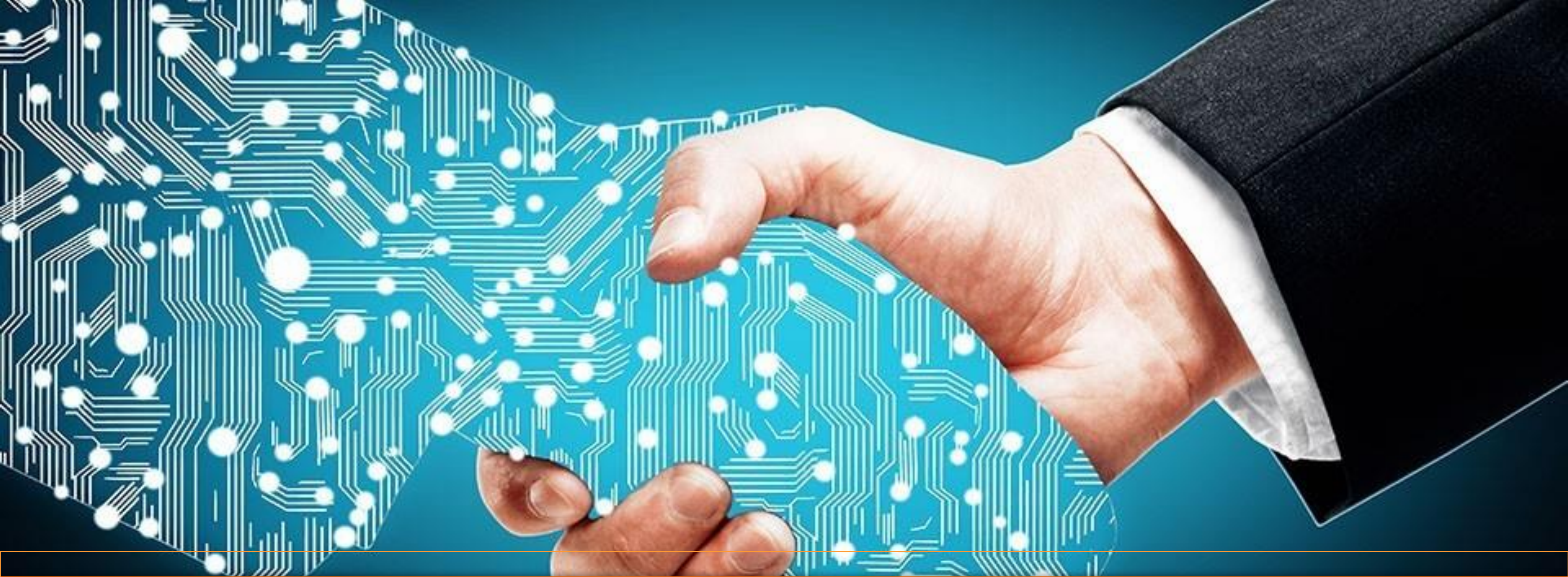

ESEF, current status update from the NBA

Enrico Evink

Koninklijke Nederlandse Beroepsorganisatie van Accountants

NBA

Nederland rekent op zijn accountants.

Agenda

1. ESEF changes in 2023
2. ESEF & the Auditor
3. Lessons learned including those from block tagging
4. Q&A

Enrico Evink
Partner Ernst & Young Accountants LLP
Board Member XBRL Netherlands,
Member NBA work group digital assurance

Koninklijke Nederlandse Beroepsorganisatie van Accountants
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Polling question (1)

What was your experience with ESEF block tagging last year?

Companies & Auditors

A. The process was very smooth

B. We had some issues initially but in the end it worked out well

C. We had a very difficult closing, and (nearly) missed the deadline

Users

D. We are using ESEF (block tagged) information in our analytics /reviews

E. We are not using ESEF currently

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ESEF changes in 2023

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Changes in 2023

The following are the main changes which are relevant for the 2023 financial statements:

1

ESEF Taxonomy 2022

The ESEF Taxonomy 2021 (and 2020) may no longer be used. As of early 2023, the ESEF taxonomy 2022 has been incorporated into EU Law and is mandatory for financial years starting on or after 1 January 2023.

2

ESMA Reporting manual 2023

Yearly, the ESMA updates its ESEF reporting manual, which provides guidance on the preparation of ESEF annual financial reports.

3

AFM updates 2023

The local officially appointed mechanism can also add additional requirements, currently the main one is that ESEF packages cannot be over 100MB.

RTS: EUR-Lex - 02019R0815-20220101 - EN - EUR-Lex (europa.eu)

Reporting Manual: ESMA32-60-254 ESEF Reporting Manual (europa.eu)

1 ESEF Taxonomy 2022

Early 2023 the ESEF taxonomy 2022 was issued:

1

Mandatory for 2023 (and 2024) financial statements

The 2022 ESEF taxonomy is required to be used for tagging the 2023 ESEF AFRs. The 2021 (and 2020) taxonomy is not allowed to be used anymore. ESMA has already announced there will not be a 2023 ESEF taxonomy and as such this taxonomy is also to be used for 2024 AFRs. Note that for ESG tagging an update might be issued.

2

New elements

The 2022 ESEF taxonomy includes new elements and removes some other elements. As a consequence thereof, the element used to tag consolidated financial statements for 2022 might not be appropriate for 2023. New mandatory element: "*Disclosure of material accounting policy information*".

3

Elements that are no longer mandatory

The 'monster tag', "*Disclosure of notes and other explanatory information*" is no longer mandatory (no longer included in Annex II).

1 Block tagging Disclosure notes - Reminder Suggested approach

1) Disclosure relates to a material accounting policy => ‘Disclosure of material accounting policy information [text block]’
   a) Specific accounting policy not tagged with corresponding disclosure tag if not disclosed together in the financial statements.

2) In principle each paragraph with its own (sub)heading would be considered as a block.
   a) The disclosure heading and its content => appropriate element.
   b) Other elements that have a wider or narrower scope (different granularity) => if relevant considering the context of the disclosure.

3) Paragraphs within a note that represents a specific topic (possible sub-heading)
   a) also tag paragraphs individually with the heading of that note

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2 ESMA Reporting Manual 2023

Some other relevant changes / highlights in ESMA ESEF reporting manual:

1 Extension element

If an extension element is used corresponding to an element in the new IFRS taxonomy, the characteristics of the IFRS taxonomy element should be used.

3 Readability extracted information

Issuers should ensure information rendered has words and numbers in same order, including spaces and information in tables are meaningfully transcribed in extracted tagged information.

2 Detailed vs block tagging

Issuers have the option to (voluntarily) apply detailed tagging to the notes. However, the mandatory block tagging is still required.

These are not the only changes to the ESMA Reporting Manual in the 2023 version. However, other changes are expected to have a more limited effect compared to these.

ESEF & the Auditor

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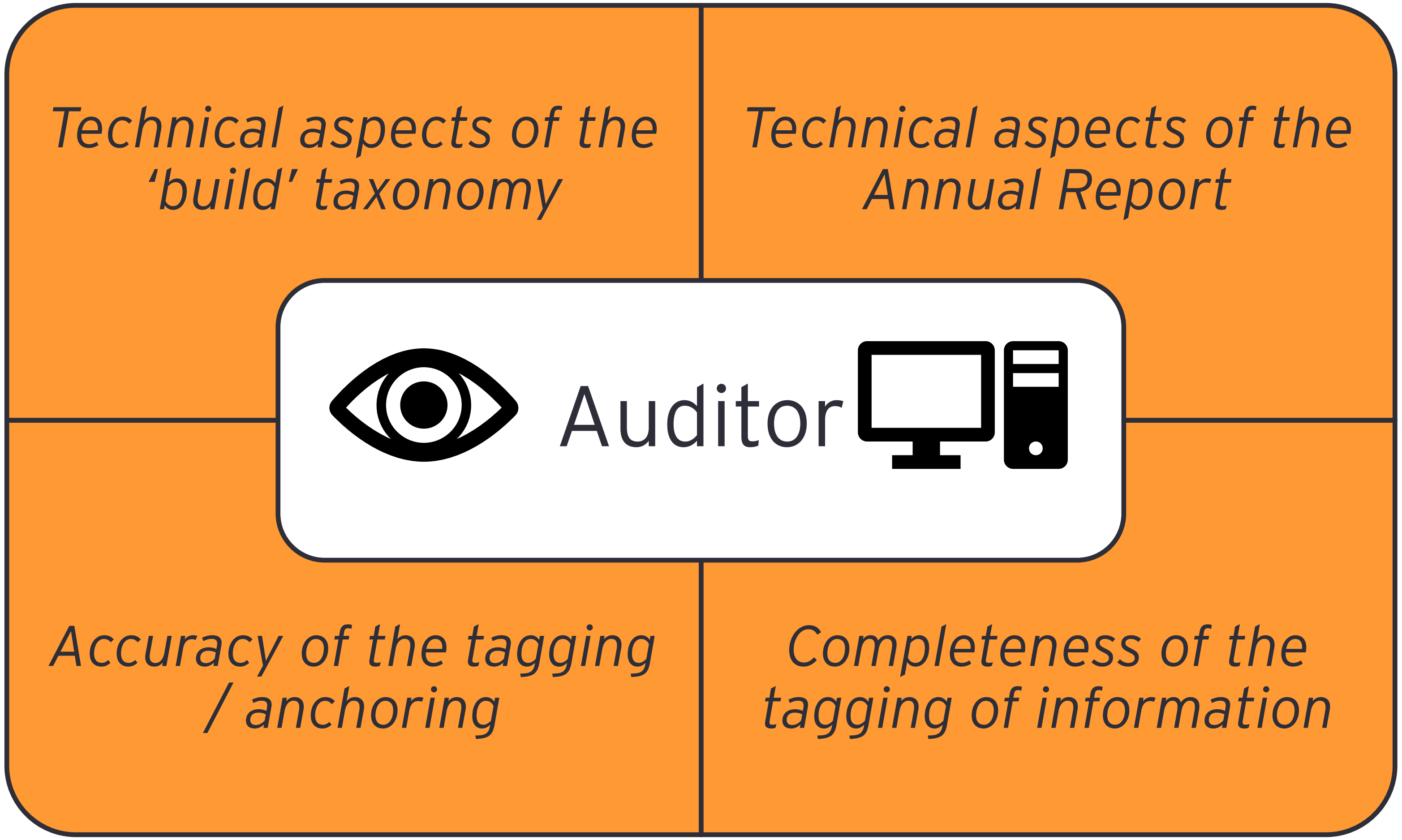
ESEF and the Auditor
NBA standard 3950N - Reminder of the work to be performed by the auditor

ESEF audit work relates to:



Source: https://www.NBA.nl

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Auditing ESEF - Example of discussion areas (1 Referenced notes not tagged)

Note 17 Goodwill

Accounting policies

At acquisition date, goodwill is measured in accordance with Note 4. Goodwill is allocated to the cash generating unit or groups of cash-generating units that benefit from the synergies of the combination, based on the level at which the return on investment is monitored for internal management purposes. Goodwill is not amortized but is tested for impairment at each year-end, or whenever there is an indication that it may be impaired. Impairment losses on goodwill are not reversible. The method used by to test goodwill for impairment is described in Note 18 "Impairment of goodwill, tangible and intangible assets." Negative goodwill is recognized directly in the income statement for the period of the business combination, once the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities have been verified.

Description of accounting policy for goodwill [text block]

Note 17 Goodwill Accounting policies At acquisition date, goodwill is measured in accordance with Note 4. Goodwill is allocated to the cash generating unit or groups of cash-generating units that benefit from the synergies of the combination, based on the level at which the return on investment is monitored for internal management purposes. Goodwill is not amortized but is tested for impairment at each year-end, or whenever there is an indication that it may be impaired. Impairment losses on goodwill are not reversible. The method used by to test goodwill for impairment is described in Note 18 "Impairment of goodwill, tangible and intangible assets." Negative goodwill is recognized directly in the income statement for the period of the business combination, once the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities have been verified.

Auditing ESEF - Example of discussion areas (1 Referenced notes not tagged) *(continued)*

Business combination

The consideration transferred in a business combination is measured at fair value, which is the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Acquisition-related costs are accounted for as expenses in the periods in which they are incurred.

Any excess of the aggregate of consideration transferred and the amount of non-controlling interests in the transaction over the fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill. For each business combination, may elect whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The provisional amounts recognized on the acquisition date may be adjusted retrospectively if information about facts and circumstances that existed as of the acquisition date is still needed to finalize the measurement of the business combination. However, the measurement period shall not exceed one year from the acquisition date. The subsequent acquisition of non-controlling interests does not give rise to the recognition of additional goodwill.

Auditing ESEF - Example of discussion areas (2 Readability & order of words)

8 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2021	**11,132**	**9,588**	**1,062**	**4,933**	**26,715**
Additions	131	258	70	3,439	3,898
Transfers	358	382	24	-764	-
Changes in estimations	119	-78	-	-	41
Disposals	-8	-5	-5	-8	-26
At 31 December 2021	**11,732**	**10,145**	**1,151**	**7,600**	**30,628**
Additions	252	331	6	3,825	4,402
Transfers	996	1,071	163	-2,230	-
Changes in estimations	-170	-120	-	-22	-312
Transfer to held-for-sale	-	-	-12	-	-12
Impairment	-	-	-	-9	-9
Disposals	-92	-11	-5	-11	-119
At 31 December 2022	**12,718**	**11,416**	**1,291**	**9,153**	**34,578**
Depreciation and impairment					
At 1 January 2021	**2,964**	**2,502**	**390**	**-**	**5,856**
Depreciation for the year	530	378	61	-	969
Disposals	-5	-2	-1	-	-8
At 31 December 2021	**3,489**	**2,878**	**450**	**-**	**6,817**
Depreciation for the year	555	407	60	-	1,022
Transfer to held-for-sale	-	-	-	-	-
Disposals	-73	-9	-2	-	-84
At 31 December 2022	**3,971**	**3,276**	**508**	**-**	**7,755**
Net book value:					

Disclosure of depreciation and amortisation expense [text block]

8 Tangible fixed assets High-voltage High-voltage Assets under (EUR million)Other assetsTotalsubstationsconnectionsconstructionCostAt 1 January 2021 11.132 9.588 1.062 4.933 26.715Additions 131 258 70 3.439 3.898Transfers 358 382 24 -764 -Changes in estimations 119 -78 - - 41Disposals -8 -5 -5 -8 -26At 31 December 2021 11.732 10.145 1.151 7.600 30.628Additions 252 331 6 3.825 4.402Transfers 996 1.071 163 -2.230 -Changes in estimations -170 -120 - -22 -312Transfer to held-for-sale - - -12 - -12Impairment - - - -9 -9Disposals -92 -11 -5 -11 -119At 31 December 2022 12.718 11.416 1.291 9.153 34.578Depreciation and impairmentAt 1 January 2021 2.964 2.502 390 - 5.856Depreciation for the year 530 378 61 - 969Disposals -5 -2 -1 - -8At 31 December 2021 3.489 2.878 450 - 6.817Depreciation for the year 555 407 60 - 1.022Transfer to held-for-sale - - - - -Disposals -73 -9 -2 - -84At 31 December 2022 3.971 3.276 508 - 7.755Net book value:At 1 January 2021 8.168 7.086 672 4.933 20.859At 31 December 2021 8.243 7.267 701 7.600 23.811At 31 December 2022 8.747 8.140 783 9.153 26.823High-voltage substations include onshore and offshore transformer and converter stations. High-voltage connections consist of overhead and underground connections. Unlike lands for substations. lands surrounding high-voltage pylons and cables are generally not owned by TenneT. Other tangible fixed assets consist of office buildings. office ICT equipment and other company assets.In 2022 the discount rate used for the decommissioning provision was between 2.086% and 2.942% (2021: 0.165% and 0.318%) for offshore wind farms (OWF) connections (see note 22). The discount rate was adjusted in 2022 to reflect current market assessments of the time value of money and the risks specific to this liability. The main part of the decommissioning provision was recognised as part of the carrying value of the related asset. Besides the change of the discount rate. also changes in inflation. changes in underlying assumptions and updated price levels are included in the change of estimates.□The amount of borrowing costs capitalised during 2022 is disclosed in note 5. The effective interest rate used to determine the amount of borrowing costs capitalised was 1.34% (2021: 2.0%).Annual impairment trigger analyses on tangible assets. and where applicable testing for impairment. is done at the individual asset level. or smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units (CGUs)). For our three operating segments this consists of:• TSO Netherlands (One large CGU consisting of regulated on- and offshore assets. and the NorNed cable. considered for impairment (triggers). on individual level):• TSO Germany (One large CGU consisting of regulated on- and offshore assets):• Non-regulated companies (Several small CGUs as well as individual assets).The non-regulated companies also include the Joint Venture investment in the BritNed cable. tested. for impairment (triggers). on individual level.□

Auditing ESEF - Example of discussion areas (3 calculation difference and reported amounts)

CASH PROVIDED (REQUIRED) BY INVESTING ACTIVITIES

Acquisition of property, plant, equipment and intangible assets		(46.7)	(49.6)
Acquisition of financial assets		(11.5)	(1.6)
Acquisition of subsidiary, net of cash acquired	2	—	(2.0)
Proceeds from disposal of intangible and tangible assets		—	0.1
Other		0.6	0.1
Cash required by investing activities		**(57.6)**	**(53.0)**

- Balance attribute:
  Credit
- Reported value:
  -46,700,000

<20221231:AcquisitionOfPropertyPlantEquipmentAndIntangibleAssets/>	Acquisition of property, plant, equipment and intangible assets	-	46.700.000,00	49.600.000,00
<ifrs-full:PurchaseOfFinancialInstrumentsClassifiedAsInvestingActivities/>	Purchase of financial instruments, classified as investing activities	-	(11.500.000,00)	(1.600.000,00)
<ifrs-full:CashFlowsUsedInObtainingControlOfSubsidiariesOrOtherBusinessesClassifiedAsInvestingActivities/>	Cash flows used in obtaining control of subsidiaries or other businesses, classified as investing activities	-	0,00	(2.000.000,00)
<ifrs-full:ProceedsFromDisposalsOfPropertyPlantAndEquipmentIntangibleAssetsOtherThanGoodwillInvestmentPropertyAndOtherNoncurrentAssets/>	Proceeds from disposals of property, plant and equipment, intangible assets other than goodwill, investment property and other non-current assets	-	0,00	100.000,00
<ifrs-full:OtherInflowsOutflowsOfCashClassifiedAsInvestingActivities/>	Other inflows (outflows) of cash, classified as investing activities	-	600.000,00	100.000,00
<ifrs-full:CashFlowsFromUsedInInvestingActivities/>	**Cash flows from (used in) investing activities**	-	**(57.600.000,00)**	**(53.000.000,00)**

Elements	2022	2021
<20221231:AcquisitionOfPropertyPlantEquipmentAndIntangibleAssets/>	-46.700.000	-49.600.000
<ifrs-full:OtherInflowsOutflowsOfCashClassifiedAsInvestingActivities/>	600.000	100.000
<ifrs-full:PurchaseOfFinancialInstrumentsClassifiedAsInvestingActivities/>	11.500.000	1.600.000
<ifrs-full:CashFlowsUsedInObtainingControlOfSubsidiariesOrOtherBusinessesClassifiedAsInvestingActivities/>	-	2.000.000
<ifrs-full:ProceedsFromDisposalsOfPropertyPlantAndEquipmentIntangibleAssetsOtherThanGoodwillInvestmentPropertyAndOtherNoncurrentAssets/>	-	100.000
Calculated:	**35.800.000**	**46.200.000**
<ifrs-full:CashFlowsFromUsedInInvestingActivities/>	-57.600.000	-53.000.000
Calculation difference	93.400.000	99.200.000

Lessons learned including those from block tagging

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Lessons learned - Common Pitfalls

Avoid common pitfalls made in ESEF filings last years:

1

Mandatory items tagging

If a ‘required if disclosed’ tag is not disclosed then it should not be tagged at all (e.g. also not as N/A). The warning in your ESEF tool is just to remind you that if applicable (which it is not) it needs to be tagged.

2

Calculation errors & signs

All errors in calculations will be shown as warnings, as such also rounding errors in the primary statements, but also in case of incorrectly linked numbers. Take into account the default balance type to avoid incorrect ESEF reporting.

3

Primary statements - extra info

All amounts presented in the reporting currency on the primary statements are to be tagged, as such also additional information disclosed and Earnings-per-share amounts.

4

Block tagging - multi-layered

While block tagging, the block tag with a higher granularity should also be applied as well (e.g. goodwill -> intangible assets & goodwill).

5

Block tagging – note references

When applying block tagging, a reference to another note might indicate that there is information there that also should be tagged with the same block tag.

6

Readability

The tagged information must retain the same order (for each tag) and ‘informational value’ as the XHTML text that is tagged. Using a native XHTML table prevents a lot of these issues.

Lessons learned - Tips

Based on prior years' ESEF annual financial reports:

1

Start timely and use a Dummy ESEF file for review

Almost all companies needed multiple versions of the ESEF annual report before all material findings noted in the ESEF audit procedures were resolved. It is therefore key to start on a timely basis, have a kick-off call with the audit team early on and supply a dummy version before/during Autumn 2023.

2

Complexity of findings

The findings noted in the ESEF audit procedures varied considerably in the level of complexity, and usually required the involvement of the ESEF software supplier, auditor, the issuers and their specialists. However, it is vital for the issuer to have an adequate understanding of ESEF and the comments raised, as the issuers remain responsible for their financial statements.

3

ESEF preparation process

In various cases the issuer's regular financial statement close process was not adequate to ensure finalization of the ESEF annual report along the regular timelines. This could put pressure on the audit process as well, in particular since no changes can be made to the report after the issuance of the opinion. Remember it is all about the XHTML, PDF is not the official financial statements, and preferably is not used to generate the ESEF file, and is not the financial statements the auditor signs off on.

Polling question (2)

What was your most important lesson learned from the ESEF preparation / audit last year?

A. Start timely it is more time consuming than expected

B. Involve the right specialist with both accounting and ESEF technical knowledge

C. Rethink the closing process to start with the end (ESEF XHTML) in mind.

D. Other (please share in the chat)

E. Not applicable (not an auditor and not working for an issuer)

Recap

Key takeaway

- Start discussion between the issuers and the auditors on a timely basis to ‘dry run’, use the lessons learned mentioned (including those around block tagging of the consolidated notes) to prepare for this year.

- Agree on a timing of the work on the ESEF-financial statements. Take into account that the XHTML needs to be final before the auditor’s opinion can be signed. Use the XHTML as basis in the process (and not another format such as PDF).

- Approach the ESEF-Audit in line with standard 3950N as any other part of the audit and plan ahead.

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Q&A

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