

Guide to Extractive Sector State-Owned Enterprise Disclosures

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Introduction

CONTEXT

Only 9 of the 81 state-owned enterprises (SOEs) assessed in the 2017 Resource Governance Index (RGI) achieved a good standard of transparency and accountable governance (scoring above 75 out of 100).

In resource-rich countries, SOEs have a major influence on the economy and society as a whole, as their activities often have a large impact on how the government manages extraction and how much revenue the government earns. The RGI provides essential guidance on understanding the activities and revenue realization of SOEs, with the aim of addressing existing gaps in knowledge. Transparency, driven by enhanced disclosures, constitutes a major component of an SOE’s accountability to shareholders, potential investors and business partners, and an increasingly engaged civil society.

Some SOEs in the extractive sector are investing significantly in improving the quantity and quality of the information they make available to the public. These companies are presented with a number of requirements, guidelines and recommendations. Certain legal or regulatory requirements govern some SOEs, as they do with private entities, including accounting standards or listing requirements. Further, in recent years, international organizations including the World Bank and the Organisation for Economic Co-operation and Development (OECD) have published a number of reference documents on good practices regarding SOE disclosures.¹ In terms of best practices for SOE transparency in the extractive sector, the 2016 Extractive Industries Transparency Initiative (EITI) Standard outlines the requirements and recommendations applicable to SOEs from more than 50 participating countries, including disclosure requirements on beneficial ownership, commodity sales, revenue transfers and quasi-fiscal expenditures. In addition, the Resource Governance Index evaluates SOE transparency and governance across 10 indicators, such as the SOE disclosures in terms of production, commodity sales and participation in joint ventures or subsidiaries, among others.

SOURCES

This guide on mainstreaming disclosures of SOEs in the extractive sector (“the guide”) aims to facilitate the efforts of SOEs to improve their disclosures by providing consolidated information on SOE reporting good practices, drawn from a variety of sources. It is based on a review of the EITI Standard, the RGI and general SOE disclosure guidelines and reports published by the World Bank, the OECD and Transparency International;² a number of NRG’s publicly available country reports on SOE transparency and disclosure,³ and other country-specific work performed by NRG; and an analysis of existing good practices identified through a review of SOEs’ annual reports, websites and other disclosures.

- 1 World Bank, *Corporate Governance of State-Owned Enterprises: A Toolkit* (2014), doi: 10.1596/978-1-4648-0222-5; OECD, *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (2015), <http://dx.doi.org/10.1787/9789264244160-en>.
- 2 World Bank, *Corporate Governance*; OECD, *OECD Guidelines*; Transparency International, *Transparency in Corporate Reporting: Assessing Emerging Market Multinationals* (2016), http://files.transparency.org/content/download/2025/13112/file/2016_TransparencyInCorporateReporting_EMMs_EN.pdf.
- 3 Natural Resource Governance Institute, *International Best Practices for Transparency in Contract Management* (2016); David Manley and Webby Wake, *Copper Giants: Lessons from State-Owned Mining Companies in the DRC and Zambia* (Natural Resource Governance Institute, 2015); Aaron Sayne, Alexandra Gillies and Christina Katsouris, *Inside NNPC Oil Sales: A case for Reform in Nigeria* (Natural Resource Governance Institute, 2015).

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SCOPE

This guide attempts to provide a practical reference for SOEs to use as they develop their disclosures.

However, it is important to note that no single model or template applies to all SOEs in terms of financial and non-financial disclosures—because SOEs come in various shapes, evolve in different environments, are subject to diverse regulatory obligations and impact numerous stakeholders.

In light of this diversity, the guide was not designed to ensure compliance with every country-specific legal or regulatory requirement or to provide a single path towards transparency. Such a tool would be difficult to create on a global basis but may be developed in the future at country level. Instead, the guide presents a list of items and approaches for SOEs to consider incorporating into their disclosures as requirements, customary rules or strongly encouraged good practices. Although this guide aims to help SOEs significantly improve their disclosure practices, each SOE must strive to identify its stakeholders and ensure that its disclosures appropriately address their interests and concerns.

While the purpose of this guide is to promote transparency in extractive SOEs with a view to increase accountability in this sector, recent examples⁴ have underscored that transparency is not sufficient to ensure good governance. Transparency is, however, one of the pillars of good governance and remains an indispensable step towards accountability.

Transparency is most effective when adopted as part of an SOE's organizational culture, practiced at every operational level. The guide should encourage SOEs to practice transparency as “business as usual.” Rather than producing reports containing information that is stale or disconnected from its core functions, SOEs should become transparent in a systematic and standardized manner. In other words, the guidance promotes mainstreaming⁵ through disclosure of: complete and sufficiently detailed information; disclosed with an appropriate frequency and regularly updated; accessible to stakeholders in an open format; and fully integrated into the day-to-day procedures of the SOE. Mainstreamed disclosures resulting from systematic data collection and automatic release would increase reporting consistency and efficiency.

AUDIENCE

This guide offers SOE decision-makers a framework for considering the most relevant disclosures to improve their company's transparency and governance. It is also aimed at oversight actors such as civil society organizations and parliamentary committees that are interested in assessing and monitoring their country's SOE disclosures. It provides international good practices that can be compared to a specific country SOE's practices and transformed into SOE-specific recommendations.

STRUCTURE

The guide covers both the scope of recommended disclosure (i.e., what to disclose) as well as key principles and approaches SOEs can adopt in developing their disclosure methodology (i.e., how to disclose information). Table 1 provides an overview of the recommended disclosures for SOEs.

4 For example, the Brazilian SOE Petrobras (Brazil) has achieved good transparency levels, despite being mired in a widespread corruption scandal.

5 EITI defines mainstreaming as “encouraging and recognizing countries that make transparency an integral and routine feature of their governance and management systems.” See <https://eiti.org/mainstreaming>.

Table 1. Overview of recommended SOE disclosures

Category of SOE disclosure	Content	Features	
Sector context	Legal and institutional context		
	Political, economic, social and environmental context		
Mission, structure and organization	Objectives		
	Ownership (including beneficial ownership)		
	Corporate structure		<i>Accessibility</i>
	Human resources		<i>Reliability</i>
	Partnerships		
	Corporate governance		<i>Consistency</i>
Role	Commercial activities		<i>Completeness</i>
	Non-commercial activities		
	Agreements		
Performance and results	Performance (e.g., production, sales, efficiency)	<i>Frequency</i>	
	Financial results	<i>Timeliness</i>	
Transfers with the government or subnational government entities	Payments and receipts to/from national and subnational government entities		
Impact	Social, environmental, human rights impact and corporate social responsibility initiatives		

I. What to disclose?

Valuable disclosures cover the most relevant issues for SOE stakeholders (e.g., shareholders, investors, regulators, taxpayers, members of civil society, business partners). In general, these issues fall within six categories as follows:

- Sector context
- Mission, structure and organization
- Role
- Performance and results
- Transfers with the government or subnational government entities
- Impact

Importantly, the categories listed above—and further developed below—are not determinative and mainly intend to structure this guide. They may overlap, and readers should not feel limited by them. For example, certain SOEs may report on board member compensation alongside other corporate governance information, while others may choose to disclose that information elsewhere. The most important element is that the information is disclosed in a coherent fashion.

Nevertheless, the six categories proposed here are sufficiently broad to allow the necessary flexibility for each SOE to shape its disclosures based on its unique characteristics. Certain categories may be more relevant to a particular SOE and should be covered accordingly. For example, SOEs listed on stock exchanges may be subject to specific disclosure requirements, and SOEs with heavy quasi-fiscal responsibilities should make a particular effort to explain their non-commercial mandate and its impact on their overall results.

CATEGORY 1: SECTOR CONTEXT

This category of information aims to provide the necessary context for citizens to understand the scope and strategy of an SOE's operations and results. While this information is often provided by other players, such as ministries or regulatory agencies, or becomes publicly available following a new regulation or political crisis, the SOE's inclusion of this valuable background information in their disclosure enables stakeholders to accurately interpret other financial and non-financial data.

The following information should be largely available to SOEs and could be compiled easily according to the principles developed in the second part of this paper.

1) Legal and institutional context

This type of disclosure educates stakeholders on the rules governing the extractive industries and identifies and explains the role of relevant industry players.

a. Laws and regulations

The EITI requires disclosure of information about the legal framework, fiscal regime and other rules and practices of SOEs. (See EITI Req. 2.1.) While ministries and government agencies often disclose this information, it is good practice for SOEs to adopt as well in order to provide context for other disclosures and highlight any gaps between legal framework and practice.⁶

⁶ Norway and Chile provide good examples. See Statoil, *2016 Annual Report (2016)*, 37–39, <https://www.statoil.com/content/dam/statoil/documents/annual-reports/2016/statoil-2016-annualreport-20-F.pdf> and Codelco, *2016 Annual Report (2016)*, 26, <https://www.codelco.com/memoria2016/en/pdf/annual-report/annual-report-2016.pdf>, respectively.

Relevant SOE disclosures include:

- i Sector-specific laws and regulations (e.g., petroleum law, licensing process)
- ii Corporate laws and regulations governing SOEs
- iii Laws and regulations related to SOE disclosure
- iv SOE bylaws or similar founding documents
- v Environmental, social and health laws and regulations
- vi Land rights laws and regulations
- vii Procurement laws and regulations
- viii Anticorruption laws and regulations
- ix Labor laws and regulations

In addition to domestic laws and regulations, disclosures may include the company's position on regional or international norms and standards, such as the International Labour Organization's eight fundamental conventions, the United Nations Convention against Corruption, or the International Finance Corporation's Performance Standards on Environmental and Social Sustainability, inter alia.

b. Key industry players

The state-owned enterprise is one of several important actors in a country's extractive industries. Thus, it is important for external audiences to understand the respective roles of these actors. In its disclosures, the SOE should clarify its relationships with the entities listed below, including divisions of labor, oversight responsibilities,⁷ commercial relationships and other collaboration:

- i Government ministries and agencies
- ii Other SOEs
- iii Parliamentary bodies (e.g., sector committees)
- iv Key private-sector actors (e.g., companies partnering with the SOE in joint ventures or profit-sharing agreements)⁸
- v Other relevant regulators or oversight actors (e.g., tax agencies, environmental regulators, audit bodies and ombudsmen, anticorruption commissions)

For their part, other government entities—in particular ministries and agencies with direct responsibility for managing the sector—can bolster understanding of the SOE's role by publishing information about SOE oversight procedures, and the SOE's activities and performance.

2) Political, economic, social and environmental context

Political, economic, social and environmental factors all impact the operations and results of the SOEs and, in certain circumstances, constitute significant risk factors. Transparency requires a level of clarity that quantitative data alone cannot provide. Qualitative data, which provides context, is often as important as statistical data when it comes to providing transparency. Good practice includes disclosure of constant and variable information, as suggested below.⁹

⁷ Codelco has listed the entities exercising oversight over the Chilean SOE and provided relevant information regarding certain commissions and committees involved in its auditing. See Codelco, *2016 Annual Report* (2016), 27 and 44.

⁸ Codelco has listed the entities exercising oversight over the Chilean SOE and provided relevant information regarding certain commissions and committees involved in its auditing. See Codelco, *2016 Annual Report* (2016), 27 and 44.

⁹ Codelco, *2016 Annual Report* (2016), 28–29.

a. Constant information

- i Overview and history of the country’s extractive industries
- ii Relevant risk factors (e.g., political, regulatory, legal, market risks, competition, conflict and security issues, geological risks, weather conditions, price volatility)

b. Variable information

- i Key political or economic changes impacting the industry
- ii Changes in the legal and regulatory environment (e.g., privatization, new regulatory agencies)
- iii Pending regulatory investigations or legal proceedings
- iv Commodity fluctuations (e.g., prices, reserve levels and production levels)
- v Recent significant events (e.g., weather events, corruption scandal, significant technical issue, major industrial accident, renegotiation of contracts)
- vi Other opportunities and challenges

SOEs should disclose variable information with adequate frequency and timeliness, as further detailed in the second part of this paper.

The Chilean SOE Codelco provides a good example of how a company can present its milestones for a particular year in its annual report.

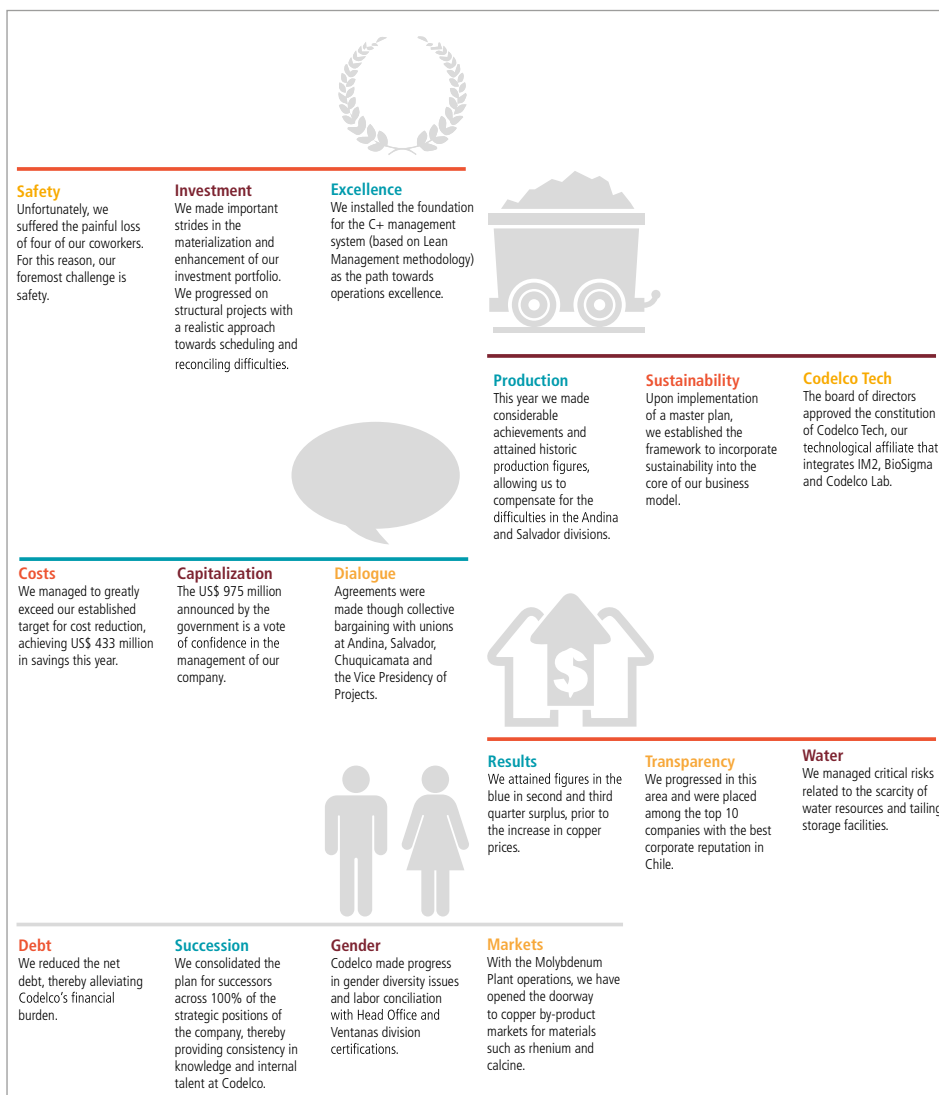


Figure 1. 'Milestones' presented in Codelco's 2016 annual report

Source: Codelco, 2016 Annual Report, 32.

CATEGORY 2: MISSION, STRUCTURE AND ORGANIZATION

SOEs sometimes disclose information about their structure and corporate governance. Stakeholders can benefit from having a clear understanding of the SOE's mission or mandate, including its commercial and non-commercial objectives.¹⁰

1) Objectives

The SOE's mission, objectives and priorities may be disclosed through a high-level statement describing the company's mandate, including its commercial and non-commercial purpose. Disclosures may also include quantitative information concerning the SOE's performance objectives or targets for the medium and long term.

2) Ownership

The SOE should ensure reliable and updated disclosure of:

- i Its ownership structure and arrangements (i.e., rights and processes relating to ownership functions, including voting structures)
- ii Exchange(s) where the company is listed
- iii Changes in its capital structure and ownership¹¹
- iv Shareholders' identities, delineated by number and category of shares or stock owned by each one

For partially privatized SOEs, the latter disclosure should extend to the *beneficial ownership*¹² of their privately owned shares. Pursuant to EITI Requirement 2.5, SOEs are required to disclose: (1) the identity of the beneficial owner for non-state owners, including the name, nationality, country of residence, identity and position of any politically exposed persons (required disclosures under EITI Req. 2.5.c), and the national identity number, date of birth, address and contact information (recommended disclosures under EITI Req. 2.5.d) of that person; (2) the level of ownership; and (3) details on how ownership or control is exerted (e.g., number of shares, percentage of direct and indirect voting rights).

3) Corporate structure

The SOE may adopt a centralized structure or operate through a network of affiliates. Regardless, the corporate structure impacts the reality of the company's operations (mining and non-mining) and the complexity of its financial flows. Under EITI Requirement 2.6.b, SOEs are required to make a certain number of disclosures concerning their level of ownership in mining, oil and gas companies, including those held by SOE subsidiaries or joint ventures. Generally, the SOE should disclose the following information for their holding companies and subsidiaries:

- i Corporate name
- ii Address of incorporation
- iii Senior management information (name and short biography.) (See Figure 2 for an example from Norway.)
- iv Company organizational chart reflecting key functions¹³

¹⁰ Statoil, *2016 Annual Report* (2016), 13–16.

¹¹ For example, the Indian SOE ONGC discloses its shareholding pattern in its annual report. See ONGC, *2014–2015 Annual Report* (2016), 100, http://www.ongcindia.com/wps/wcm/OngcHTML/Annual_Report_2014_15/images/AR-14-15.pdf.

¹² A beneficial owner is a natural person who, directly or indirectly, exercises substantial control over a legal entity or has a substantial economic interest in, or receives substantial economic benefit from, such legal entity. Listed companies are only required to disclose the name of the stock exchange where they are listed and include a link to the stock exchange filings (EITI Req. 2.5.f.iii).

¹³ For example, Codelco provided a senior management organizational chart in its 2016 annual report. See Codelco, *2016 Annual Report* (2016), 19.

- v List of group subsidiaries (including for each subsidiary corporate name; place and date of incorporation; type of legal entity; and ownership information for fully or partially owned subsidiaries)
- vi Activities and countries of operation¹⁴
- vii Level and terms (e.g., full-paid equity, free equity, carried interest) of state ownership, including the information specified in the Ownership section above (see EITI Req. 2.6.b)
- viii Terms of transactions resulting in a change of ownership (EITI Req. 2.6.b)

On its website, the Norwegian SOE Statoil provides a short biography for each head of business area including external office(s) held, date of birth, number of shares in the SOE, information concerning the individual’s education and experience, and any relevant family relation with members of the executive committee, board or corporate assembly.

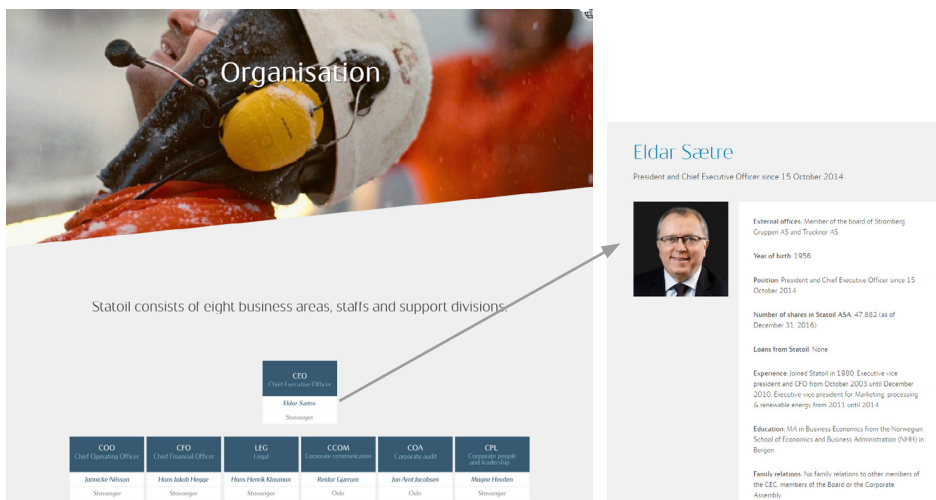


Figure 2. ‘Organisation’ section on the Norwegian SOE Statoil’s official website

Source: “Organisation,” Statoil, accessed 6 December 2017, <https://www.statoil.com/en/about-us/organisation.html>.

4) Human resources

Disclosures regarding the SOE’s workforce are good practice. Transparent SOEs commonly disclose relevant information including:

- i Number of employees (by segment, domestic vs. abroad, full-time vs. part-time, per subsidiary or other unit)¹⁵
- ii Gender equality
- iii Turnover
- iv Percentage of citizens and foreigners employed by the SOE
- v Employee ages (e.g., above or below 35 years old)
- vi Employee qualification levels (e.g., higher education, secondary education)
- vii Human resource policies (e.g., recruitment, training, evaluation, retention, compensation and benefits)
- viii Relationship with unions and other workers’ representatives
- ix Relevant social initiatives (e.g., continued education, safety programs)
- x Health and safety policies, strategies and indicators. (See Figure 3.)

14 For example, Statoil’s website contains a section entitled “Where We Are,” <https://www.statoil.com/en/where-we-are.html#norway>.

15 For example, Ecopetrol, *2015 Sustainability Report*, 363–382, <http://www.ecopetrol.com.co/english/Ecopetrol-Sustainability-Report-2016.pdf>.

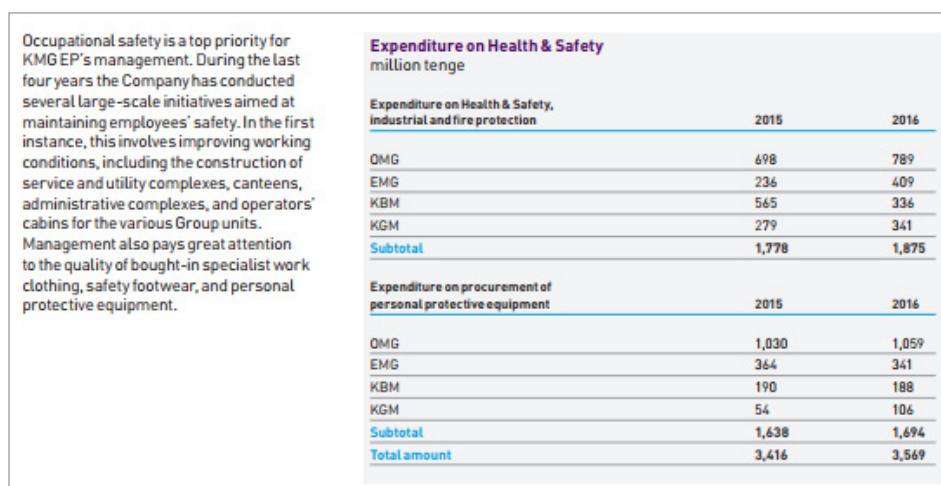


Figure 3. Expenditures on health and safety disclosed by Kazakhstan's SOE KMG

Source: KMG, 2016 Annual Report, 80, https://www.kmgep.kz/eng/investor_relations/annual_reports.

5) Partnerships

SOEs operate with a variety of company partners related to the SOE through joint ventures or other profit-sharing agreements. Contrary to fully consolidated subsidiaries, these companies have a degree of independence from the SOE. Other actors, such as buyers or contract holders, are also part of the SOE's ecosystem. The nature and structure of these relationships and the identity of the SOE's partners directly impact the company's performance and have proven to be a significant source of risk and inefficiencies.

Categories of partnerships or agreements vary widely based on the SOE's mandate, and disclosures may be tailored accordingly.¹⁶ The following elements contribute to increased transparency about SOE partners:

- i Name of business partner¹⁷
- ii Address of incorporation
- iii Capital ownership (see Category 2 Section 1 above), including beneficial owner when relevant
- iv Activities and country of operations
- v Nature of the relationship (e.g., concession, profit-sharing, licensees, joint ventures, public-private partnerships, contract holders, buyers)
- vi Costs and revenues derived from partnership (including details about loans or guarantees provided to mining, oil and gas companies operating within the country (EITI Req. 2.6))

6) Corporate governance

Information about the SOE's corporate governance is crucial to understanding how the company balances the interests of various stakeholders, and how it monitors and evaluates its internal processes and operations. Comprehensive disclosure on this topic increases the SOE's credibility as an institution and reflects its commitment to accountability and professionalism. Particularly important for SOEs are mechanisms that limit political interference in the company's affairs. While most SOEs already disclose the composition of their boards of directors,¹⁸ other corporate governance issues are often missing from the SOE's communications, or receive only partial coverage.

16 For example, Statoil discloses its partnerships in various locations on the "Where We Are" section of its website, <https://www.statoil.com/en/where-we-are.html#norway>.

17 See, for example, "Annexure E," in ONGC (India), 2015 Annual Report (2016), http://www.ongcindia.com/wps/wcm/PDF/AnnualReport/annual_report15-16.pdf; "F-108-110," in YPF (Argentina), 2015 Annual Report (2015), <http://www.ypf.com/enu/InversoresAccionistas/Lists/InformeAnualForm20/YPF-20F-2015.pdf>; See Pertamina (Indonesia), 2016 Annual Report (2016), 114–116, http://www.pertamina.com/media/5e70a57f-e2ec-4429-bbfe-292af2fbb7db/AR_Pertamina_2016.pdf.

18 According to the 2017 Resource Governance Index, 60 out of the 74 SOEs assessed had disclosed a list of board members.

a. Board of directors and senior executives

Beyond a simple list of board members, disclosures may include:

- i The board’s mandate, rules and procedures, including the nomination process for members, as well as compensation, termination, retirement and other benefits
- ii Number of board meetings held, meeting dates, minutes of Annual General Meetings¹⁹
- iii Name of board members and senior management (preferably including a photo, age, nationality)
- iv Individual biographies or profiles reflecting education and prior experience²⁰
- v Compensation paid to board members and senior executives
- vi Board members’ independence (from the government, the company and related entities, including any financial interests in the industry)
- vii Capital ownership in the company
- viii Employment with the company (role, dates)
- ix Date of nomination or election to the board
- x Attendance, training and evaluation of members

b. Committees

The board of directors and a varying number of committees ensure the monitoring and oversight of the SOE’s activities.²¹ Here, it is good practice to disclose the following:

- i Name and role of each committee (e.g., audit, risk, remuneration committees)
- ii Membership (including independence of members)
- iii Activity reports including any investigations
- iv Key findings and strategy

c. Policies and codes of conduct

Internal policies and codes of conduct contribute to the company’s governance. Their content and implementation provide a good indicator of the SOE’s core values and compliance strategy. Examples of relevant policies include:

- i Code of conduct or code of ethics (see Figure 4)
- ii Anti-bribery and corruption policy and program²²
- iii Gift and hospitality policy
- iv Conflict of interest policy
- v Political contribution policy
- vi Audit policy
- vii Procurement policy or buyer selection policy²³
- viii Policy on quasi-fiscal expenditures
- ix Code of conduct on human rights²⁴
- x Corporate social responsibility policy
- xi Policy on remuneration of board members and key executives
- xii Grievance and other complaint mechanisms (including whistleblowing policy)²⁵

19 For example, Statoil discloses the notice, minutes and webcast of its Annual General Meeting, including an archive of prior meetings on its website:
<https://www.statoil.com/en/about-us/annual-general-meeting.html#our-shareholders>.

20 Petronas, *2016 Annual Report*, 81–89,
<http://www.petronas.com.my/investor-relations/Documents/annual-report/PETRONASAnnualReport2016.pdf>.

21 For example, Statoil’s website provides a list of committees with their respective mandate and membership.

22 See, for example, Ecopetrol Anti-corruption Program (2014),
[http://www.ecopetrol.com.co/documentos/upload/Mapa_de_Riesgos_y_estrategia-\(english\).pdf](http://www.ecopetrol.com.co/documentos/upload/Mapa_de_Riesgos_y_estrategia-(english).pdf).

23 See, for example, the Indonesian SOE Pertamina’s *2016 Annual Report* (2016), 154–157,
http://www.pertamina.com/media/5e70a57f-e2ec-4429-bbfe-292af2fbb7db/AR_Pertamina_2016.pdf.

24 See, for example, “Contractors’ Code of Conduct on Human Rights,” Petronas, accessed 6 December 2017,
http://www.petronas.com.my/investor-relations/Documents/PETRONAS_Contractors_Code_of_Conduct_on_Human_Rights.pdf.

25 See, for example, Codelco’s Business Code of Conduct and Complaint Hotline,
<https://www.codelco.com/memoria2016/en/pdf/mem2016codelco-values-and-transparency.pdf>.

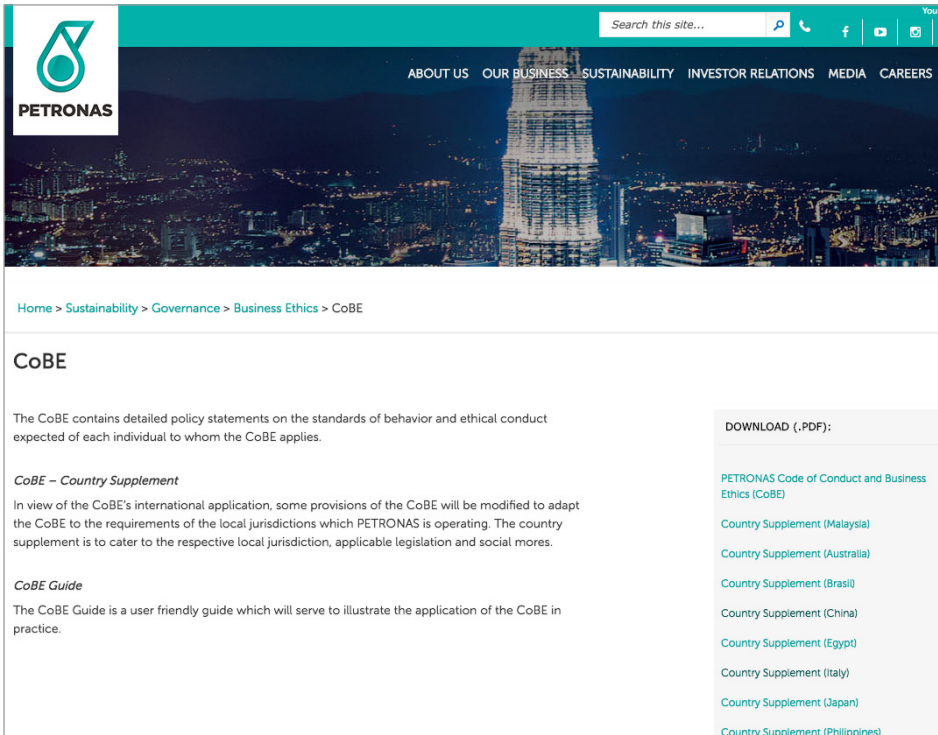


Figure 4. Code of conduct and business ethics on Petronas' website with country supplements

Source: "CoBE," Petronas, accessed 6 December 2017, <http://www.petronas.com.my/sustainability/governance/BusinessEthics/Pages/code-of-conduct-business-ethics.aspx>.

d. Risk management

Beyond the existence of policies, stakeholders are concerned about how the SOE's policies are implemented and how internal control mechanisms materialize in practice. To that effect, the SOE is encouraged to disclose the following:

- i Committee reports, internal audits or other case studies identifying incidents or policy violations and detailing investigations and remedial actions
- ii Training and evaluations of employees and contractors (e.g., on anticorruption and human rights)
- iii Special prevention and protection programs
- iv Remedial plans²⁶
- v Independent audits

For instance, on its website, Total has published a list of key risks and challenges and what the company is doing to address them. Figure 5 shows the group's strategy related to climate change.

²⁶ See, for example, Statoil's 2016 Annual Report (2016), Section 2.11 on Safety, Security and Sustainability, 74–77.

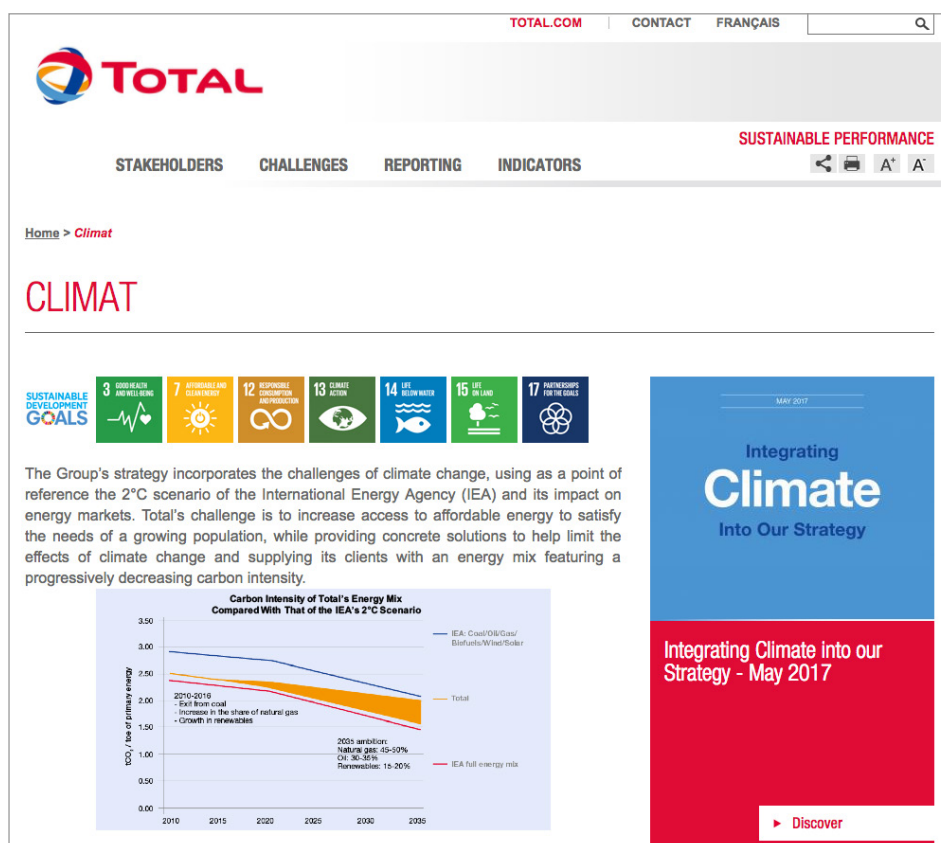


Figure 5. Total's risk management strategy regarding climate on its website

Source: "Climat," Total, accessed 6 December 2017, <http://www.sustainable-performance.total.com/en/node/133>.

CATEGORY 3: ROLE

Oil, gas and mining SOEs take on various roles, including roles unrelated to the extractive process. Clear communication about the SOE's activities and performance is vital for enabling stakeholders to identify capacity gaps or areas of inefficiency. Further, distinguishing between commercial and non-commercial operations in the SOE's disclosures may help identify potential conflicts of interest.

1) Commercial activities

Because the extractive sector covers a wide range of activities, including exploration, production, transportation, sale and processing, among others, it is important to define and explain the SOE's specific commercial operations. The companies' activities may be segmented in several different ways: high-level segmentation (upstream, midstream, downstream), value chain segmentation (exploration, production, transport, etc.) or geographical segmentation (for each operation location). Generally, the SOE should provide an overview of their commercial role as well as a description of major activities, challenges and expected developments during the time period under consideration. For each category of the SOE's operations, key performance indicators may be provided.²⁷ Relevant commercial activities include:

- i Exploration
- ii Development of reserves
- iii Production
- iv Transportation and storage
- v Sale of raw materials
- vi Refining and processing
- vii Marketing or sale of processed commodities
- viii Related financial services and roles

²⁷ See Category 4, Section 1(c) for examples.

The Malaysian SOE Petronas offers an example of good practice with a graphic explanation of its upstream and downstream activities.

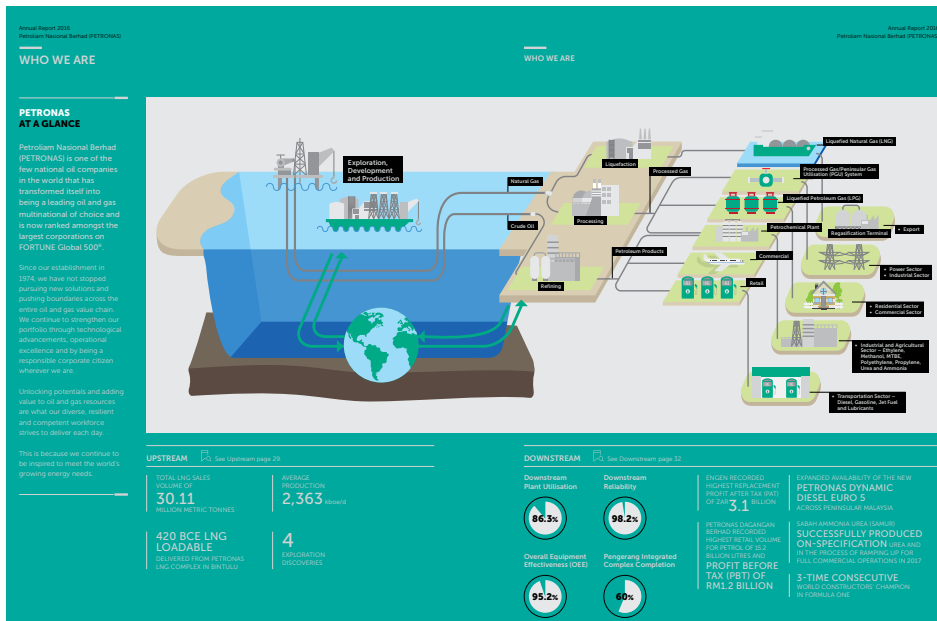


Figure 6. Petronas' commercial activities presented in its 2016 annual report

Source: Petronas, 2016 Annual Report, <http://www.petronas.com.my/investor-relations/Documents/annual-report/PETRONASAnnualReport2016.pdf>.

2) Non-commercial activities

A clear definition of any non-commercial mandate is indispensable for stakeholders to assess the SOE's performance and for the SOE to increase its accountability. Disclosures should include a detailed list of the public or quasi-fiscal missions assigned to the SOE. These may include:

- i Regulatory activities within the extractive sector:
 - Issuing licenses (EITI Req. 2.2 requires disclosure regarding license allocations)
 - Negotiating and signing contracts on behalf of the government
 - Developing industry rules
 - Industry oversight, such as approval or oversight of private company work plans, oversight of compliance with applicable laws, regulations and contracts, or enforcement of operational or environmental standards
 - Administration of subsidies on fuel or other commodities
- ii Activities outside the extractive sector:
 - Public infrastructure construction or maintenance
 - Education or healthcare services
 - Tax collection
 - Borrowing on behalf of government and/or repaying government loans
 - Other delivery of funds, goods or services on behalf of the government²⁸
 - Other business activities outside of the oil, gas or mining sector

3) Agreements

International organizations, such as the International Monetary Fund (IMF), the International Finance Corporation and the Open Contract Partnership, encourage increased transparency on public resource management through contract disclosure. The EITI Standard also encourages implementing countries to publicly disclose any contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals (EITI Req. 2.4).

²⁸ See, for example, the "Social Investment" section on the official website of Pemex (Mexico), <http://www.pemex.com/en/responsibility/social/Paginas/default.aspx>.

Recent developments demonstrate that contract disclosure is a growing trend, which is mainly undertaken by government agencies. Indeed, the 2017 RGI finds that 31 of the 81 countries studied published some or all of their extractive contracts (the majority only publishing some of them). Many of these contracts are available online at www.resourcecontracts.org. Disclosures by SOEs themselves—for contracts to which they are a party—would contribute to greater transparency.

The agreements referred to here may fit into three categories: first, agreements between the SOE and the government that govern the SOE’s exploration, production or other business activity; second, agreements signed by the SOE on behalf of the government, which might be disclosed by the relevant government agency signatory; and third, agreements entered into by the SOE that materially affect public revenues and are therefore directly relevant to its stakeholders (e.g., oil sale contracts, major procurement agreements).

Key terms that SOEs should consider including in their contract disclosures include:

- i Operational terms
- ii Geographical terms (i.e., location data on the area covered by licenses or concessions)
- iii Financial terms
- iv Fiscal terms
- v Social terms
- vi Human rights terms
- vii Environmental terms

In Norway, the Petroleum Directorate discloses information on Statoil and the licenses it holds in the same way as international companies operating in the country.

The screenshot shows the 'FACTPAGES' website interface for the Norwegian Petroleum Directorate. The 'Company' tab is selected, displaying details for Statoil Petroleum AS. The 'General information' section includes:

Name	Statoil Petroleum AS
Organisation number	990888213
Nation code	NO
NPDID company	17237817

Below this, there is a section for 'Licenses - current' with the following table:

Production licence	Licensee valid from date	Interest [%]
001_B	30.09.2016	50.000000
018	02.11.2009	7.604000
018_B	02.11.2009	7.604000
018_C	28.10.2011	6.654000
018_DS	30.09.2016	6.654000
025	13.01.2016	36.000000
028_B	30.09.2016	50.000000
028_C	02.11.2009	57.000000
029_B	21.12.2016	50.000000
034	02.11.2009	50.000000
035	30.09.2016	50.000000
035_C	30.09.2016	50.000000
036_BS	30.12.2013	29.443000
036_D	18.03.2017	28.853000
037	30.04.2012	21.875000
037_B	31.10.2013	51.000000

Figure 7. Details on licenses held by Statoil disclosed online by Norway’s Petroleum Directorate

Source: “Factpages,” Norwegian Petroleum Directorate, accessed 6 December 2017, <http://factpages.npd.no/factpages/default.aspx?culture=en&nav1=licence&nav2=PageView>.

CATEGORY 4: PERFORMANCE AND RESULTS

The performance of SOEs in each of their core and non-core activities over time may be the single most important information to stakeholders. Clear data and indicators are necessary to efficiently monitor and assess the management of the SOE's resources (i.e., the public good).

1) Performance

This category of information goes beyond a mere explanation of what the SOE does, which is covered in Category 3 above. Instead, what performance data is designed to show is how well the SOE performs in each of its assigned activities.

To be meaningful, Performance information must be dated, quantified (using standard industry measurements in terms of volume and currency), and provided consistently over time, and at appropriate levels of aggregation and/or disaggregation. For example, production volumes may be presented by extraction field and should highlight the share of the SOE's performance as opposed to that of its partners.²⁹ Performance disclosures should cover domestic and foreign operations.

Generally, performance data should be provided with explanatory notes on their source, any applicable methodology and significant figures or changes. These notes should also provide a narrative explanation to enable readers understand how the SOE's performance measured against its goals.

a. Commercial activities

Commercial performance includes all operational activities undertaken by the SOE. This is the single most important disclosure from a company. While over half of the SOEs covered in the RGI have scores above 75/100 (good) in terms of production disclosure, other performance indicators, especially in terms of commodity sales, are lacking.³⁰

Depending on the SOE's activities, disclosures may include information on:

- i Reserves: proved reserves and reserves replacement ratio
- ii Development or investments
- iii Exploration activities and results (see EITI Req. 3.1)
- iv Production volume and value per product type (attributable to the SOE),³¹ and by state or region (see EITI Req. 3.2) or field
- v Marketing and sales³² (domestic and exports) of raw or unrefined resource (values, prices and revenues), including a list of buyers when available, disaggregated by project or site
- vi Refinery capacity and performance, including relevant key performance indicators (KPIs) (e.g., average crude throughput, losses versus total output unplanned stoppages, unit costs of refining, number of workers per unit of output, gross margin)
- vii Refining availability ratio, which shows the percentage of the year that a unit is available for processing
- viii Supply of refined product to domestic market
- ix Refined product import and exports

29 For example, Statoil provided the average daily production and the relevant percentage of Statoil's equity interest for each field in which it participated. See Statoil, 2016 Annual Report (2016), 22–23, 28.

30 Norway and Chile, the two best overall RGI performers, obtained the failing score of 25/100 for their commodity sales disclosures despite a "good" overall score in terms of SOE governance.

31 See, for example, the operating results and statistics contained in Pemex, 2016 Annual Report (2016), [http://www.pemex.com/en/investors/financial-information/Resultados anuales/161231_reporte_i.pdf](http://www.pemex.com/en/investors/financial-information/Resultados%20anuales/161231_reporte_i.pdf).

32 The 2017 RGI finds that only one SOE (Yemen Oil and Gas Corporation) out of the 74 SOEs assessed scores well in terms of commodity sales disclosures.

- x Transportation and storage, including volumes and products transported and material transportation revenues (e.g., tariffs) (see EITI Req. 4.4)
- xi Status of each project or extraction site, including location, start date, challenges, costs, production volumes, projections and budget, expected completion date
- xii Any industry award or other certification received over time in connection with the SOE performance

Codelco, for example, publishes its key financial and operational data in its annual reports and on its website.



Figure 8. Financial and operational data displayed on Codelco’s website

Source: “Financial and operational data,” Codelco, accessed 6 December 2017, https://www.codelco.com/prontus_codelco/site/edic/base/port/inversiones.html.

b. Non-commercial activities

Disclosure of SOE performance in terms of non-commercial activities should include information concerning related revenues and expenditures over time. Depending on each SOE’s scope of action, disclosure of non-commercial performance may cover:

- i Regulatory performance
 - Lists of licenses granted/removed to/from relevant entities
 - Participation in development of industry rules
 - Industry oversight (e.g., statistics or reports of any investigation or statistics on contractual or regulatory violations)
- ii Performance outside of the extractive industries per se
 - Subsidies allocation³³
 - Public infrastructure construction or maintenance (including strategy, projections and budget)
 - Education or healthcare services
 - Corporate social responsibility programs
 - Tax collection
 - Borrowing on behalf of government and/or repaying government loans
 - Other delivery of funds, goods or services on behalf of the government
 - Performance of business interests outside of the extractive sector

³³ See, for example, the “Social Investment” section and statistics on the Pemex (Mexico) website, http://www.pemex.com/en/responsibility/social/basic_infrastructure/Paginas/statistical_information.aspx.

c. Key performance indicators (KPIs)

KPIs help evaluate the effectiveness of a company in reaching its business objectives over a specific time period. They provide a set of measurements of a company's performance.

Commonly used KPIs include:

- i Return on average capital employed (ROACE)
- ii Rate of return on assets
- iii Rate of return on shareholder's equity
- iv Receivable turnover ratio
- v Earnings before interest, taxes, depreciation, and amortization (EBITDA)
- vi Return on investment
- vii Debt/assets ratio
- viii Dividend payout ratio

2) Financial results

Several extractive SOEs now issue annual reports including audited financial statements, which are essential to achieving an increased level of transparency with regard to their financial health. The process of transitioning from near-absent financial reporting to audited financials has taken time for extractive SOEs to implement, and many of them are still in the process of building or strengthening their financial disclosures. The RGI reflects that the majority of covered SOEs score well in terms of financial reporting. Typically, financial results should be consistent with financial reporting standards and include the following items, in consolidated and segmented forms (e.g., for each subsidiary):

- i Description of revenue streams and any financial challenges the company may have faced during a given period
- ii Relevant financial data including revenue, operating income, operating expenses (OpEx), capital expenditures (CapEx), net income, net and gross debt, total assets and net debt to capital employed
- iii Related party transactions³⁴
- iv A statement from management introducing the financial statements, highlighting key results and prospects
- v Financial statements (ideally audited), including:
 - A balance sheet detailing the company's assets (with proportion of equity shares), liabilities and equity (including equity changes) as well as those held by its subsidiaries
 - An income statement reflecting the revenue, expenses and income of the company (profit and loss statement)
 - A statement of cash flows describing the cash movements between the company and the government, subsidiaries or others (e.g., bonuses, dividends, fees, royalties, taxes, loans, etc.)
 - Comprehensive notes in support of the financial statements explaining the accounting methodology, valuation decisions and assumptions, oversight mechanism, and highlighting key figures
 - An audit report
- vi Applied accounting standards
- vii Credit ratings, if available

³⁴ Disclosure examples include ONGC (India) 2015 Annual Report (Annexure B, pp. 90–92) in compliance with Indian law. Disclosure of related party transactions are also required by the International Accounting Standard 24.

For example, the Indonesian SOE Pertamina publishes on its website all its audited financial statements in Bahasa and English.

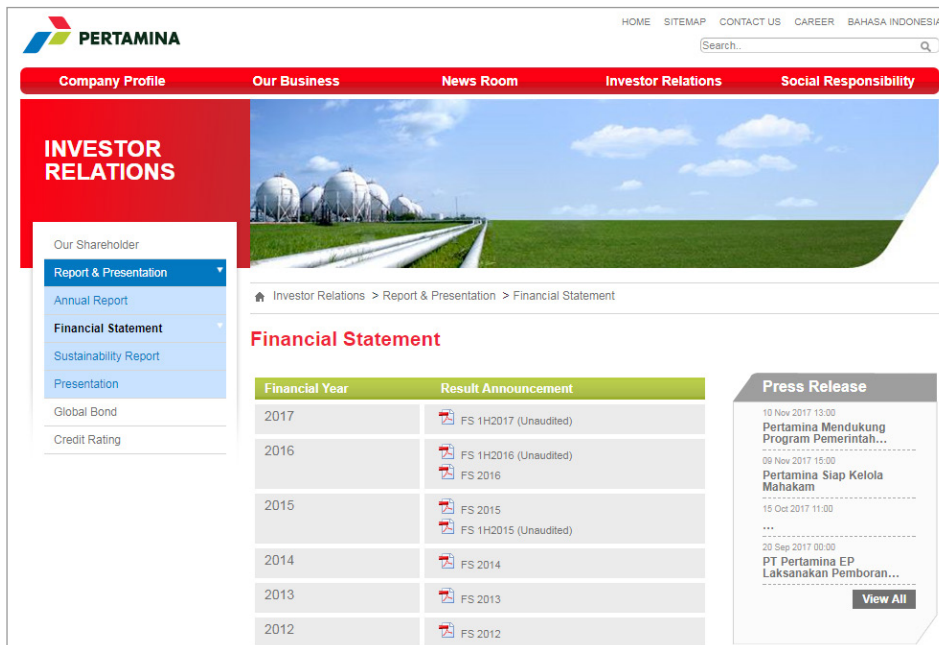


Figure 9. Financial statements available on Pertamina's website

Source: "Financial statements," Pertamina, accessed 6 December 2017, <http://www.pertamina.com/en/investor-relations/report-presentation/financial-statement>.

CATEGORY 5: TRANSFERS WITH THE GOVERNMENT OR SUBNATIONAL GOVERNMENT ENTITIES

SOEs are entrusted with the management of public resources, and the extent to which their performance delivers a strong return to the government is naturally the subject of intense scrutiny. The disclosure of revenue transfers between SOEs and government entities is required under EITI Requirement 4. It may be covered to some extent within other categories (e.g., with the performance and financial results under Category 4). Regardless of the category of information with which it is disclosed, clear and regular disclosure on these transfers is a cornerstone of accountability for SOEs.

Relevant information includes:

- i The policies and regulations that govern transfers and revenue retention by the SOE, including tax rates and any other numerical formulas
- ii Sale of the government's share of production, including volumes sold and revenues received (EITI Req. 4.2)³⁵
- iii Transfers to the Treasury including taxes, royalties, dividends, bonuses and fees (EITI Req. 4.1)³⁶
- iv Transfers to other government accounts
- v Transfers to subnational governments (EITI Req. 4.6)
- vi Retained revenues
- vii Value of tax (or other payments) collected on behalf of the government
- viii Value of quasi-fiscal expenditures made on behalf of the government (EITI Req. 6.2)
- ix Transfers or other assistance from the Treasury or other government accounts to the SOE (e.g., grants or subsidies)

³⁵ To the degree that different rules on the share of revenues to be transferred to the government apply to different kinds of sales (e.g., the sale of state profit oil vs. SOE equity oil), these rules should be made clear. Reporting on the sales is most useful if sufficiently disaggregated.

³⁶ For example, Norway's SOE Statoil made disclosures in compliance with the Norwegian regulation regarding reporting on payments to governments in its *2016 Annual Report*, 248–255, <https://www.statoil.com/content/dam/statoil/documents/annual-reports/2016/statoil-2016-annual-report.pdf>.

The term **quasi-fiscal expenditures** refers to public social expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, undertaken by SOEs outside of the national budgetary process. (EITI Req. 6.2)

CATEGORY 6: IMPACT

Shareholders and civil society actors have shown a growing interest in non-financial information in recent years. In particular, the extractive industry is scrutinized for its social and environmental impacts. An increasing number of SOEs publish sustainability reports³⁷ covering these issues or incorporating relevant sections in their annual reports. SOEs should follow best practices from the industry in this process to address any concern and communicate their values (literally and figuratively) to the public to demonstrate that their activities are carried out in the public interest. Key areas include:

- i Social impact (training, relocation, infrastructure, investments) assessment and any mitigation plans
- ii Environmental impact assessments and mitigation plans
- iii Employment and trends
- iv Health and safety reports (accidents, mitigation plans, remediation policies)
- v Corporate social responsibility policies and programs
- vi Complaint mechanisms available to impacted communities
- vii Local content (local procurement, public education initiatives, capacity building, etc.)

The term **local content** refers to the value that an extraction project brings to the local, regional or national economy beyond the resource revenues.³⁸

37 For example, Ecopetrol, 2015 Sustainability Report, <http://www.ecopetrol.com.co/english/Ecopetrol-Sustainability-Report-2016.pdf>.

38 Natural Resource Governance Institute, *Local Content: Strengthening the Local Economy and Workforce* (2015).

II. How to disclose information?

Accessibility, reliability, consistency, completeness and timeliness are as important as relevant information—if not more. If the information does not reach its audience, because it is difficult to access, too complex or too aggregated to process, it becomes worthless. Similarly, unchecked or unverifiable information has little weight when it comes to building SOE stakeholders’ trust and increasing the SOE’s accountability. Partial or isolated data that lacks context weakens the disclosure. Finally, outdated information is of little use when assessing the SOE’s current state. With these pitfalls in mind, four key principles are outlined below to assist SOEs in developing their disclosure methodologies.

There is no one-size-fits-all template or medium for SOE disclosure. In the past decade, efforts towards improved governance and the increased focus on natural resource management by resource-rich countries have led to a race to achieve transparency, with an exponential number of reports and publications (e.g., monthly performance data reports, newsletters, annual reports, EITI reports, websites) becoming available from various sources (such as, SOEs, ministries, regulators, NGOs). Generally, the SOE should adopt an integrated disclosure strategy (from data collection to publication) rather than developing a multitude of reports disconnected from the reality of its operations. This approach helps to ensure consistency and facilitates stakeholders’ access to information.

When contemplating available vehicles, the SOE should keep in mind the diversity of its audience and the key principles developed below. For example, annual reports may be the best way to convey certain information to shareholders but may not be adapted to other stakeholders. Further, certain information simply cannot wait for a long period of time to be disclosed, and these costly reports can only contain so much information. Thus, the SOE should explore the use of other media formats, including frequently updated and searchable websites or portals providing relevant information in a disaggregated but structured fashion.

While continuing to improve its disclosures, the SOE can follow the key principles listed below and adjust the form of its disclosures to its own circumstances and its stakeholders’ needs.

1) Accessibility

Whether mandatory or recommended, the SOE’s disclosures should be both practically accessible to a wide audience as well as understandable.

a. Accessible to all stakeholders

Accessibility is often equated to open data, or data that can be freely accessed, used, modified and shared for any purpose.³⁹ Generally, questions to consider in assessing the accessibility of information include:⁴⁰

39 See “The Open Definition,” Open Knowledge International. Accessed 6 December 2017, www.opendefinition.org.

40 Our guide on global open data standards is drawn from the recommendations of the Open Data Charter and the Sunlight Foundation. See “Ten principles for opening up government information,” Sunlight Foundation. Accessed 6 December 2017, <https://sunlightfoundation.com/policy/documents/ten-open-data-principles>.

- i Is it free to access the information? Are users able to access the information without having to subscribe, pay an access fee, acquire a permit or license, or register as users on the site?
- ii Is the information easy to find? Is the website identified via search engines?
- iii Is the medium user-friendly (e.g., a searchable website or a well-structured report with a table of contents and search functionality rather than an unsearchable image file)?
- iv Can the data be easily downloaded? Does the document include metadata for easier analysis?
- v Is the data such as tables of revenues and licenses available in machine-readable format?
- vi Are there offline alternatives for stakeholders without Internet access (e.g., annual reports and leaflets available at local offices, helpline or office hours available for questions)?
- vii Is the information available in relevant languages, including the language of the SOE's country of incorporation, region of operations and English?⁴¹
- viii Is there an avenue for stakeholders to ask for information they need or want if it is missing from existing disclosures? This could be done through a generic "contact" section on the SOE's website providing an email address managed by the SOE or via list of contacts available to stakeholders depending on their identity (shareholder, civil society member, customer) or issue of interest.
- ix When informing certain stakeholders is a requirement (e.g., to affected communities), are all the necessary steps taken to ensure that the information has reached the targeted audience?

b. Understandable

SOE stakeholders include industry experts and investors familiar with complex financial reports but also citizens who own the natural resources managed by their government or who live in a resource-rich area. The SOE's disclosures should address all stakeholders, mindful of their diversity.

Several steps can be followed to make disclosures easier to understand for lay audiences, for example:

- i Define or explain key terms and use them consistently throughout all communications.
- ii Use plain language and avoid jargon.
- iii Highlight key information most relevant to stakeholders (KPIs, recent events, important evolutions).
- iv Illustrate the information with graphs, videos, photographs or other infographics.

For expert audiences, however, transparency may require other attributes, such as:

- v Disaggregation of data (e.g., production volumes provided for each affiliate or extraction field)
- vi Granular data (e.g., daily or monthly volumes)
- vii Metadata (underlying data necessary to understand disclosed numbers)
- viii Formulas

Disaggregation of data is not only good practice; in many cases it is a requirement. For example, the EITI Standard requires that published data regarding sales of the government's share of production (including volumes sold and revenues received) be "disaggregated by individual buying company and to levels commensurate with the reporting of other payments and revenue streams" (EITI Req. 4.2).

⁴¹ For example, Codelco (Chile) and Inalum (Indonesia) provide an English version of their websites, <http://www.inalum.id/en>.

In sum, SOEs should design their disclosures with a variety of stakeholders in mind. Providing summaries or infographics should never be exclusive of the disclosure of disaggregated data provided in pivot tables or other more complex forms when relevant.

2) Reliability

The accuracy of the disclosure depends on each SOE's data collection and processing methodology. Rather than rushing to mass disclosure, SOEs should develop strong methodologies to collect, process and verify the information they will share. The unprecedented amount of available information should not come at the detriment of its quality. Below are three factors that tend to strengthen the credibility and reliability of information.

a. Reliable sources of information

Establishing the reliability of a source of information is important both when the SOE uses data published by a third party as the source of its own disclosure (e.g., the SOE may refer to a government website listing laws and regulations relevant to the SOE) and when the SOE discloses its own data. Regarding the latter, the SOE should ensure that strong information management procedures are in place internally to guarantee that all data disclosed by the SOE is collected and verified appropriately. This includes making and keeping accurate books and records, and developing strong internal accounting controls.

b. Verifiable data

In order to build trust in the SOE and in its disclosures, the reader should be able to verify the information presented. This requires clear references to the source of the information (i.e., data collection methodology), its date and the provision of any underlying data, which enables readers to cross-check the information. For example, information concerning the destination of exports may come from bills of lading, international contracts or other sources. Ideally, stakeholders should be able to access the source and confirm the information's validity.

c. Audits

Internal checks are key to verifying the information's accuracy prior to disclosure. Further, internal audits of the SOE's information management policies and practices help strengthen the reliability of SOE disclosures. It is also good practice to involve independent auditors—including internationally competitive private audit firms selected via transparent procurement processes—to review and assess the accuracy of the information and the SOE's methodology in terms of data collection and analysis. Specifically, appropriately audited financial statements are essential to increasing the SOE management's accountability and are usually required to be listed on stock exchanges.

3) Consistency and completeness

To be effective, relevant SOE disclosures must be complete and be provided consistently over time. Good practices include:

- i Use consistent measurements throughout disclosures and over time to enable comparisons and trend analysis. Measurements should be consistent with industry standards to enable the reader to compare the data with that of other industry players (e.g., barrel of oil equivalent [BOE], convert local currency into U.S. dollars). Further, measurements should be accompanied by explanations

or information that may impact them (e.g., exchange rates). Using consistent formatting (e.g., Excel or other databases that allow for data processing) may also be useful and streamline the data collection process in advance of any disclosure.

- ii Provide quantitative data for several years (at least two and increasing the range over time, as more reliable data becomes available).
- iii Include several levels of aggregations to allow readers to understand the big picture as well as analyze the information at a more granular level. For example, financial results should be provided at a consolidated level as well as for each subsidiary, and production volume may be communicated per extraction field, per region, per country and globally.
- iv Provide context and explanation for unexpected trends or results. This may involve events internal to the SOE, such as a change in strategy or privatization, or external events, such as a financial crisis, the evolution of exchange rates or international sanctions.
- v Historical reports and data should remain available.

4) Frequency and timeliness

Outdated information or information delivered too late to be relevant is of little value to the public. The following recommendations are based on good practices:

- i The frequency of disclosures should be adapted to the data disclosed. For example, certain data points are subject to significant changes within a year (e.g., production volume, sales revenue) while others (board membership) may remain relatively stable.
- ii Release timely disclosures. Disclosed data should be no older than two years old although older data may be disclosed for context or to highlight certain trends. This is not to say that older data should not remain publicly available.
- iii Annual reports should be published within six months of the end of the fiscal year.
- iv Publish regularly updated data through monthly or quarterly reports or continuous online disclosures. This means that the SOE's website, for example, should be efficiently maintained and updated regularly.
- v Significant developments should be reported as soon as possible with an explanation of their impact. Online disclosure may be most appropriate way to report on material developments, and the disclosure may be repeated and further analyzed in the SOE's annual report with the benefit of hindsight.

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