a regional basis. The highest average score for reporting on anti-corruption programmes was achieved by companies based in Europe, at 85 per cent. The worst scoring companies were Asian companies, with an average result of 37 per cent.

We did not include the Africa and Pacific regions in this geographical analysis because our sample included only one company from each of these regions: MTN Group Limited of South Africa and Telstra Corporation Limited of Australia. Nevertheless, we believe the performance of these companies in the Anti-Corruption Programmes dimension (65% and 62% respectively) sets an important reference point for those regions.

Reporting on anti-corruption programmes – industry analysis

Average score



COMPARING RESULTS WITH TRANSPARENCY INTERNATIONAL'S 2014 REPORT ON TRANSPARENCY IN CORPORATE REPORTING – ASSESSING THE WORLD'S LARGEST COMPANIES

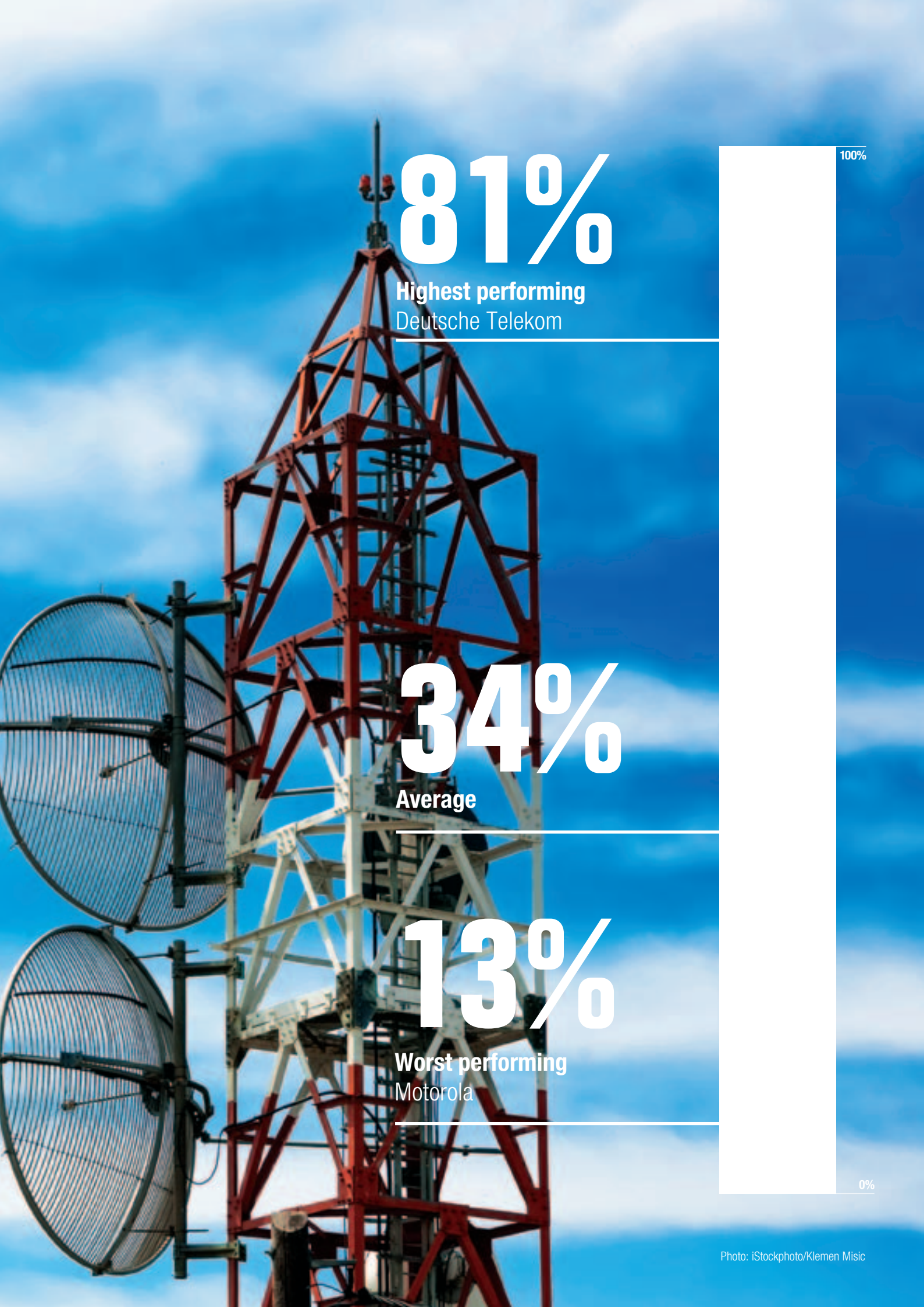
Anti-corruption programmes

In this dimension, a comparison of the telecoms companies with the largest global companies included in Transparency International's 2014 study shows that they achieved relatively similar scores: the telecoms companies achieved an average score of 65 per cent, compared with 70 per cent achieved by the companies in the 2014 report. Both groups of companies demonstrate a commitment to the fight against corruption and they both have programmes and policies in place. Companies in the 2014 study are weakest in relation to the prohibition of facilitation payments. The next weakest areas for telecoms companies in this dimension are the disclosure of information on regular programme monitoring and whether the company's code of ethics or anti-corruption policy applies to their agents.

Telecoms companies compare well with the companies assessed in the 2014 report with regard to their stated commitment to compliance with laws. Among the telecoms companies, 83 per cent have a confidential reporting channel in place, while this applies to only 45 per cent of the companies covered in the 2014 study. Overall, companies based in Europe perform much better than those from Asia.

7

ORGANISATIONAL TRANSPARENCY



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ORGANISATIONAL TRANSPARENCY

Telecoms companies are failing to report on the full extent of their holdings

Large multinational telecommunications companies are organised using complex structures and operate as networks of interconnected entities of subsidiaries, affiliates or joint ventures and other holdings. These may be incorporated in diverse jurisdictions, including secrecy jurisdictions and tax havens. Critical issues, such as inter-company financial flows, can only be followed if the structure of subsidiaries and holdings is fully disclosed. Sometimes the country of incorporation and the country of operation are the same, but there are many cases where they are different, e.g. the subsidiary is incorporated in the Cayman Islands but operates in Egypt. The country of incorporation is the one that defines the corporate governance and applicable regulatory and tax regimes. The country of operation is where the company actually engages in its business activities (generates revenues, holds assets, employs people etc.). If companies choose not to disclose these structures and holdings for both the countries of incorporation and operation it can be very difficult to identify them and understand how they relate to each other.

The assessment of organisational transparency measures the extent to which a company discloses information on its fully consolidated subsidiaries and non-fully consolidated holdings with respect to names of entities, percentages owned in each of them, countries of incorporation and countries of operation of the entities.

Organisational transparency is important for many reasons, not least because company structures can be made deliberately opaque for the purpose of hiding the proceeds of corruption. The more complicated the organisational structure, the easier it is to hide illicit gains. Ensuring a transparent organisational structure is also important for multiple stakeholders, such as citizens and investors, who can gain from understanding the true nature of a company's activities. Having a transparent organisational structure in place allows local stakeholders to know which companies are operating in their territories, which are bidding for government licences or contracts, and which have applied for or obtained favourable tax treatment. Local stakeholders need to know to which international corporate networks these companies belong to and how they are related to other companies operating in the same country. Through full disclosure of corporate holdings, more complete knowledge of financial flows, such as intra-company transfers and payments to governments, can be gained. Organisational transparency allows citizens to hold companies accountable for the impact they have on their communities. The need for transparency is especially important in the developing world, where the standard of both private and public sector openness is poor and where citizen oversight is often not enabled.

As our sector-specific legal and regulatory research has revealed, there are no clear and enforceable global or European disclosure requirements regarding organisational transparency, nor can we detect any industry-wide initiative at this moment. Therefore, in order to assess organisational transparency, Transparency International researchers consulted publicly available documents, such as annual reports and stock exchange filings, to obtain information about company subsidiaries, affiliates, joint ventures and other holdings. The information sought included corporate names, percentages of ownership by the parent company, countries of incorporation and the countries in which the companies operate. In this dimension companies were evaluated on their disclosure of a full list of their subsidiaries and other holdings, not only of the material (primary) ones. Most of the companies, especially companies from the US or Japan, do not disclose information on their non-material interests and assets, which can be a significant limiting factor for transparency. The holdings most likely to be non-material, and therefore not disclosed, are those from developing countries and secrecy jurisdictions: these are exactly the holdings that companies should disclose, because they are the ones for which information is otherwise unavailable.

Company results

34%

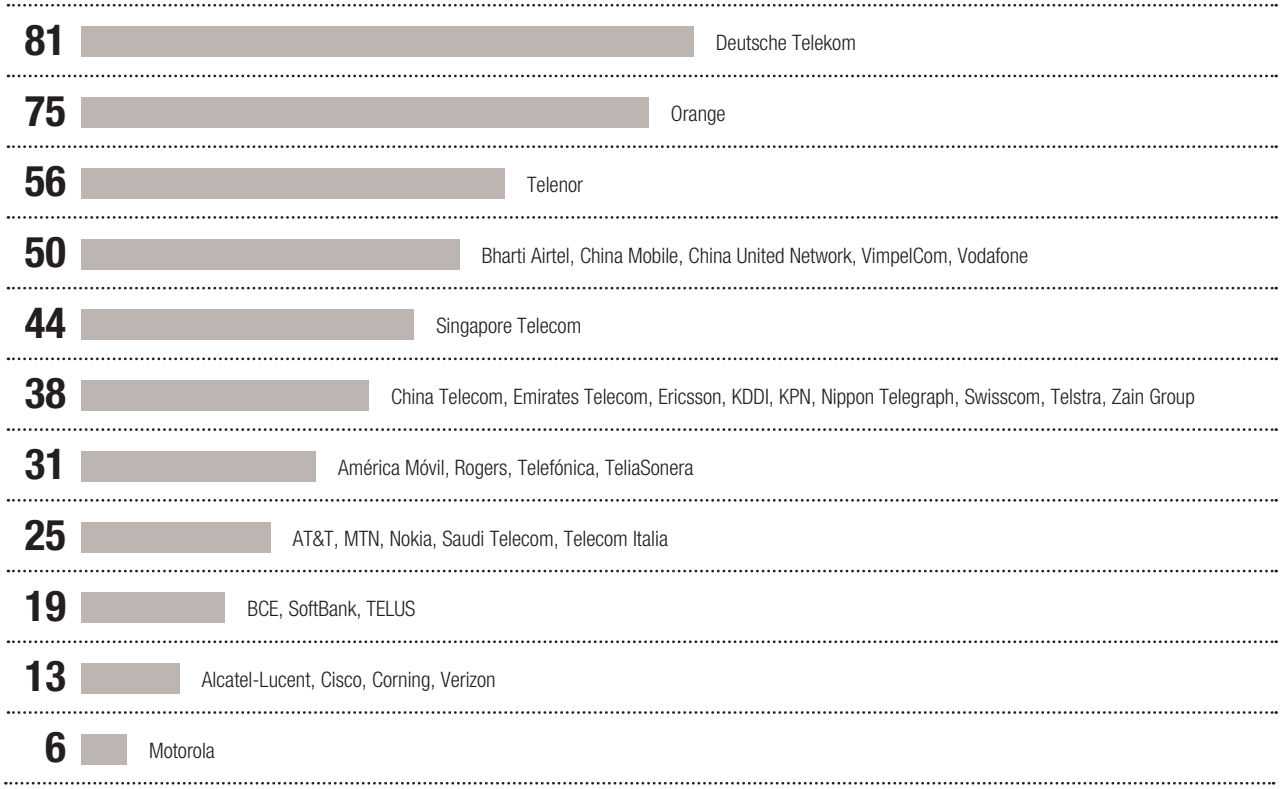
The average score for organisational transparency was 34 per cent.

FIGURE 5

Organisational transparency – company ranking

% score, 100% means maximum score

0 companies scored 100%



No company achieved the maximum score in this dimension. Nevertheless, some companies performed remarkably well. With a score of 81 per cent, Deutsche Telekom discloses the most information on its subsidiaries and other affiliated companies.

France's Orange came in second position, with 75 per cent, and Telenor achieved a score of over 50 per cent as well. The other 32 companies achieved scores of 50 per cent or less. The poorest performer, Motorola, scored 6 per cent.

In this dimension, most of the companies received only half a point for each question as they disclosed only their material subsidiaries and holdings. More than 25 companies do not disclose any information on where their fully consolidated subsidiaries and non-fully consolidated holdings operate. The question for which the best scores were achieved dealt with the disclosure of complete lists of fully consolidated subsidiaries. All companies were awarded some positive scores for this question.

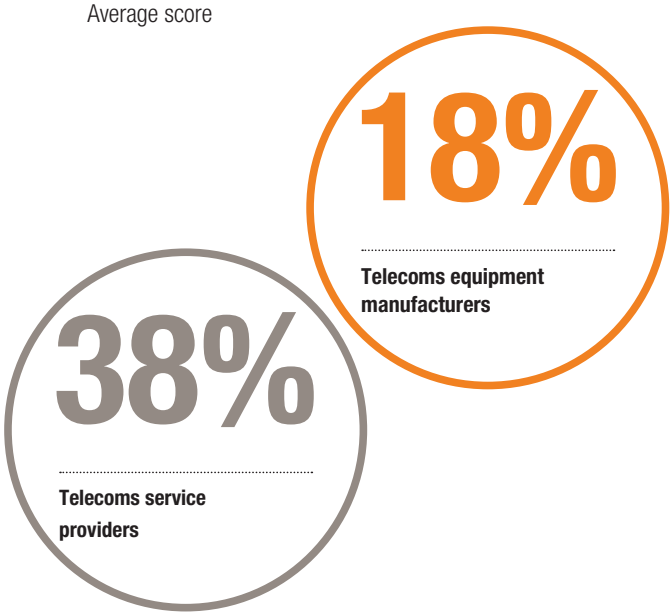
FIGURE 6

Organisational transparency – analysis by question

Question		1 point	0.5 point	0 point
Which of the following information does the company disclose for all of its fully consolidated subsidiaries	the full list with names	4	31	8
	percentages owned in each of them	2	27	6
	countries of incorporation (for each entity)	4	23	8
	countries of operations (for each entity)	1	8	26
Which of the following information does the company disclose for all of its non fully consolidated holdings, such as associates, joint-ventures	the full list with names	3	24	8
	percentages owned in each of them	3	21	11
	countries of incorporation (for each entity)	2	13	20
	countries of operations (for each entity)	0	8	27

Organisational transparency – industry analysis

Average score



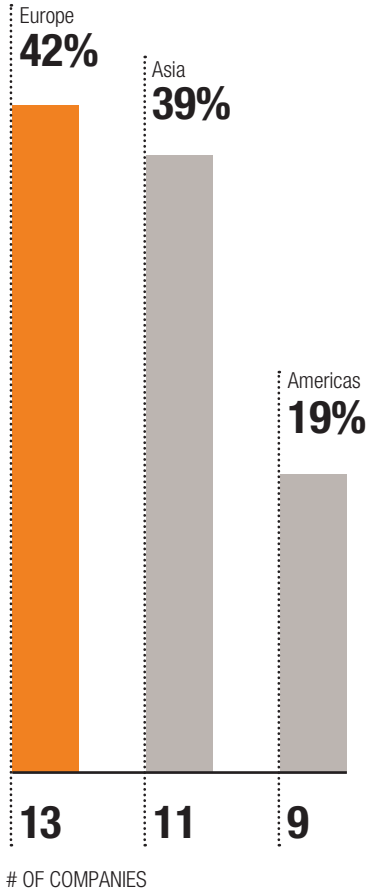
COMPARING RESULTS WITH TRANSPARENCY INTERNATIONAL'S 2014 STUDY ON TRANSPARENCY IN CORPORATE REPORTING – ASSESSING THE WORLD'S LARGEST COMPANIES

Organisational transparency

In this dimension the assessed companies scored in the mid-range. To compare the present report with the 2014 study, one of the largest global companies surveyed in the 2014 study achieved 100 per cent for organisational transparency but only a few companies exceeded 75 per cent. By contrast, in the present study no telecommunications company achieved possible maximum score. 77 per cent of the telecoms companies do not disclose a full list of their subsidiaries and other affiliated entities.

FIGURE 7

Organisational transparency – geographical analysis for selected regions



Geographical analysis

Companies where legislation compels the disclosure of all subsidiaries, as Germany and India for example, performed better than companies from countries where the disclosure rules are less demanding such as the US. European companies performed significantly better, achieving an average of 42 per cent, while companies from the Americas scored only 19 per cent.

We did not include the Africa and Pacific regions in this geographical analysis because our sample included only one company from each of these regions: MTN Group Limited of South Africa and Telstra Corporation Limited of Australia. Nevertheless, we believe the performance of these companies in the Organisational Transparency dimension (25% and 38% respectively) sets an important reference point for those regions.

8

COUNTRY-BY-COUNTRY REPORTING

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8

COUNTRY-BY-COUNTRY REPORTING

The third dimension evaluates country-by-country disclosure of international operations by telecommunications companies. An industry-neutral set of criteria was used to measure the disclosure by country of financial reporting of revenues, capital expenditure, and income before tax, income tax and community contributions. In order to avoid any distortion of the results, we measured the country-by-country reporting of only 33 companies, out of the 35. Two Canadian telecoms companies (BCE and Rogers Communications) operate exclusively in Canada, and were therefore excluded from the score calculation for this dimension. Their score in the overall index was calculated by averaging their results in the first two dimensions only, i.e. reporting on anti-corruption programmes and organisational transparency.

Multinational companies operate globally and they typically report to the tax authorities in each country where their subsidiaries are incorporated or are doing business. This means that multinational companies possess financial information internally on a country-by-country basis, but they rarely present it in this form to the public. Companies present financial information on a consolidated basis, only highlighting some financial data in selected countries, or with respect to selected (principal) subsidiaries.

Citizens, including those in developing countries, which often host multinationals, must have adequate information on the activities of the companies that operate in their territories. These businesses generate revenues and profits locally and contribute to the public budget through taxes, community contributions and the like. This financial information need to be transparently reported and disclosed in order to ensure that local governments and companies can be held accountable. This is especially important in the poorest economies.

New reporting requirements for multinational extractive companies have been introduced in the US and in the EU, based on which companies will have to report payments to governments on a country-level basis.[28] Country-by-country reporting provides investors with more comprehensive financial information about companies and helps them address investment risk more effectively.

In addition, during the last decade, technological and social changes have severely affected the functioning of the telecoms sector: the sector has now become an 'interconnected ecosystem'.[29] This 'interconnectedness' critically impacts the operation of all players within the telecoms sector and increases their vulnerability to corruption.

Company results

Average result

22%

The average company score in the third dimension was 22 per cent. Although no companies scored zero points, this was the lowest result out of all three dimensions assessed in this report.

As most companies are present in a large number of countries, they fail to present financial data for each country of operation. Where they do report on financials, the disclosure is limited to discrete data on a few selected jurisdictions.

The highest score, 84 per cent, was achieved by Deutsche Telekom. TELUS came second, with 80 per cent. Verizon, Telenor, TeliaSonera, Telefónica and Vodafone achieved scores of over 50 per cent, demonstrating that such disclosure does not result in competitive disadvantage, as is often feared by those who resist country-by-country reporting.

Fifteen out of the 33 companies scored less than 10 per cent, with AT&T scoring only 1 per cent.

[28] A new reporting requirement contained in the Capital Requirements Directive IV will oblige EU-based credit institutions to report on specific financial data, such as profits and turnover, and to disclose the geographic location of their entities and the nature of their activities. These first legislative steps, although they are limited to certain industries and to specific financial data, mark a considerable change in the perception of country-by-country reporting as a recognised building block for corporate transparency.

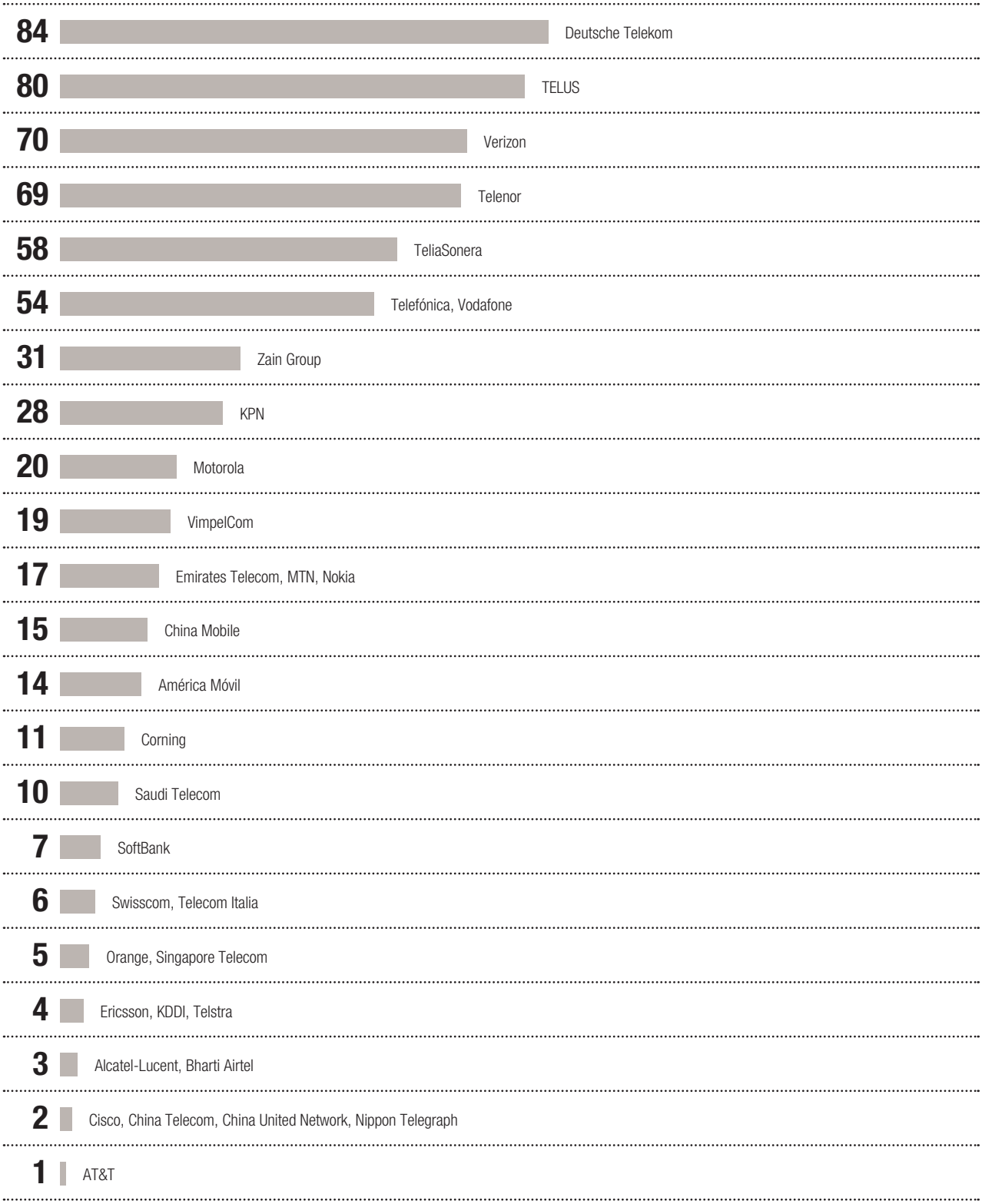
[29] Deloitte 2015 Telecommunications Industry Outlook.

FIGURE 8

Country-by-country reporting – company ranking

% score, 100% means maximum score

0 companies scored 100%



Revenues are the most frequently disclosed data point; profit before tax, capital expenditure and community contributions are the least disclosed.

FIGURE 9

Country-by-country reporting – analysis by question

	1 point	0.75-1.00 points	0.50-0.75 points	0.25-0.50 points	0.00-0.25 points	0 points
Revenues	3	2	5	7	10	6
Capex	1	2	2	3	9	16
Pre-tax income	2	2	2	5	6	16
Income tax	2	4	2	1	17	7
Community contributions	0	0	1	1	11	20

Country-by-country reporting – industry analysis

Average score

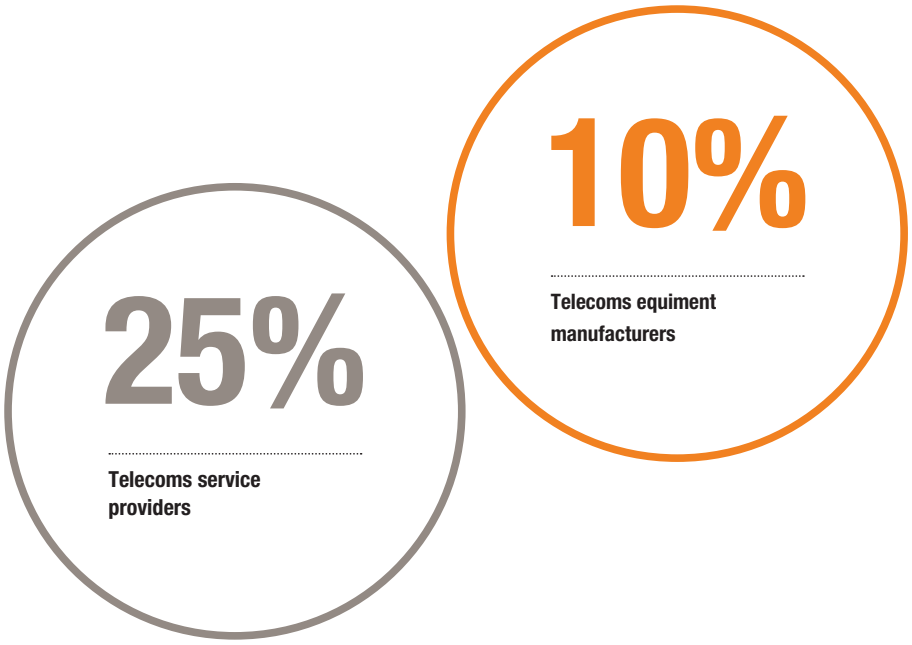
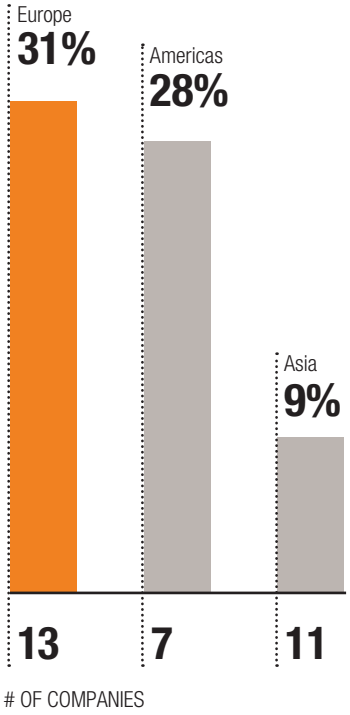


FIGURE 10

Country-by-country reporting – geographical analysis for selected regions



There is no major difference in regard to the level of reporting between European companies and those from the Americas, but companies from Asia are lagging significantly behind in country-by-country reporting. Telecoms service providers achieved higher scores in the country-by-country reporting, with an average score of 25 per cent, while equipment manufacturers scored only 10 per cent.

We did not include the Africa and Pacific regions in this geographical analysis because our sample included only one company from each of these regions: MTN Group Limited of South Africa and Telstra Corporation Limited of Australia. Nevertheless, we believe the performance of these companies in the Country-by-Country Reporting dimension (17% and 4% respectively) sets an important reference point for those regions.

COMPARING RESULTS WITH TRANSPARENCY INTERNATIONAL'S 2014 STUDY ON TRANSPARENCY IN CORPORATE REPORTING – ASSESSING THE WORLD'S LARGEST COMPANIES

Country-by-country reporting
In this dimension a remarkable difference can be detected between the two groups of companies: the telecoms companies surveyed in the present study achieved a result of 22 per cent while the companies assessed in the 2014 study achieved a low score of 6 per cent only. In our sample, 25 telecoms companies scored less than 30 per cent. European and American telecoms companies have a similar level of disclosure, but companies from Asia are lagging significantly behind in their country-by-country reporting. It should be noted that in the industry analysis of the 2014 report, the nine assessed telecoms companies scored 20 per cent on average for country-by-country reporting.

CORPORATE TRANSPARENCY AND THE REGULATORY LANDSCAPE IN THE TELECOMS SECTOR

In preparing this report we conducted a review of the global and European legal and regulatory standards on transparency and accountability in the telecommunications sector, focusing on governance gaps and the potential for improvement. This review revealed a lack of clear and enforceable rules that mandate the adoption by telecoms companies of anti-corruption policies and more comprehensive and transparent reporting systems to mitigate bribery and corruption risks.

The telecommunications sector globally is subject to a host of international controls, many of which concern matters of national sovereignty. These global and regional regulations have been introduced over the years to ensure mutually beneficial economic and technological cooperation. A striking example is the international coordination on the allocation and use of radio spectrum, which has led to the introduction of a powerful set of rules affecting the world's telecommunications operators. These rules are implemented by the ITU, the United Nations specialised agency for information and communication technologies.

The ITU, however, does not have authority over the functioning of national telecoms markets. As is the case with other UN bodies, the ITU's authority is based on cooperation and multilateral agreements involving governments and other relevant parties. The ITU applies a set of technical standards to the industry but there are no legally binding rules or regulations setting out transparency and accountability requirements that are applicable to the telecommunications sector worldwide.

A key reference document issued by the ITU, the Telecommunications Regulation Handbook (2011), offers the most comprehensive overview of relevant best practices addressing corruption and integrity issues in the sector. A key section on "Transparent Regulation and Processes" articulates the benefits of transparency in spectrum regulation: ensuring efficiency and effectiveness; certainty and reliability; accountability and independence; and continuity – all of which are viewed as the hallmarks of good regulation in the sector.[30] However, this document is not binding.

The ITU's recommendations highlight the critical importance of the spectrum licensing process, both from the perspective of the regulators and that of the industry. These auctions, at times costing hundreds of millions of dollars for a successful bidder, can pose a high risk of corruption, but they also offer opportunities for regulatory intervention that can ensure implementation of the highest integrity standards.

Furthermore, the huge potential for development created by rapidly growing Internet penetration should not be undermined by corruption in the sector. According to the ITU, there are more than 7 billion mobile subscriptions worldwide, and 3.2 billion internet users globally. As a result of the rapid mobile broadband expansion, including into rural areas, 29 per cent of the 3.4 billion people living in rural areas worldwide will be covered by 3G mobile broadband by the end of 2015.[31]

European Legal and Regulatory Standards

Regulation of telecoms markets by the EU aims to counterbalance the significant market power of former national telecoms monopolies, ensure the availability and accessibility of universal services, and protect consumers. The overall aim of this regulation is to encourage competition, safeguard users' rights and enable them to benefit from increased choice, low prices, high quality and innovative services. However, the sector-specific legal and regulatory framework for telecommunications does not address issues of integrity directly.

"Transparency" does figure within the European telecoms regulatory framework but not in the context of the fight against corruption. Rather, transparency is strongly connected to policies of "net neutrality,"[32] which relate to enabling customers to make informed choices[33] concerning the quality of the telecommunications service that best fits their needs, especially with regard to restrictions on accessing content and applications. As a result, within the European telecoms regulatory framework, transparency requirements focus on "…reducing the asymmetry of information existing between providers and end users, fostering proactive behaviour by Internet Service Providers (ISPs)".[34]

The European experience shows that stronger anti-corruption efforts are needed in the telecoms sector. The licensing process (and the awarding of concessions) has been ranked by many observers as the area that is most vulnerable to corruption.[35] The complexity of the process, which involves multiple opportunities for public–private interface, raises the potential for corruption. However, the existing legal and regulatory framework in the sector focuses only on the relationship between the consumer and the service provider with regard to transparency, failing to address the need for strong and transparent corporate anti-corruption policies, as well as the need for disclosure of corporate structures and key financial information.

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[30] See ITU Telecommunications Regulation Handbook 2011: 98. https://www.itu.int/dms_pub/itu-d/opb/pref/D-PREF-TRH.1-2011-PDF-E.pdf.

[31] https://www.itu.int/net/pressoffice/press_releases/2015/17.aspx.

[32] "Net neutrality" was first defined by American Professor Tim Wu as "… a network design principle. The idea is that a maximally useful public information network aspires to treat all content, sites and platforms equally. This allows the network to carry every form of information and support every kind of application".

[33] We refer here inter alia to Article 20(1)b and 21(3)c of the revised Universal Service.

[34] Body of European Regulators for Electronic Communications (BEREC) 2011:3

[35] Transparency International 2010; OECD 2014; Sutherland 2013.

9

CONCLUSION

The global and European legal and regulatory standards on transparency and accountability in the telecommunications sector have numerous gaps, notably the lack of clear and enforceable requirements for companies to adopt coherent policies and more comprehensive and transparent reporting systems to curb the risks of bribery and corruption.

According to the ITU, mobile broadband is the most dynamic market segment in the ICT industry, expected to attain penetration of 47 per cent of the world population in 2015, a 12-fold increase in only eight years.[36] The spectrum licensing process, an essential step for broadband development, should be at the core of telecoms industry regulation. It should ensure that the structure and level of competition in all markets is determined fairly, thus guaranteeing the "efficiency of the supply of ICT services to the public".[37]

It is our belief that the implementation and enforcement of public policies fostering greater transparency and integrity would enhance this goal as well. Although a range of other measures, including open and transparent spectrum licensing processes, are needed, greater transparency on the part of corporate participants in spectrum licencing is an important piece of the puzzle.

Adequate disclosure of corporate information plays an important role in combating corruption in all businesses, including the ICT sector. As this report highlights, the telecoms sector must still make progress in its disclosure practices, as there is particularly weak performance in the dimensions of organisational transparency and country-by-country reporting.

National regulators can make an important contribution by requiring fuller disclosure of corporate information based on the criteria assessed in our report. Governments and regulators should define and implement criteria on the transparency of ownership structures, including full disclosure of beneficial ownership and corporate structures, as well as country-by-country reporting. This would allow for the collection of basic financial data across all countries of operation as mandatory elements of calls for bids during spectrum licensing.

Transparency International has already invested considerable efforts in advocating the need for strong anti-corruption measures in the awarding of concessions and licences. It has also highlighted the importance of involving all stakeholders, including civil society and the media, in building and maintaining a clean licensing system. Transparency International has also recommended that both the supply and demand elements of corruption be tackled with *"…open bidding and contracting, enhanced transparency, integrity and monitoring mechanisms and training of regulatory officials, as well as corporate integrity and incentives and deterrents for the private sector".*[38] On this basis, more specific recommendations on developing global standards on spectrum licensing to enhance transparency and integrity could be usefully developed.

[36] https://www.itu.int/net/pressoffice/press_releases/2015/17.aspx.
[37] ITU Telecommunications Regulation Handbook 2011: 63.
[38] Transparency International 2013: 1.

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ANNEXES

ANNEX 1: METHODOLOGY

Transparency in Corporate Reporting: Assessing the World's Largest Telecommunications Companies builds on Transparency International's existing work in combating corruption in the private sector. The methodology for this study has been used previously by Transparency International, most recently in 2014 in our report on *Transparency in Corporate Reporting – Assessing the World's Largest Companies.* The questionnaire and codebook used for the 2014 report were also used in the present research.

This study assesses the transparency of corporate reporting by the world's 35 largest publicly listed telecommunications companies, drawn from the Forbes 2014 Forbes Global 2000 list. From this list, a shortlist of 73 telecommunications companies was selected based on market value, along with eight telecoms equipment companies. Out of the 73 telecommunications companies, the 29[39] largest telecommunications companies were then chosen for final inclusion in the study, while out of the eight telecoms equipment companies the first six were chosen.

The report is based on data collected or made available between June and August 2015. It is possible that relevant information may have been published by companies after this period but such information could not be taken into account in this report.

Corporate reporting is measured on three dimensions that Transparency International considers fundamental to achieving greater transparency:

- reporting on anti-corruption programmes
- organisational transparency
- country-by-country reporting

Reporting on anti-corruption programmes demonstrates whether the basic anti-corruption measures are in place and shows the company's level of commitment to anti-corruption. Assessing organisational transparency indicates the level of transparency of the company structure and how transparent intra-company and cross-border financial flows are. Country-level disclosure makes it possible to collect financial data across all countries of operation.

The desk research was carried out based on data collection from corporate websites and relevant embedded links.

The three categories were evaluated separately and complete scores were provided on a disaggregated basis. Potential correlations between the results in different categories were explored. Full data sets underlying the report will be publicly available.

Transparency International did not investigate the veracity or completeness of the published information and did not make any judgement about the integrity of the information or practices disclosed. The methodology and data were shared with each of the companies and they had the opportunity to review and comment. Of the 35 companies surveyed, 16 took advantage of the opportunity to review their data. Input from the companies was validated and corrections were made if necessary. Transparency International attaches a great deal of importance to data sharing with, and obtaining review by, companies to create greater understanding of our methodology and credibility of the findings and recommendations. Transparency International is available for follow-up on the assessments and to enter into dialogue on request.

[39] This number was originally 30 but since the publication of the 2014 Forbes Global 2000, América Móvil S.A.B. de C.V. merged with Carso Global Telecom S.A.B. de C.V., leaving 29 telecommunications companies in our list.

ANNEX 2: QUESTIONNAIRE

I. REPORTING ON ANTI-CORRUPTION PROGRAMMES

1) Does the company have a publicly stated commitment to anti-corruption?
2) Does the company publicly commit to be in compliance with all relevant laws, including anti-corruption laws?
3) Does the company leadership (senior member of management or board) demonstrate support for anti-corruption?
4) Does the company's code of conduct/anti-corruption policy explicitly apply to all employees and directors?
5) Does the company's anti-corruption policy explicitly apply to persons who are not employees but who are authorised to act on behalf of the company or represent it (for example: agents, advisers, representatives or intermediaries)?
6) Does the company's anti-corruption programme apply to non-controlled persons or entities that provide goods or services under contract (for example: contractors, subcontractors, suppliers)?
7) Does the company have in place an anti-corruption training programme for its employees and directors?
8) Does the company have a policy on gifts, hospitality and expenses?
9) Is there a policy that explicitly prohibits facilitation payments?
10) Does the programme enable employees and others to raise concerns and report violations (of the programme) without risk of reprisal?
11) Does the company provide a channel through which employees can report suspected breaches of anti-corruption policies, and does the channel allow for confidential and/or anonymous reporting (whistle-blowing)?
12) Does the company carry out regular monitoring of its anti-corruption programme to review the programme's suitability, adequacy and effectiveness, and implement improvements as appropriate?
13) Does the company have a policy on political contributions that either prohibits such contributions or, if it does not, requires such contributions to be publicly disclosed?

II. ORGANISATIONAL TRANSPARENCY

14) Does the company disclose all of its fully consolidated subsidiaries?
15) Does the company disclose the percentages owned in each of its fully consolidated subsidiaries?
16) Does the company disclose countries of incorporation for each of its fully consolidated subsidiaries?
17) Does the company disclose countries of operation for each of its fully consolidated subsidiaries?
18) Does the company disclose all of its non-fully consolidated holdings (associates, joint ventures)?
19) Does the company disclose the percentages owned in each of its non-fully consolidated holdings?
20) Does the company disclose countries of incorporation for each of its non-fully consolidated holdings?
21) Does the company disclose countries of operation for each of its non-fully consolidated holdings?

III. COUNTRY-BY-COUNTRY REPORTING

22) Does the company disclose its revenues/sales in country X?
23) Does the company disclose its capital expenditure in country X?
24) Does the company disclose its pre-tax income in country X?
25) Does the company disclose its income tax in country X?
26) Does the company disclose its community contribution in country X?

ANNEX 3: DATA TABLES

ACP ANTI-CORRUPTION PROGRAMMES
OT ORGANISATIONAL TRANSPARENCY
CBC COUNTRY-BY-COUNTRY REPORTING

#	COMPANY	COUNTRY/TERRITORY	INDUSTRY	INDEX	ACP	OT	CBC	FEEDBACK
1	Alcatel-Lucent S.A.	France	Telecommunication equipment manufacturer	3,86	100%	13%	3%	yes
2	América Móvil S.A.B. de C.V.	Mexico	Telecommunication service provider	3,83	69%	31%	14%	
3	AT&T Inc.	USA	Telecommunication service provider	3,29	73%	25%	1%	yes
4	BCE Inc.	Canada	Telecommunication service provider	4,21	65%	19%	N/A	yes
5	Bharti Airtel Limited	India	Telecommunication service provider	4,19	73%	50%	3%	
6	China Mobile Limited	China	Telecommunication service provider	3,45	38%	50%	15%	
7	China Telecom Corporation Limited	China	Telecommunication service provider	2,48	35%	38%	2%	
8	China United Network Communications Corporation Limited	China	Telecommunication service provider	1,99	8%	50%	2%	
9	Cisco Systems Inc.	USA	Telecommunication equipment manufacturer	2,93	73%	13%	2%	
10	Corning Incorporated	USA	Telecommunication equipment manufacturer	2,21	42%	13%	11%	
11	Deutsche Telekom AG	Germany	Telecommunication service provider	8,83	100%	81%	84%	yes
12	Emirates Telecommunications Corporation	United Arab Emirates	Telecommunication service provider	1,81	0%	38%	17%	
13	KDDI Corporation	Japan	Telecommunication service provider	2,01	19%	38%	4%	yes
14	Koninklijke KPN N.V.	Netherlands	Telecommunication service provider	4,75	77%	38%	28%	
15	Motorola Solutions Inc.	USA	Telecommunication equipment manufacturer	3,44	77%	6%	20%	
16	MTN Group Limited	South Africa	Telecommunication service provider	3,58	65%	25%	17%	
17	Nippon Telegraph & Telephone Corporation	Japan	Telecommunication service provider	3,87	77%	38%	2%	yes
18	Nokia Group	Finland	Telecommunication equipment manufacturer	3,96	77%	25%	17%	yes
19	Orange S.A.	France	Telecommunication service provider	5,99	100%	75%	5%	yes
20	Rogers Communications Inc.	Canada	Telecommunication service provider	4,45	58%	31%	N/A	
21	Saudi Telecommunications Company	Saudi Arabia	Telecommunication service provider	1,55	12%	25%	10%	
22	Singapore Telecommunications Limited	Singapore	Telecommunication service provider	3,28	50%	44%	5%	
23	SoftBank Corp.	Japan	Telecommunication service provider	1,49	19%	19%	7%	
24	Swisscom AG	Switzerland	Telecommunication service provider	2,59	35%	38%	6%	
25	Telecom Italia S.p.A.	Italy	Telecommunication service provider	4,00	88%	25%	6%	
26	Telefonaktiebolaget LM Ericsson	Sweden	Telecommunication equipment manufacturer	4,58	96%	38%	4%	yes
27	Telefónica S.A.	Spain	Telecommunication service provider	5,02	65%	31%	54%	yes
28	Telenor ASA	Norway	Telecommunication service provider	7,39	96%	56%	69%	yes
29	TeliaSonera AB	Sweden	Telecommunication service provider	6,17	96%	31%	58%	yes
30	Telstra Corporation Limited	Australia	Telecommunication service provider	3,42	62%	38%	4%	yes
31	TELUS Communications Company	Canada	Telecommunication service provider	6,11	85%	19%	80%	
32	Verizon Communications Inc.	USA	Telecommunication service provider	5,83	92%	13%	70%	yes
33	VimpelCom Ltd.	Netherlands	Telecommunication service provider	5,26	88%	50%	19%	yes
34	Vodafone Group Plc.	UK	Telecommunication service provider	6,41	88%	50%	54%	yes
35	Zain Group	Kuwait	Telecommunication service provider	4,97	81%	38%	31%	

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