

CLIMATE TRANSITION PLANS- CONNECTIVITY TO FINANCIAL STATEMENTS

TPT Event

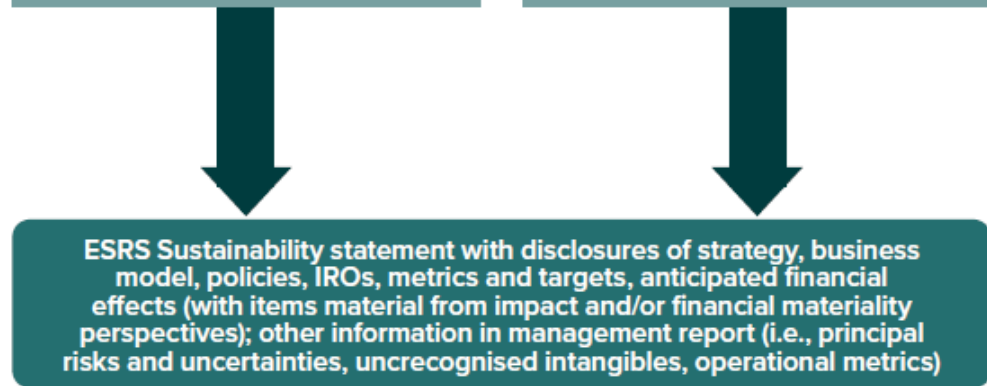
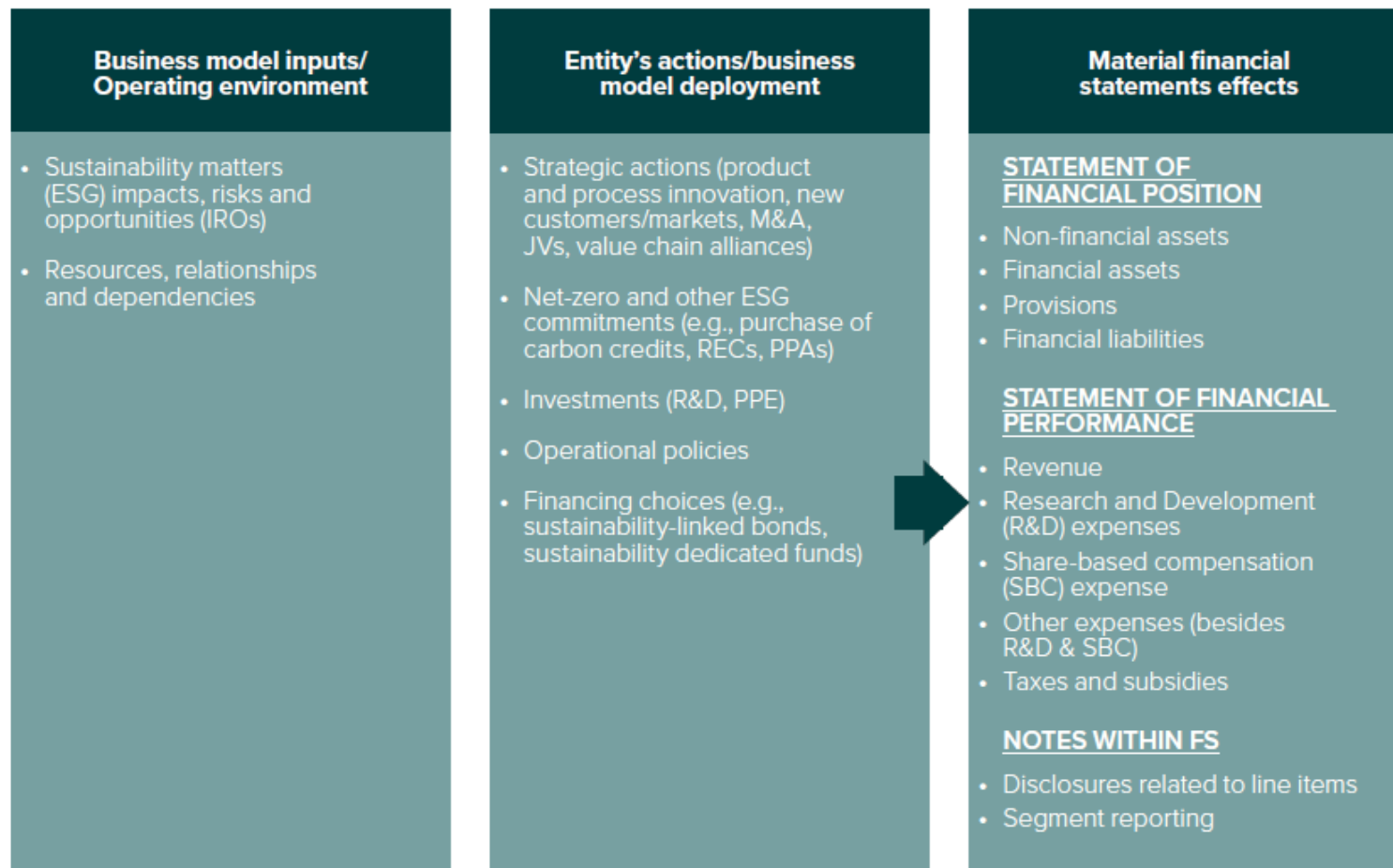
**Vincent Papa, EFRAG Project Director -
Financial Reporting Pillar**

9 DECEMBER 2024



CONNECTIVITY CONTEXT & CONSIDERATIONS

Transition plans –connectivity context



Connectivity – direct, indirect connectivity, consistency, and explanation of value creation and strategic relationships

Lack of connectivity due to financial statements recognition, measurement, presentation, disclosure criteria; differing scope/ boundary, time horizon, and/ or level of aggregation (gross representation in SR vs net in FS)

BROAD CONNECTIVITY CONSIDERATIONS

Sustainability disclosures complement the financial statements

Need for self sufficient financial statements (i.e., based on objectives and primary audience)

Need to avoid unnecessary duplication

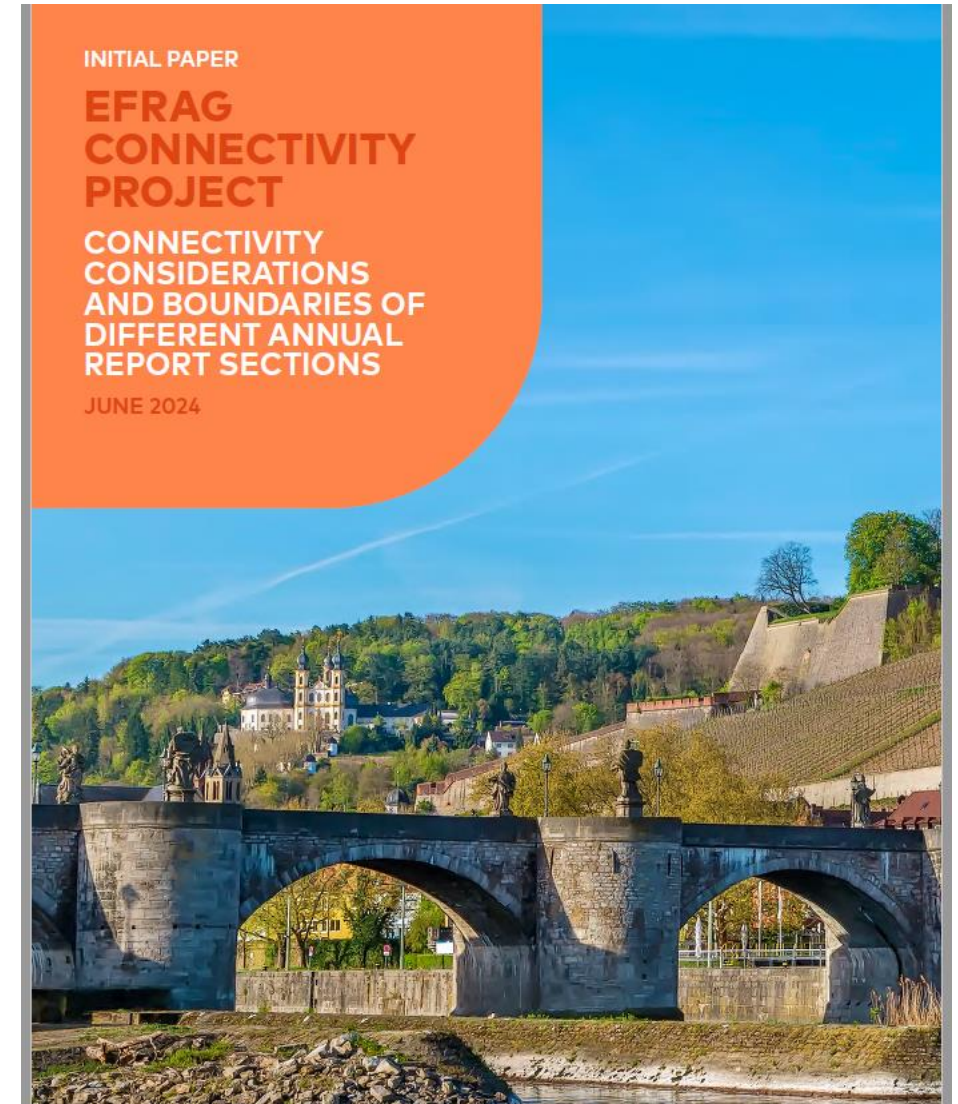
Focus on conveying incremental financial effects of transition plans

EFRAG CONNECTIVITY PROJECT

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 23- person multi-stakeholder EFRAG Connectivity Advisory Panel leaders



Improving coherence in climate-related reporting across the Annual Report

	Number of companies		Number of disclosers in 'front end'		Number of disclosers in Financial Statements		Number of disclosers in Audit Report	
	2017	2022	2017	2022	2017	2022	2017	2022
Panel A: By jurisdiction (n=80 companies)								
Australia	20	20	19	20	3	16	0	7
Canada	20	20	16	20	4	7	0	0
EU	20	20	20	20	11	18	1	9
UK	20	20	20	20	2	16	0	17
Total companies	80	80	75	80	20	57	1	33
%			94%	100%	25%	71%	1%	41%

Source: Agrawal. P, Bayne.L, Hellman.N, and Wee.M, 2024 : *Boundaries and Connectivity of Climate-related Financial Disclosures in the Annual Report*, Academic Working Paper , University of Western Australia, Stockholm School of Economic, and Australian National University

EU reporting context: Transition-related SR to financial statements anchor points

EFRAG draft
Implementation
Guidance
Transition Plan for
Climate Change
Mitigation (details
related ESRS
requirements)

ESRS 2 General requirements

ESRS 2 SBM-1: Disclosure of strategy, business model and value chain

ESRS 2 SBM-3: Material impacts, risks and opportunities (IROs) and their interaction with strategy and business model

ESRS E1 Climate Change

E1-1-16: Transition plan for climate change mitigation Explaining investment and funding including changes in products and services, EU Taxonomy (CAPEX, OPEX, Turnover/revenue) disclosures; locked-in emissions; Coal, oil and gas-related CAPEX

E1-7: GHG removals and GHG mitigation projects financed through carbon credits

E1-9: Anticipated financial effects (include disclosures related to transition risk)

POSSIBLE BALANCE SHEET EFFECTS

Changes in carrying amount of assets

- valuation of financial and non-financial assets (impairment, amortisation, useful lives, and residual value)
- R&D and other investment capitalisation

Provisions, contingent liabilities

- decommissioning and asset retirement obligations
- potential litigation due to environmental damage
- regulatory requirements to remediate environmental damage
- restructuring costs

INCOME STATEMENT EFFECTS

(Revenues, R&D expenses, insurance OPEX)

REPORTED SEGMENTS

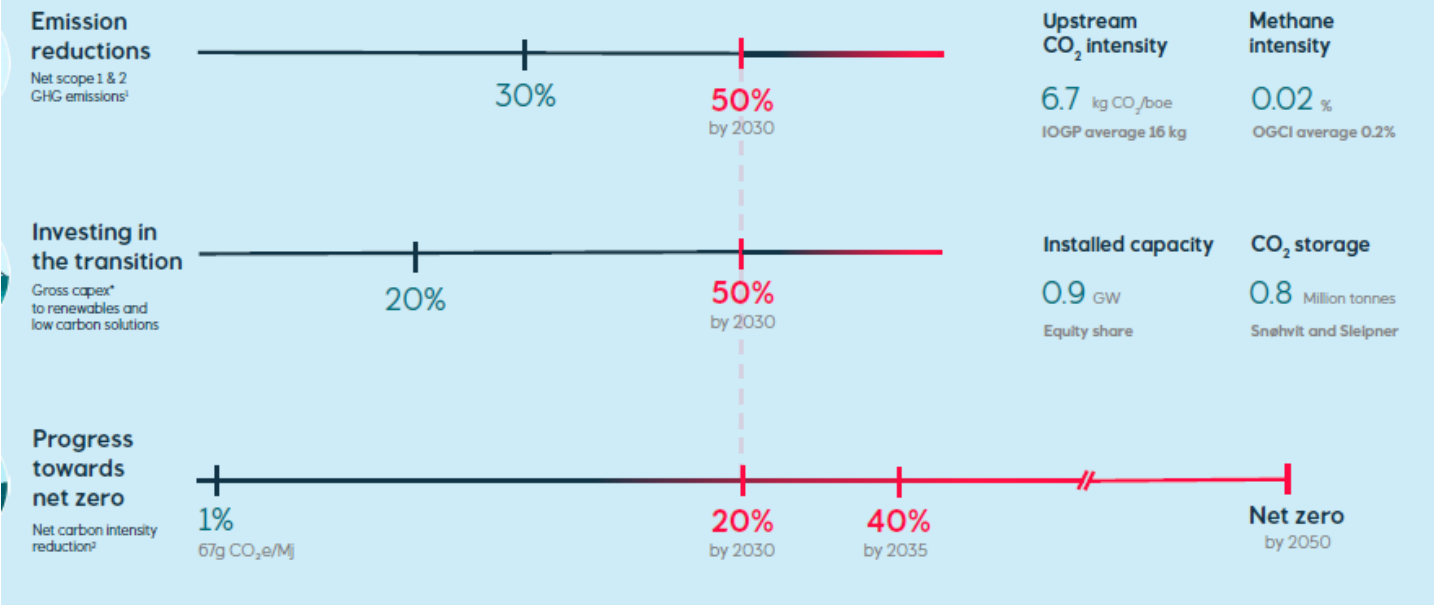
DISCLOSURES INCLUDING THOSE RELATED TO MITIGATION INSTRUMENTS

Annual Report

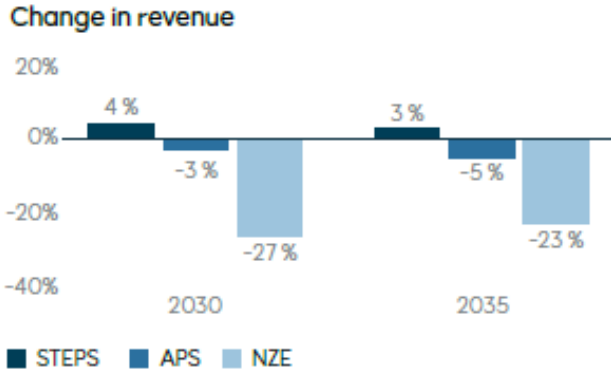
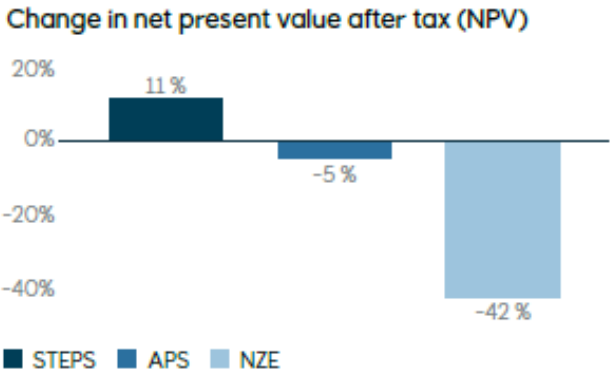
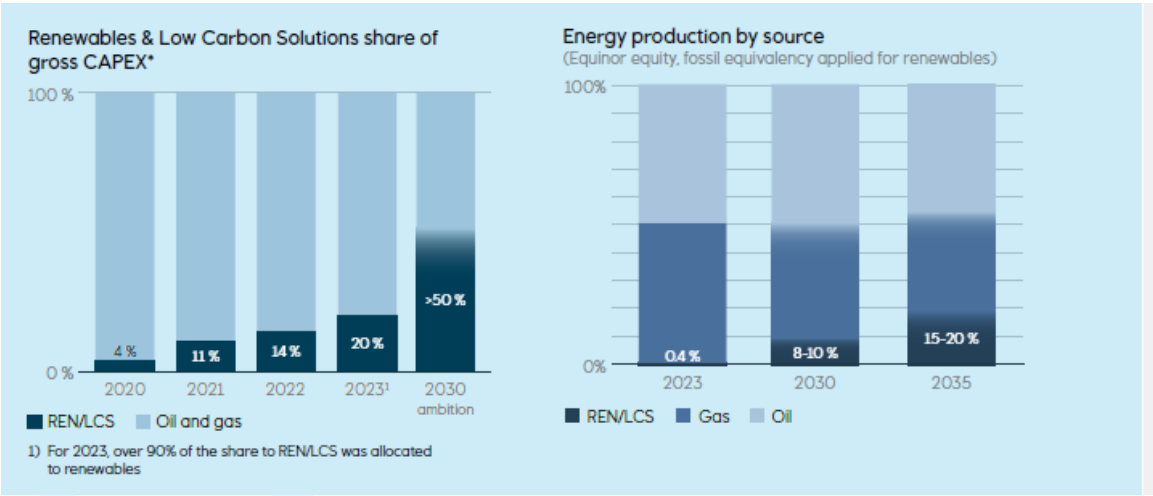


Norwegian Oil & Gas Company- Articulation of strategic goals

Our Energy transition plan in 2023



Resilience analysis scenarios considered
STEPS: Latest implemented policy settings (Temp rise 2.4C)
APS: All government targets are met in time and in full (Temp rise 1.7C)
NZE: Net zero by 2050 (Temp rise 1.4 C)



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 CO₂ quotas in advanced economies with net zero pledges, not including any other CO₂ 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.

Explaining basis of differences in sustainability disclosures vs financial statements assumptions

Potential impairment

Norwegian Oil & Gas Company: Non-exposure Disclosure

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.

Norwegian Oil & Gas Company: Investment profile

	2023		2022	
Proportion of taxonomy - eligible economic activities in total capex including equity accounted investments:	Mandatory Capex KPI	Voluntary Capex KPI including equity accounted investments	Mandatory Capex KPI	Voluntary Capex KPI including equity accounted investments ¹⁾
Aligned Eligible Activity				
Electricity generation from wind power	0.4%	8.4%	1.0%	n/a
Electricity generation using solar photovoltaic technology	0.3%	0.3%	0.7%	n/a
Underground permanent geological storage of CO ₂	0.0%	0.4%	0.0%	n/a
Transport of CO ₂	0.0%	0.1%	0.0%	n/a
Total Aligned Eligible Activity	0.8%	9.2%	1.6%	n/a
Eligible and not Aligned activity				
Electricity generation from wind power	4.7%	5.2%	0.4%	10.9%
Electricity generation using solar photovoltaic technology	3.2%	3.7%	0.0%	0.8%
Underground permanent geological storage of CO ₂	0.0%	0.1%	0.0%	0.9%
Storage of electricity	0.3%	0.3%	0.5%	0.5%
Electricity generation from fossil gaseous fuels	0.0%	0.2%	0.0%	0.1%
Total Eligible and not Aligned activity	8.2%	9.5%	0.9%	13.2%
Total	9.0%	18.6%	2.5%	13.2%

1) Voluntary KPI not split by aligned and not aligned in 2022. All aligned capex from the mandatory KPI is therefore presented as "Eligible and not aligned" for the voluntary KPI.

Norwegian Oil & Gas Company: Investment profile

the definition of the mandatory KPI, and not part of the turnover denominator. For Equinor the KPI denominator related to turnover will be highly impacted by changes in commodity prices.

The denominators are calculated based on reported IFRS Accounting Standards numbers in the Consolidated financial statements. For Equinor this has the effect that the proceeds from the sale of the Norwegian State's (SDFI) oil production on the NCS, that Equinor markets and sells on their behalf (see

Appendix 2: Reconciliation to Share of gross capex to REN and LCS

The difference between the mandatory 9% capex KPI as defined within the EU Taxonomy and the 20% REN / LCS Gross capex* is mainly related to eligible activity in equity accounted investments which is included within the voluntary EU taxonomy KPI. In addition, additions to right-of-use asset (leasing) are excluded and additions to goodwill are included in the REN / LCS Gross capex* which differs in treatment to the EU taxonomy KPI.

**Taxonomy CAPEX KPI
Reconciliable to
consolidated financial
statements**

**Highlights reporting
boundary differences**

(in USD million)	Note	2023	2022
Additions to PP&E, intangibles and equity accounted investments	<u>5</u>	14,500	9,994
Less:			
Additions to Equity accounted investments	<u>15</u>	(926)	(337)
Goodwill additions through business acquisition	<u>13</u>	(348)	-
Goodwill additions	<u>13</u>	(9)	(36)
Capex denominator as defined by the EU Taxonomy		13,217	9,621

UK Paper and packaging company- Anticipated financial effects

TCFD recommendations disclosures

Climate change-related risks and opportunities								
		Estimated financial impact (€m)	Timeframe			Scenario sensitivity		
			Short	Medium	Long	1.5°C	2°C	BAU
Climate change-related risks								
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)

Possible duplication with current financial effects

- Anticipated financial effects over the short term interaction with disclosure requirements under IAS 1.125 (i.e., requirements of disclosure on assumptions and sources of measurement uncertainty affecting carrying values within next reporting period)
- Are anticipated financial effects also reflected in carrying amounts of the balance sheet?

Anticipated financial effects may never crystallise in future financial statements

- Measurement uncertainty
- Occurrence uncertainty

Possible reasons for lack of quantitative anticipated financial effects

- Lack of separability from other risk factors
- Measurement uncertainty
- Systems, methodology and data availability constraints

FINANCIAL STATEMENTS REQUIREMENTS CONSIDERATIONS

Climate-related disclosures linked to IFRS Accounting Standards- 1/4

Accounting standards		Number of companies and percentage (n=80)			
		2017		2022	
1	IFRS 2 Share-based Payment	1	1%	6	8%
2	IFRS 3 Business Combinations - Goodwill	0	0%	11	14%
3	IFRS 6 Exploration for and Evaluation of Mineral Resources	0	0%	5	6%
4	IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments	8	10%	24	30%
	IFRS 7/9 General	2	3%	17	21%
	IFRS 7/9 ETS	7	9%	11	14%
5	IFRS 8 Operating Segments	4	5%	5	6%
	IFRS 8 General	2	3%	4	5%
	IFRS 8 ETS	3	4%	2	3%
6	IFRS 13 Fair Value Measurement	2	3%	7	9%

Source: Agrawal. P, Bayne.L, Hellman.N, and Wee.M, 2024 : Boundaries and Connectivity of Climate-related Financial Disclosures in the Annual Report, Academic Working Paper , University of Western Australia, Stockholm School of Economic, and Australian National University

Accounting standards		Number of companies and percentage (n=80)			
		2017		2022	
7	IFRS 15 Revenue from Contracts with Customers	2	3%	4	5%
	IFRS 15 General	0	0%	0	0%
	IFRS 15 ETS	2	3%	4	5%
8	IFRS 16 Leases	0	0%	2	3%
9	IFRS 17 Insurance Contracts	0	0%	1	1%
10	IAS 1 Presentation of Financial Statements - Climate risk	3	4%	30	38%
	IAS 1 Presentation of Financial Statements - Judgements	1	1%	14	18%
	IAS 1 Presentation of Financial Statements - Assumptions and estimation uncertainty	2	3%	17	21%
	IAS 1 Presentation of Financial Statements - Going concern	0	0%	9	11%

Source: Agrawal. P, Bayne.L, Hellman.N, and Wee.M, 2024 : *Boundaries and Connectivity of Climate-related Financial Disclosures in the Annual Report*, Academic Working Paper , University of Western Australia, Stockholm School of Economic, and Australian National University

Accounting standards		Number of companies and percentage (n=80)			
		2017		2022	
11	IAS 2 Inventories	7	9%	9	11%
	IAS 2 General	0	0%	1	1%
	IAS 2 ETS	7	9%	8	10%
12	IAS 10 Events After the Reporting Period	1	1%	3	4%
13	IAS 12 Income Taxes	0	0%	6	8%
14	IAS 16 Property, Plant and Equipment	3	4%	23	29%
15	IAS 19 Employee Benefits	1	1%	7	9%
16	IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	3	4%	5	6%
	IAS 20 General	0	0%	2	3%
	IAS 20 ETS	3	4%	4	5%

Source: Agrawal. P, Bayne.L, Hellman.N, and Wee.M, 2024 : *Boundaries and Connectivity of Climate-related Financial Disclosures in the Annual Report*, Academic Working Paper , University of Western Australia, Stockholm School of Economic, and Australian National University

Accounting standards		Number of companies and percentage (n=80)			
		2017		2022	
17	IAS 28 Investments in Associates and Joint Ventures (2011)	0	0%	1	1%
18	IAS 36 Impairment of Assets	3	4%	34	43%
19	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	11	14%	24	30%
	IAS 37 General	0	0%	23	29%
	IAS 37 ETS	11	14%	9	11%
20	IAS 38 Intangible Assets	8	10%	9	11%
	IAS 38 General	0	0%	5	6%
	IAS 38 ETS	8	10%	6	8%
21	IAS 40 Investment Property	0	0%	7	9%
22	IAS 41 Agriculture	0	0%	1	1%

Source: Agrawal. P, Bayne.L, Hellman.N, and Wee.M, 2024 : Boundaries and Connectivity of Climate-related Financial Disclosures in the Annual Report, Academic Working Paper , University of Western Australia, Stockholm School of Economic, and Australian National University

CONNECTIVITY CHALLENGES

- Depiction of **gross exposure in the sustainability statement** vs **net exposure in the financial statements**
- Impairment of non-financial assets (perceived restriction of incorporating cash flows beyond five years)
- Unclear whether IAS 36 caters for changes in regulation in the value in use calculation
- R&D recognition and disclosure constraints
- Limited disclosures of forward looking information
- Need to broaden application of qualitative materiality in financial statements

IFRS Accounting Standards are generally sufficient

AREAS WHERE ACCOUNTING STANDARD SETTING IS NEEDED

- General requirements- IAS 1.125 (clarifying the requirements of disclosure on assumptions and sources of measurement uncertainty affecting carrying values within next reporting period)
- Need to incorporate overarching connectivity requirements
- IAS 36 amendments
- IAS 38 (review R&D recognition and/or disclosure requirements)
- Address gap in accounting for carbon credits requirements