CONNECTIVITY & BOUNDARIES IN REPORTING

NORWAY FSA

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EFRAG financial reporting

EFRAG CONNECTIVITY PROJECT MILESTONES

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23-PERSON EFRAG CONNECTIVITY ADVISORY PANEL (CAP) CONSTITUTED & ACTIVE FROM 2H 2023

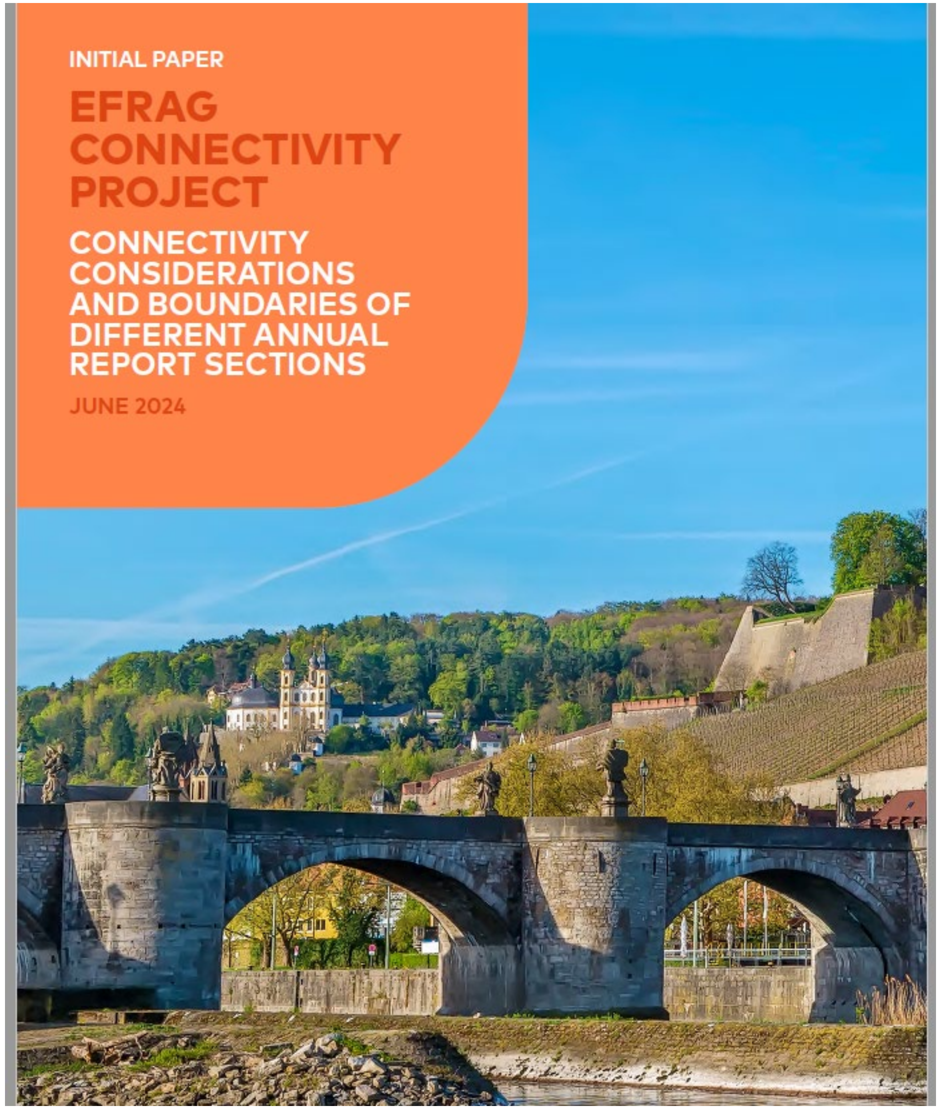
INITIAL PAPER PUBLISHED ON 28 JUNE 2024

‘Connectivity considerations and boundaries of different Annual Report sections’

Video **providing initial paper’s key takeaways from the perspective of EFRAG CAP leaders**

A DISCUSSION PAPER EXPECTED IN H1 2025 WILL INCLUDE

- **Conceptual issues and suggested solutions**
- **Practical illustrations and techniques of connectivity (mix of real world and mock-up illustrations)**
- **Questions for constituents**



CONNECTIVITY AND REPORTING BOUNDARIES

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Boundaries of different reports = (*what information is included or excluded in different AR sections*)

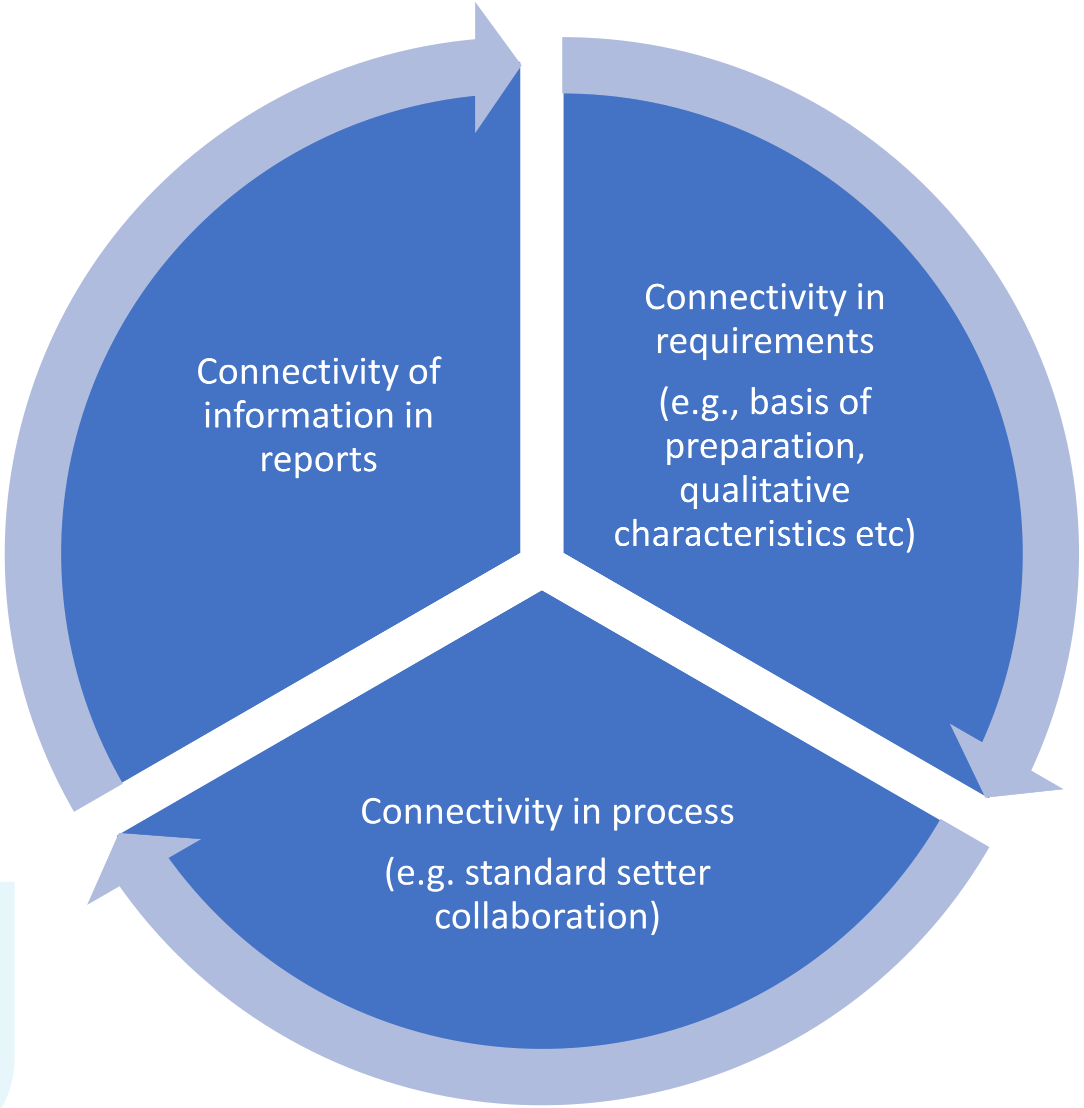
Boundaries both necessitate and affect the connectivity of information

Connectivity is necessary for a coherent, complementary annual reporting package

Expectation gaps often arise due to a lack of clarity on boundaries amongst stakeholders

CONNECTIVITY & REPORTING BOUNDARIES

BROAD NOTIONS OF CONNECTIVITY



Integration in reporting (as per ISSB agenda consultation) is a broader notion than connectivity

BENEFITS OF CONNECTIVITY

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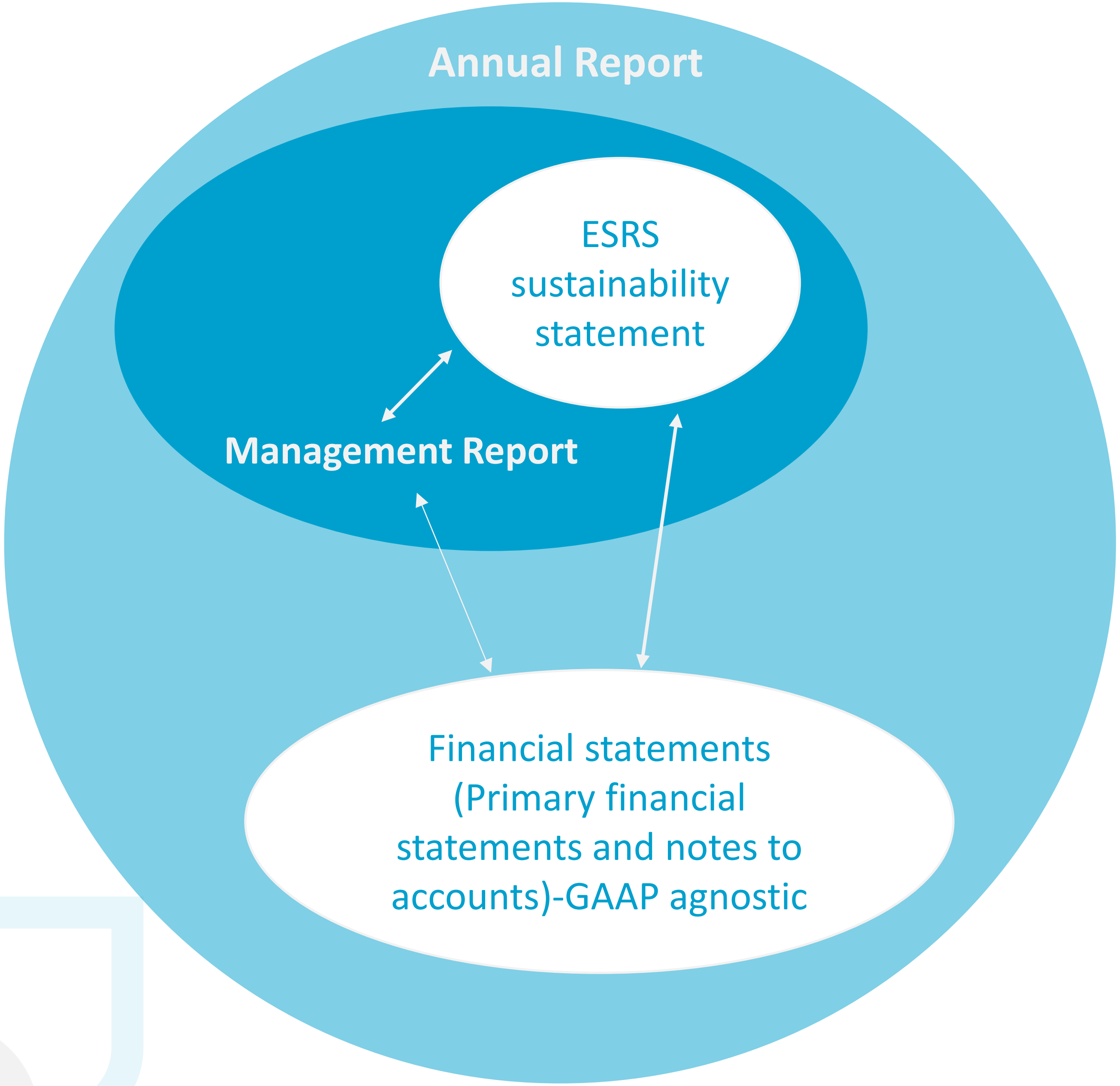
BENEFITS OF CONNECTIVITY

- Increases in faithful representation due to FR and SR teams coordination
- Builds bridges between distinctive financial and sustainability reporting
- Fosters complementarity and the communication of value creation by distinctive reports
- Helps to avoid potential gaps, duplication and lack of coherence in reported information
- Enhances decision usefulness of both financial statements and sustainability disclosures (relevance, faithful representation, understandability, comparability and verifyability)
- Helps readers understand linkages between financially material and impactfully material information in sustainability disclosures
- Broadens use of financial statements (by stakeholders other than investors and lenders) and use of sustainability disclosures (by investors)
- Reduces expectations gap

  Helps understanding of why some information cannot be connected
- Helps to avoid greenwashing

CONTEXT OF CONNECTIVITY UNDER EU CORPORATE REPORTING



ESRS sustainability statement- SR (objectives, location and scope)

- Clear demarcation of SR versus financial statements objectives
- Clear placement within management report
- Entities in scope (large undertakings: IFRS and local GAAP applicants)

SR audience and materiality

- Broad set of users (including investors), investors deemed to consider financial and impact material information
- Double materiality perspective
- Same definition of financial materiality as financial statements

CONNECTIVITY & REPORTING BOUNDARIES

BOUNDARIES: VARIED MATURITY OF DIFFERENT AR SECTIONS

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Financial statements (100+ years, double bookkeeping dating from pre 15th century) applied for economic decision making (financial capital allocation, dividends, tax) and assessing stewardship. Portrays financial condition and performance at reporting date. Has a Conceptual Framework. Has Primary Statements. Reasonable assurance

Management report / MD&A
(introduced in the US in 1968 and in Europe in 1978) to communicate management's view of performance and prospects, contextualise FS, financial condition and performance across multiple horizons

Sustainability reporting including GRI-1997, TCFD-2017, ISSB & CSRD/ESRS-2023 Linked to establishing responsible, sustainable businesses. Focus on disclosure of sustainability impacts, risks and opportunities. Initially limited assurance

18xx 1900 1960 1970 1980 1990 2000 2010 2020 2030

KEY DIFFERENCES ACROSS DIFFERENT AR SECTIONS

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Financial statements (FS)
(Source: Conceptual Framework)

Reflects financial position, financial performance at reporting date (present assets and liabilities)

Primary audience of financial capital providers

Includes information material to FS users

Recognition of assets/liabilities depends on separability of items, existence/occurence and measurement uncertainty considered

Financial control-considered for reporting entity (determining entities in scope of consolidation) and recognition of assets

Management report
(Source: EU Accounting Directive)

Reflects entity's performance, position and development; it is traditionally a part of general purpose financial reporting with financial materiality perspective

Under CSRD, management report can be deemed to be part of general purpose sustainability reporting

Provides description of principal risks and uncertainties

Primary audience is knowledgeable user

Implicit that it has same reporting entity as FS

Sustainability statement
(Source: EU Accounting Directive and ESRS)

It is a section of the management report

Discloses entities' sustainability impacts, risks and opportunities

Discloses financial effects of IROs in short, medium and long term

Audience of stakeholders including investors and other users with interest in entity's impacts on planet and society

Financially and/or impactfully material information included

Same reporting entity as FS, consideration operational control in calculation of environmental metrics

DIFFERENTIATING DIMENSIONS

Objectives & Audiences

Materiality (whether impact materiality considered)

FS recognition and measurement criteria

Typical time horizon considered

Focus on current vs future financial position, financial performance

REPORTING BOUNDARY

Consideration of operational control in calculation of SR metrics

Extent of explicit incorporation of value-chain impacts, risks and opportunities

Observations

- Materiality is interrelated with objectives and audience; similarity in the definition of financial materiality and difference of information in different AR sections stems from differences in their objectives
- Similarities: overlaps in information related to current financial performance and financial position; same reporting entity, informs financial capital allocation decisions and users' assessment of management's stewardship of entity's own resources
- Differences: FS does not focus on representing information related to future financial performance and financial position. Application of operational control in only SR extends the related reporting boundary beyond that of FS; sustainability statement informs on externalities, CSR (stewardship of planetary and societal resources)

IMPLICATION OF DIFFERENCE IN REPORTING BOUNDARY EXAMPLE: SCOPE OF CONSOLIDATION (SR METRICS VS FS INFO)

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Data boundaries

Unless otherwise stated, the Group's consolidated performance figures expressed in this report relate to the parent company, Stora Enso Oyj, and all companies in which the Group holds over 50% of the voting rights, directly or indirectly. In addition, the reporting on human rights, community, occupational safety, and sustainable forestry and biodiversity includes the joint operations at Veracel in Brazil and Montes del Plata in Uruguay. This is due to their materiality to the Group's sustainability impacts and stakeholder interest in relation to these sustainability topics.

The Group's consolidated environmental and energy figures include production units. The water and energy intensity figures normalised per tonne of sales production exclude Stora Enso's wood product and packaging converting units. This is due to their low impact on the Group's consolidated water and energy performance and different metrics for sales production (cubic metre and square metre, respectively), compared with water and energy-intensive board, pulp, and paper units (in tonnes).

In the Group's environmental and energy reporting, divestments and closures are managed according to the international Greenhouse Gas Protocol. This means that, when necessary, figures for historical performance are restated following the removal of divested units from the baseline or the addition of acquired units to the baseline. However, closed units are included in the environmental targets, energy targets, and trend calculation baselines, as per internationally accepted rules.

Consolidated Human Resources (HR) figures exclude employees of the joint operations at Montes del Plata and Veracel. The HR figures cover permanent and temporary employees and are expressed as a year-end headcount.

Certain administrative functions and sales offices are not included in the Group's consolidated occupational health and safety (OHS) figures due to limited data availability related to a relatively small headcount and lower occupational safety risk compared to production units.

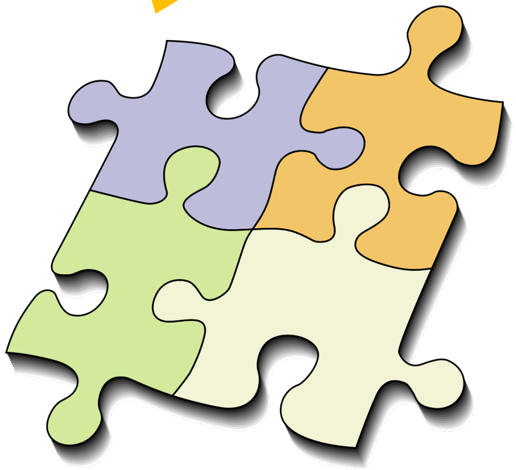
When financial figures are reported as part of the sustainability statements, the figures are retrieved from the audited financial reporting based on the International Financial Reporting Standards (IFRS) as applicable.

Stora Enso's Greenhouse Gas (GHG) emissions are reported in accordance with the Greenhouse Gas Protocol.

Indicators	Boundary
Scope 1 GHG emissions	Operational control
Scope 1+2 GHG emissions Norway	Operational control
Scope 1+2 GHG emissions	Operational control
Scope 2 GHG emissions (location based)	Operational control
Scope 2 GHG emissions (market based)	Operational control
Scope 3 GHG emissions (GHG Protocol cat. 11, use of sold products)	Equity basis
Business travel GHG emissions (GHG Protocol cat. 6)	Operational control
CO_2 emissions	Operational control
CO_2 emissions excl. flaring	Operational control
CO_2 emissions from flaring	Operational control
CO_2 emissions from upstream operations	Operational control
CO_2 emissions from midstream operations	Operational control
CO_2 emissions from other operations	Operational control
CO_2 emissions	Equity basis
Upstream CO_2 emissions intensity	Operational control
Upstream CO_2 emissions intensity	Equity basis
Maritime CO_2 emissions	Operational control
CH_4 emissions	Operational control
CH_4 intensity	Operational control
Hydrocarbons flared	Operational control
Upstream flaring intensity	Operational control
Routine flaring (share of total)	Operational control

DIFFERENT ASPECTS OF CONNECTIVITY

DIMENSIONS OF CONNECTIVITY OF REPORTED INFORMATION



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Overarching aspect- integration of information to convey value creation	Connecting interrelated quantitative and narrative information	Other overarching aspects of connectivity
• Communication/depicting the effects of strategic responses to (impacts, risks and opportunities) on sustainability performance, financial performance and financial position • Entity's explaining how their strategy and business model, risks and opportunities are linked to financial position, financial performance, cash flows, other metrics and targets in short, medium and long term (ESRS 1.123 and IFRS S1.35 and IFRS S1.B44) • Linking disclosures of risks entities face from reliance on resources/ dependencies to entities actions/ strategy to mitigate these risks and disclosed related current and anticipated financial effects (ESRS 1.123 and IFRS S1.B43) • Explaining trade-offs between risks and opportunities faced when setting strategy (IFRS S1.B44)	• Linking quantitative via cross-referencing (direct connectivity as per ESRS) (ESRS 1.124-125) • Linking quantitative information via reconciliation (indirect connectivity as per ESRS) (ESRS 1.124-125) • Qualitative disclosures stating financial statements line items affected by disclosed risks and opportunities if unable to disclose quantitative current and anticipated financial effects (IFRS S1.B40) • **NON-MANDATORY ELEMENTS BELOW** • Not required, stakeholders have also suggested explaining why information cannot be connected (e.g., due to differing level of aggregation) could be useful • Correlation and cause and effect links (voluntary practice, e.g., SAP past reports)	• **Consistency:** Consistent data, narrative/qualitative disclosures, assumptions and units of measurement (presentation currency) across SR and the financial statements (ESRS 1.127-128 and IFRS S1.23) • **Coherence:** Presentation and disclosure of information within and across different corporate reports in a manner that gives a more complete picture of an entity's value creation while depicting the interrelatedness of the overall reported information (Derived from IASB 2021 MCPS ED) (same notion as complementarity) • Disclosure and explanation of lack of consistency is an element of coherence

Connectivity at a point in time
(including current financial effects) (ESRS 2.48, IFRS S1.34-35)

vs

Intertemporal connectivity (over time)
(including anticipated financial effects (ESRS 2.48, IFRS S1.34-35) and disclosures that enable users to understand migration of items across reports over time- IFRS S1.B40-c)

Connectivity within a reporting period/across AR sections (**current financial effects**)

Connectivity across different reporting periods (**anticipated financial effects**)

CONNECTIVITY WITHIN FINANCIAL STATEMENTS

- **No explicit IFRS Accounting connection requirements**, **connectivity is not defined in Conceptual Framework for Financial Reporting**

APPLICABILITY OF ESRS & ISSB STANDARDS CONNECTION REQUIREMENTS/TECHNIQUES TO FS INFORMATION

- **Explaining relationships** (effect of strategic choices to IROs on financial statements) and **ensuring consistency** of assumptions, narrative, data
- **No explicit prohibition to cross-referencing** material information or signposting supplemental information outside the financial statements
- **Limitations to cross-referencing information in FS** (legal risk, excessive cross-referencing could impair understandability, differing level of assurance poses a challenge)
- Indirect connectivity techniques (e.g., reconciliations) are hard to apply for FS information

OTHER CONNECTIVITY MECHANISMS/TECHNIQUES

- **Non-exposure statements**
- **Dedicated notes**

FS vs SR CONSISTENCY & ANTICIPATED FINANCIAL EFFECTS EXAMPLE FROM OIL & GAS COMPANY

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Showing different assumptions
In SR vs FS, and explaining basis of differences

Potential impairment

Sensitivity table

The table below presents some relevant prices and variables compared to management's best estimate, and an illustrative potential impairment effect given these scenarios. The scenario price-sets were retrieved from IEA's report, World Energy Outlook 2023. Prices were adjusted for inflation and presented in Real 2023. See section Profitable portfolio in Chapter 2.2. in the Integrated annual report for more details about the scenarios:

Compared to last year's results, the illustrative potential impairments associated with the APS scenario have increased from less than USD 0.5 billion to around USD 3 billion. Similarly, the NZE scenario has increased to around USD 10 billion, compared to around USD 4 billion last year. This is significantly impacted by the linear bridging between the current commodity prices and the first price point for the WEO scenarios, consistent with previous year's methodology, but with lower current prices this year.

	Management's price assumptions[1]		Net Zero Emissions (NZE) by 2050 Scenario[4]		Announced Pledges Scenario (APS)[5]	
Brent blend, 2030	78	USD/bbl	46	USD/bbl	79	USD/bbl
Brent blend, 2040	73	USD/bbl	37	USD/bbl	72	USD/bbl
Brent blend, 2050	68	USD/bbl	28	USD/bbl	65	USD/bbl
TTF, 2030	9.1	USD/MMBtu	4.5	USD/MMBtu	6.8	USD/MMBtu
TTF, 2040	9.5	USD/MMBtu	4.4	USD/MMBtu	6.2	USD/MMBtu
TTF, 2050	9.5	USD/MMBtu	4.3	USD/MMBtu	5.6	USD/MMBtu
EU ETS [2), 3)], 2030	123	USD/tCO_2	146	USD/tCO_2	141	USD/tCO_2
EU ETS [2), 3)], 2040	150	USD/tCO_2	214	USD/tCO_2	182	USD/tCO_2
EU ETS [2), 3)], 2050	176	USD/tCO_2	261	USD/tCO_2	208	USD/tCO_2
Illustrative potential impairment (USD)			~10.0	billion	~3.0	billion

1) Management's future commodity price assumptions applied when estimating value in use, see note 14 Impairments.
2) Scenarios: Price of CO_2 quotas in advanced economies with net zero pledges, not including any other CO_2 taxes.
3) EU ETS price assumptions have been translated from EUR to USD using Equinor's assumptions for currency rates, EUR/USD = 1,176.
4) A scenario where all national energy and climate targets made by governments are met on time and in full. Using this scenario, the world is expected to reach a 1.7°C increase in the year 2100.
5) A scenario where the world moves on a potential path towards limiting global warming to 1.5 °C relative to pre-industrial levels.

CONNECTIVITY IN FS: NON-EXPOSURE NOTE

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Based on the current production profiles, approximately 65% of Equinor's proved oil and gas reserves, as defined by the SEC, are expected to be produced in the period 2024-2030 and more than 99% in the period 2024-2050. This indicates a lower risk of early cessation of production and can provide flexibility in adapting to the changing market conditions or a shift in global energy demand.

Equinor aims to continue to selectively explore for new resources with a focus on mature areas with existing infrastructure to minimise emissions and maximise value. During the transition, Equinor anticipates allocating a reducing share of its gross capex to oil and gas in the coming years and the volume of production is likely to decrease over time. Reaching Equinor's net 50% reduction ambition for operated scope 1 and 2 emissions will require a company-wide, coordinated effort to execute and mature the abatement projects, improve energy efficiency, develop new technologies, and strengthen the resilience of the portfolio. Equinor aims to achieve a 20% reduction in net carbon intensity by 2030 and a 40% reduction by 2035, including scope 3 emissions. The combination of increased renewables and decarbonised energy, the scale up of low carbon solutions such as CCS and optimisation of the oil and gas portfolio provides confidence that Equinor can meet its medium-term ambitions. As such, Equinor's ambition to become a net-zero company by 2050 have currently not resulted in the identification of additional assets being triggered for impairment or earlier cessation.

Any future exploration may be restricted by regulations, market, and strategic considerations. Provided that the economic assumptions would deteriorate to such an extent that undeveloped assets controlled by Equinor should not materialise, assets at risk are mainly comprised of the intangible assets Oil and Gas prospects, signature bonuses and the capitalised exploration costs, with a total carrying value of USD 3,205 million in 2023 (USD 3,634 million in 2022). See note 13 Intangible assets for more information regarding Equinor's intangible assets.

Timing of Asset Retirement Obligations (ARO)

As mentioned above, there are currently no assets triggered for earlier cessation as a result of Equinor's ambition to become a net-zero company by 2050. However, if the business cases of Equinor's producing oil and gas assets should change materially, this could affect the timing of cessation of the assets. A shorter production period will increase the carrying value of the liability. To illustrate, performing removal five years earlier than currently scheduled would increase the liability by around USD 1.2 billion before tax (around USD 1 billion in 2022). See note 23 Provisions and other liabilities for more information regarding Equinor's ARO, including expected timing of cash outflows of recognised asset retirement obligations. The most significant cash outflows are expected within the year 2043.

DYNAMIC DIMENSION OF CONNECTIVITY: ANTICIPATED FINANCIAL EFFECTS

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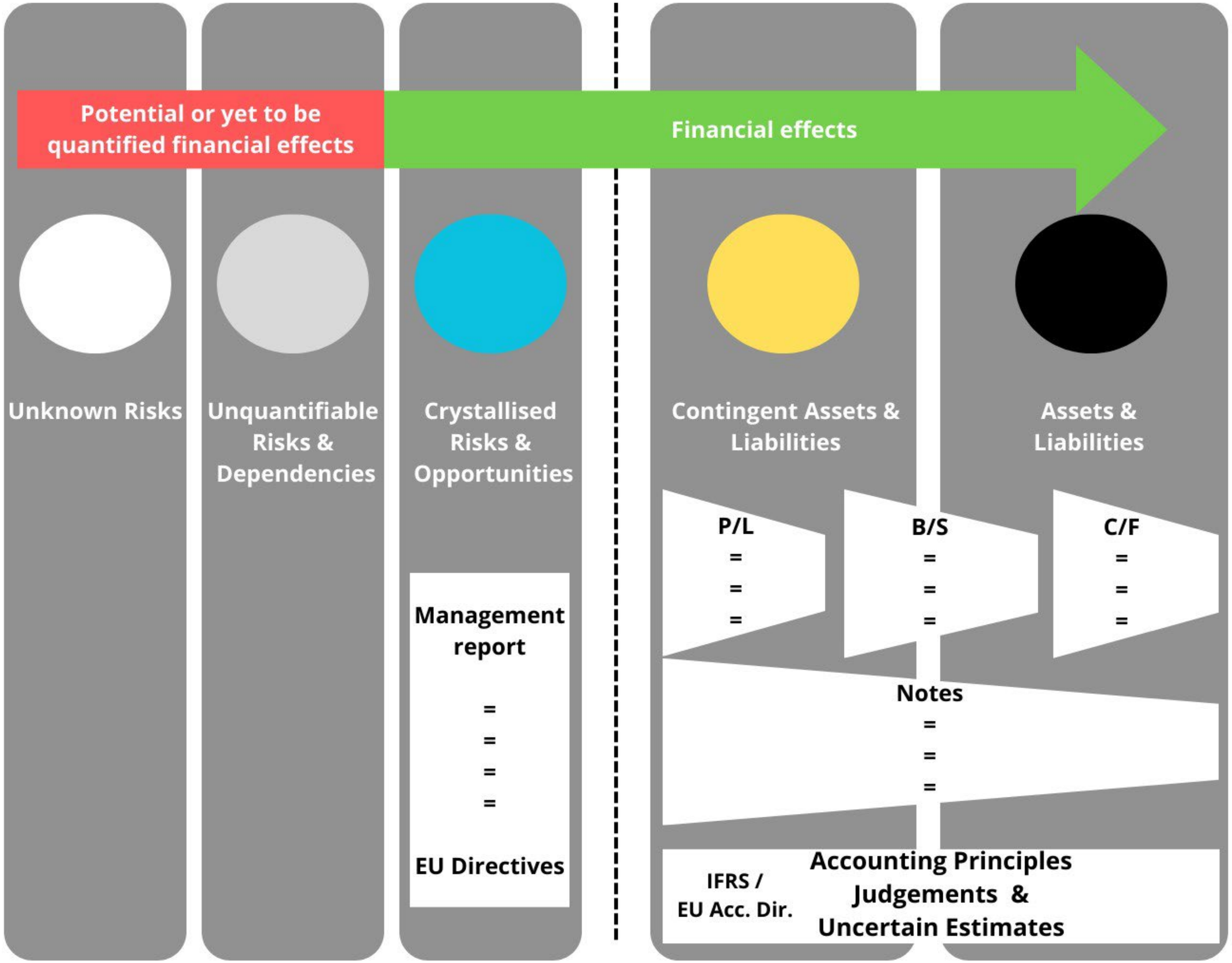
INTERTEMPORAL/DYNAMIC DIMENSION OF CONNECTIVITY

MIGRATION OF ITEMS (financial effects) ACROSS REPORTS/REPORTING PERIODS



Entity impacts; risks and opportunities; strategy& business model deployed (operational choices, risk mitigation and adaptation measures) have financial effects

Financial effects are reported across AR sections

Higher threshold of reporting financial effects in financial statements (e.g., a past event is needed)

CURRENT vs ANTICIPATED FINANCIAL EFFECTS

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ANTICIPATED FINANCIAL EFFECTS IN SR DISCLOSURES: FUTURE-ORIENTED TIME HORIZON

Current reporting period

Short-term
Potential overlap/duplication of FS (IAS 1.125) disclosures and SR disclosures

Medium-term

Long-term

CURRENT FINANCIAL EFFECTS

Affecting current period primary financial statements line items+ disclosures

Guided by IFRS Accounting Standards, local GAAP

Recognition and measurement criteria of FS line items – **captures all time horizons (past & future)**

Current period financial performance and financial position

ESRS GLOSSARY DEFINITION OF ANTICIPATED FINANCIAL EFFECTS- **Financial effects that do not meet the recognition criteria for inclusion in the financial statement line items in the reporting period and that are not captured by the current financial effects.**

ESRS & ISSB REQUIREMENTS ON ANTICIPATED FINANCIAL EFFECTS

ESRS 2 *General requirements – Strategy & Business Model*-SBM-3, ESRS E1 *Climate Change*- E1-9 Metrics and Targets (material physical and transition risks), Other environmental topical standards

IFRS S1- Strategy; IFRS S2- Strategy, Metrics and Targets- Cross industry metrics

CURRENT FINANCIAL EFFECTS

Disclosures of assumptions and sources of measurement uncertainty affecting carrying values in next reporting period (IAS 1.125)

PAPER AND PACKAGING ENTITY

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Material topics

Circular-Driven Solutions
- Circular economy
- Product quality and safety

Created by Empowered People
- Diversity, equity and inclusion
- Working conditions and human rights

Taking Action on Climate
- Climate change mitigation
- Climate change adaptation[1]
- Energy
- Biodiversity and fibre sourcing
- Water

Responsible Business Practices
- Business conduct[1]

Circular economy
- Opportunities: 1-2% revenue growth per annum; 85% to 100% recycled product profile by 2025

Climate action-
- Physical risk associated with forest assets
- Transition risk- fossil-fuel based plants are to be decommissioned, EU ETS, carbon taxes

FINANCIAL EFFECTS

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TCFD recommendations disclosures

Climate change in our financial statements

The impact of climate change is considered in the estimates of future cash flows used in the impairment assessment of goodwill, as detailed on pages 186-187. Climate change is, as detailed on page 188, included as a factor that impacts the conversion factor used in the assumptions for valuation of the Group's forestry assets and as a factor incorporated into the risk premium applied to mature and immature timber. Climate change was considered in the assessment of fair value of assets and liabilities acquired in business combinations, as detailed on page 202.

The Group accounting policies reflect the impact of climate change considerations in relation to the assessment of the residual values and estimated useful economic lives of property, plant and equipment, as detailed on pages 220-221, and in relation to the accounting policy applied for the valuation of forestry assets and the assessment of goodwill for impairment.

Climate change-related risks and opportunities

Climate change-related risks		Estimated financial impact (€m)	Timeframe			Scenario sensitivity		
			Short	Medium	Long	1.5°C	2°C	BAU
Physical risks	1. Higher wood procurement costs	90-180	━	━	●	●●	●●●	●●●●
	2. Risk of flooding	15-85		━	●	●	●●	●●●●
	3. South African plantation yield loss	15-20	━	●	━	●	●●	●●●
	4. Chronic changes in precipitation	10-15		━	●	●	●●	●●●
Transition risks	5. Energy supply costs	60-150	━	●	━	●●●●●	●●●●	●●
	6. GHG emissions regulatory changes (net impact)	30-85	━	●	━	●●●●●	●●●●	●●●
	7. Asset impairment risk	10-30		━	●	●●●●	●●●	●
Total climate change-related risks		230-565						
Climate change-related opportunities								
1. Changing customer behaviour		120-240	━	━	●	●●●●●	●●●●	●●
2. Reduced operating costs through energy efficiency		15-25	━	●	━	●●●●●	●●●●	●●
3. Sale of by-products		15-20	●	━	━	●●●●●	●●●●	●
Total climate change-related opportunities		150-285						

━ Anticipated onset of risk or opportunity

● Estimated full impact of risk or opportunity

●●●●● High likelihood
●●●●
●●●
●●
● Low likelihood

Quantitative and qualitative disclosures: Financial effects climate change – related risks and opportunities, time horizon (Short-term is 3 years; medium 3-7 years; and long-term is 7+ years), likelihood, and potentially affected FS line items

ANTICIPATED FINANCIAL EFFECTS- POINTS OF NOTE

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Overlap/possible duplication, challenges- current vs anticipated financial effects

- Interaction with IAS 1.125 (i.e., requirements of disclosure on assumptions and sources of measurement uncertainty affecting carrying values within next reporting period)
- Possible challenge of distinguishing between anticipated vs current financial effects
- Uncertainty of amounts (i.e., due to existence/occurrence uncertainty and measurement uncertainty)

Possible reasons for non-disclosure of quantitative anticipated financial effects in SR

- Lack of separability from other risk factors
- Measurement uncertainty
- Systems, methodology and data availability constraints
- Immaterial long-term financial effects due to entity’s mitigation/adaptation actions

CONCLUSION: STANDARD SETTER ROADMAP

WAY FORWARD- GREY AREAS THAT NEED TO BE RESOLVED

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Examples of location grey areas, i.e., disclosures could be within and/or outside the financial statements

- Unrecognised intangibles
- Synergies in business combinations
- Disclosures related to net-zero commitments
- Anticipated versus current financial effects in sustainability reports
- Risk disclosures
- Power purchase agreement disclosures
- Carbon credit disclosures

RECOMMENDED LONG-TERM STEPS