

A photograph of two people standing on a rocky outcrop, taking photos of a sunset over a large, layered rock formation. The sun is low on the horizon, casting a warm glow over the scene. The sky transitions from a deep blue at the top to a bright orange near the horizon. The people are seen from behind, with their hands raised holding their smartphones. The overall mood is serene and scenic.

EY EU Taxonomy Barometer 2022

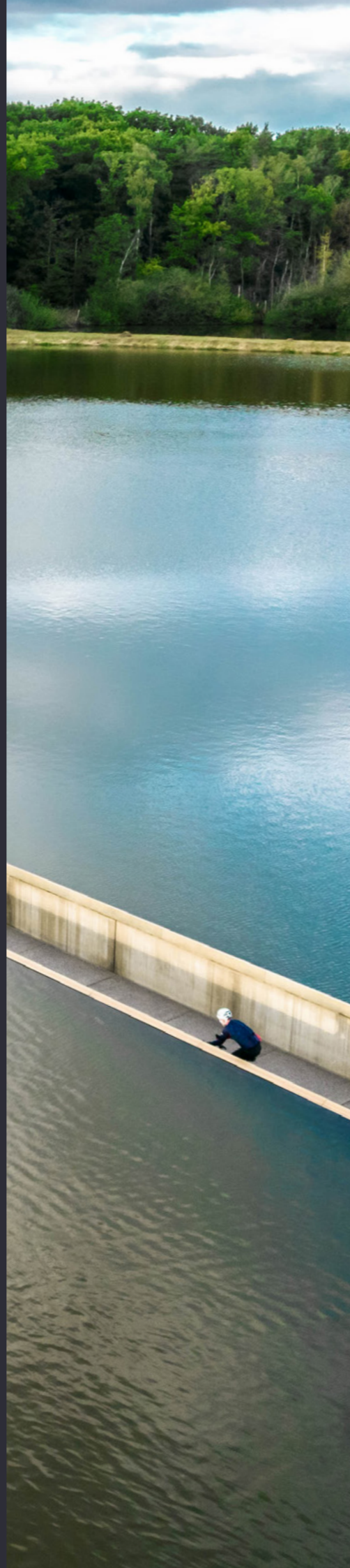
Lessons learned from
the first reporting year



Building a better
working world

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Introduction

A sustainable Europe is one that focuses on carbon neutrality and a circular economy; secure, affordable and clean energy for all; sustainable, integrated and cost-efficient infrastructure, together with resilient infrastructure funding. Becoming the world’s first climate-neutral continent is both Europe’s greatest challenge, and its biggest opportunity.

To direct investments toward sustainable projects and activities with the aim of meeting its climate and energy targets for 2030, and to reach the objectives of the European Green Deal, the EU Commission proposed the “Action Plan on Sustainable Finance” in March 2018.

The first key action of this plan has been to establish a common language and a clear definition of what a “sustainable” economic activity is. To this end, the EU Commission adopted the EU Regulation 2020/852 (hereinafter “Taxonomy Regulation” or “EU Taxonomy”) on 18 June 2020. This classification system established a list of environmentally sustainable economic activities aimed at providing companies, investors and policymakers with appropriate definitions of activities that can be considered environmentally sustainable.

The EU Taxonomy has entered into force on 12 July 2020 and applies to:

- ▶ Measures adopted by Member States or by the EU that set out requirements for financial market participants or issuers, in respect of financial products or corporate bonds that are made available as environmentally sustainable
- ▶ Financial market participants that make financial products available
- ▶ Undertakings that are subject to the obligation to publish a nonfinancial statement or a consolidated nonfinancial statement pursuant to Article 19a or Article 29a of Directive 2013/34/EU of the European Parliament and of the Council, respectively (public interest entities with more than 500 employees, and, more than EUR40 million in revenue or EUR20 million of balance sheet)

The regulation requires undertakings to disclose the proportion of their activities that are Taxonomy-eligible or Taxonomy-aligned. Eligible activities are not necessarily environmentally sustainable, but can potentially contribute to one of the six following environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Taxonomy-aligned activities must be eligible and also comply with additional criteria that classify them as environmentally sustainable:

- ▶ The activity must not significantly harm any of the other environmental objectives of the EU Taxonomy.
- ▶ The activity must be carried out in compliance with the minimum safeguards, by ensuring the alignment with the Guidelines for Multinational Enterprises¹ put forth by the Organisation for Economic Co-operation and Development (OECD), and Guiding Principles on Business and Human Rights² of the United Nations (UN). The activity should also be in compliance with the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work,³ and the International Bill of Human Rights.⁴
- ▶ The activity must comply with the technical screening criteria established for each of the EU Taxonomy environmental objectives.

¹ “Guidelines for multinational enterprises,” OECD website, [oecd.org/corporate/mne/](https://www.oecd.org/corporate/mne/).

² “Guiding Principles on Business and Human Rights,” United Nations Global Compact website, [unglobalcompact.org/library/2](https://www.unglobalcompact.org/library/2).

³ “ILO Declaration on Fundamental Principles and Rights at Work,” International Labour Organization website, [ilo.org/declaration/lang-en/index.htm](https://www.ilo.org/declaration/lang-en/index.htm).

⁴ “International Bill of Human Rights,” United Nations website [unhcr.org/en/what-are-human-rights/international-bill-human-rights](https://www.unhcr.org/en/what-are-human-rights/international-bill-human-rights).

Disclosure requirements

The EU Taxonomy defines different disclosure requirements for financial and nonfinancial undertakings to better address the differences between them.

For **nonfinancial undertakings**, the regulation – among other information – requires reporting the share of Taxonomy-aligned activities in terms of:

- ▶ Turnover
- ▶ Capital expenditures (CapEx)
- ▶ Operating expenditures (OpEx)

With respect to **financial undertakings**, the regulation requires disclosure of information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable (aligned activities).⁵

In particular, credit institutions will report the extent to which the undertakings and projects in their portfolios are connected to Taxonomy-aligned activities, and insurers will disclose what part of their premiums are linked to policies covering climate perils and how much of their investments fund environmentally sustainable activities.

Beyond the reporting obligation, these disclosures are designed to raise strategic questions about the future viability of a company's business model. In this way, they are expected to increase pressure to improve sustainability performance.

On 9 December 2021, a first delegated act on sustainable activities for climate change adaptation and mitigation objectives was published, and it became effective January 2022. In March 2022, the Platform on Sustainable Finance (PSF) published the report with recommendations for technical screening criteria of the four remaining environmental objectives. It is expected that the second Delegated Act for these objectives will be published by the EU Commission in the course of 2023.



In the Climate Delegated Act, the European Parliament and the Council have prioritized those economic activities that can contribute the most to the two environmental objectives of climate change mitigation and climate change adaptation. These, therefore, include activities that are most relevant for reductions in greenhouse gas emissions and for improving climate resilience. This encompasses sectors with the highest contribution to CO2 emissions (energy, manufacturing, transport and buildings), as well as activities enabling their transformation that is necessary to reach the EU's climate objectives.

According to the frequently asked question, "What is the EU Taxonomy and how will it work in practice?,"⁶ it was estimated that the Climate Delegated Act would cover the economic activities of roughly 40% of listed companies,⁷ in sectors which are responsible for almost 80% of direct greenhouse gas emissions.⁸

⁵ As further detailed in Del. Reg. 2021/2178. (<https://eur-lex.europa.eu/legal-content/IT/TXT/?uri=CELEX:32021R2178>).

⁶ "FAQ: What is the EU Taxonomy and how will it work in practice?," European Commission website, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-faq_en.pdf.

⁷ Share of EU domiciled companies with more than 500 employees active in economic sectors covered by the EU Taxonomy Climate Delegated Act (Source: Bloomberg).

⁸ Source: Eurostat.

Disclosure requirements for fiscal year 2021

The EU Commission, through its Delegated Act for financial year 2021, has adopted a phased-in approach to allow nonfinancial undertakings to prepare for the fiscal year 2022 reporting cycle. This requires them to report only a portion of qualitative and quantitative information, and only the portion of economic activities that are eligible as opposed to alignment.

Financial undertakings were granted a two-year phase-in reporting period, with alignment KPIs becoming mandatory in fiscal year 2023 – because financial undertakings will have to rely on actual data disclosed by their nonfinancial counterparties to develop indicators mandated by the Delegated Act. For fiscal years 2021 and 2022, financial undertakings shall disclose only the proportion of exposures to Taxonomy-eligible and Taxonomy-ineligible activities in their total assets, and the proportion of exposures to:

- ▶ Central governments, central banks and supranational issuers
- ▶ Derivative instruments
- ▶ Undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU

In addition, credit institutions are required to disclose the proportion of their trading portfolio and on-demand interbank loans in their total assets. The insurers are to disclose the proportion of Taxonomy-eligible and Taxonomy-ineligible nonlife insurance and reinsurance economic activities.

Eligibility means that the economic activity is described in the Climate Delegated Act, irrespective of whether it meets the criteria set by the EU Taxonomy, i.e., technical screening criteria, do no significant harm (DNSH) and minimum safeguards criteria. In practice, any economic activity that has the potential to significantly contribute to one of the environmental objectives of the EU Taxonomy can be termed as eligible.

In spite of the simplified implementation approach, the application of the Taxonomy Regulation has been challenging for the undertakings in scope for three main reasons. First, the timeframe was very short between the publication of the delegated acts (June and July 2021) and the implementation date (by the end of fiscal year 2021). Second, the regulation was focused on alignment criteria instead of eligibility definition. This required the EU Commission to give additional guidance and explanation to help undertakings correctly interpret the requirements and criteria of the legislation. Third, the regulation, that has been written by experts, seems to be in some respects very difficult to apply, mainly for the elements that refer to the accounting principles.

The EU Taxonomy will be further developed gradually over time. New delegated acts or revisions of existing ones will likely include other economic activities from different sectors and subsectors of the economy, as these become relevant and feasible to be integrated into the EU Taxonomy.

Key findings

Nonfinancial undertakings

Average eligibility KPIs are below 40% and vary significantly among sectors.

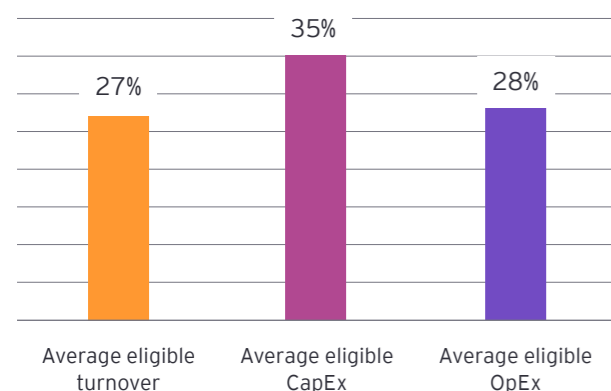


As the EU works to transform into a modern, resource-efficient and competitive economy with zero net greenhouse gas emissions by 2050, the Taxonomy Regulation will become more and more critical to business KPIs.

However, results from the first EY EU Taxonomy Barometer found there are plenty of opportunities to improve and clarify both information gathering and the process itself.

The report reveals that 93% of companies in scope of this research⁹ have disclosed some eligibility for turnover, CapEx or OpEx. Average figures vary based on the KPI analyzed: on average, companies in scope of this report disclosed a 27% eligible turnover, 35% eligible CapEx and 28% eligible OpEx.

Figure 1: Average KPI – EU panel



Turnover

Eligible turnover varies from 58% down to 3% depending on industry (27% in average).

Although the level of eligibility varies across the industries analyzed (see Figure 2), research shows that turnover is the least eligible of the three KPIs, with only 27% of companies' turnover eligible on average. This indicates that the majority of companies' activities on the main stock markets in Europe are reported as ineligible and, therefore, do not have the potential to contribute substantially to climate change mitigation or adaptation goals.

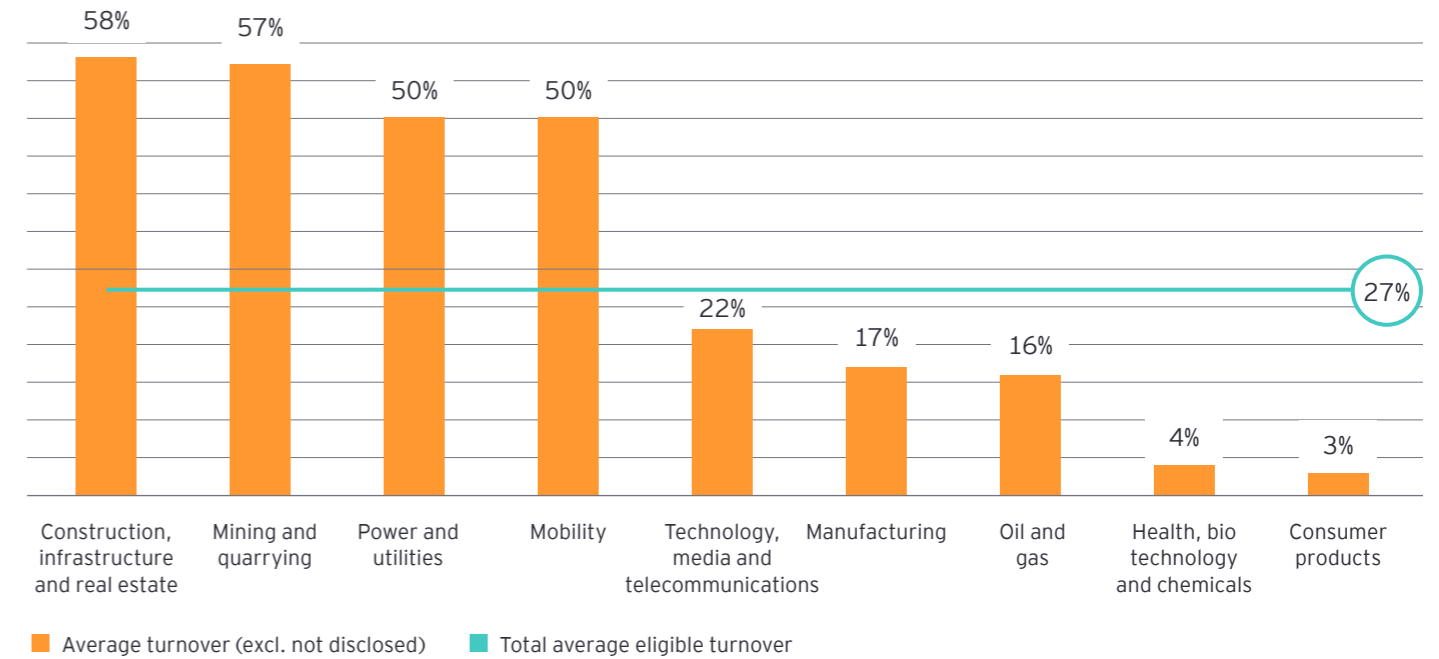
The companies with the highest eligibility are found in the sectors of construction, infrastructure and real estate, mining and quarrying, power and utilities, and mobility.

More than one-third of the companies reported that they have 0% turnover eligibility, which is particularly frequent in the health, biotechnology and chemicals sector and in the consumer products sector (79% and 69% respectively of the total number of companies disclosing no eligible turnover).

⁹ Listed companies of main indexes of 11 EU countries representing approximately 86% of EU GDP (see pages 6 and 7 for more details).

Key findings Nonfinancial undertakings

Figure 2: Average eligible turnover by sector



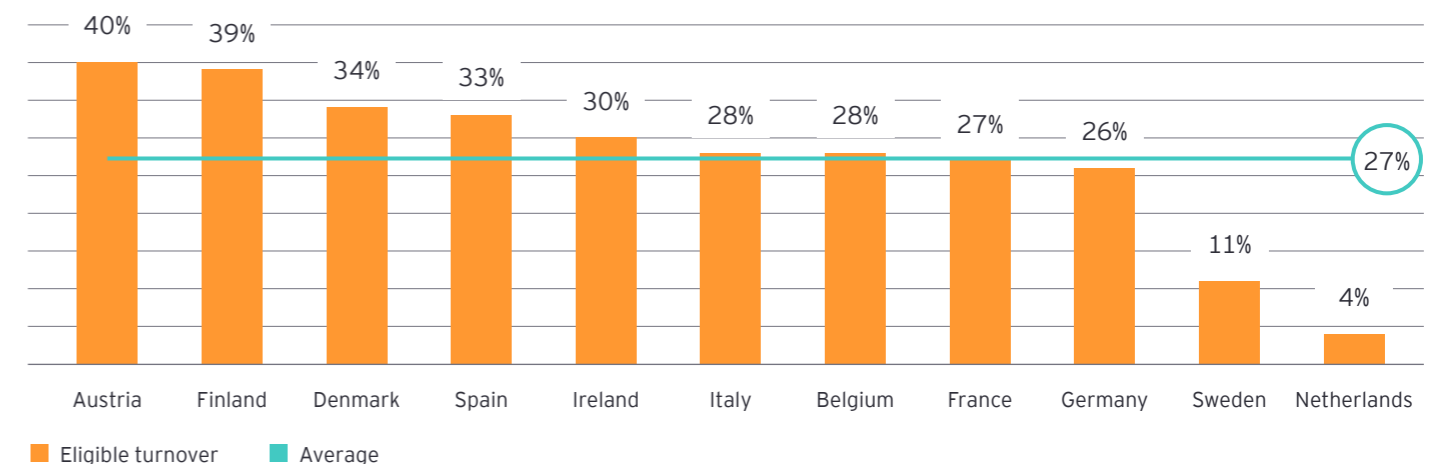
As shown below, the average eligibility varies greatly from country to country. This is due to the sectors in which the companies listed in the respective stock exchange markets operate.

The sectors of companies listed in Austria (ATX), that are responsible for the high eligibility, are mainly construction, infrastructure and real estate, mobility, and power and utilities.

For Finland (OMX Helsinki 25), the main sectors driving the high eligibility are mining and quarrying, construction, infrastructure and real estate, mobility, and power and utilities.

In Sweden (OMX Stockholm) and the Netherlands (AEX), the main sectors responsible for the low eligibility are manufacturing, technology, media and communication, and consumer products.

Figure 3: Turnover eligibility by country



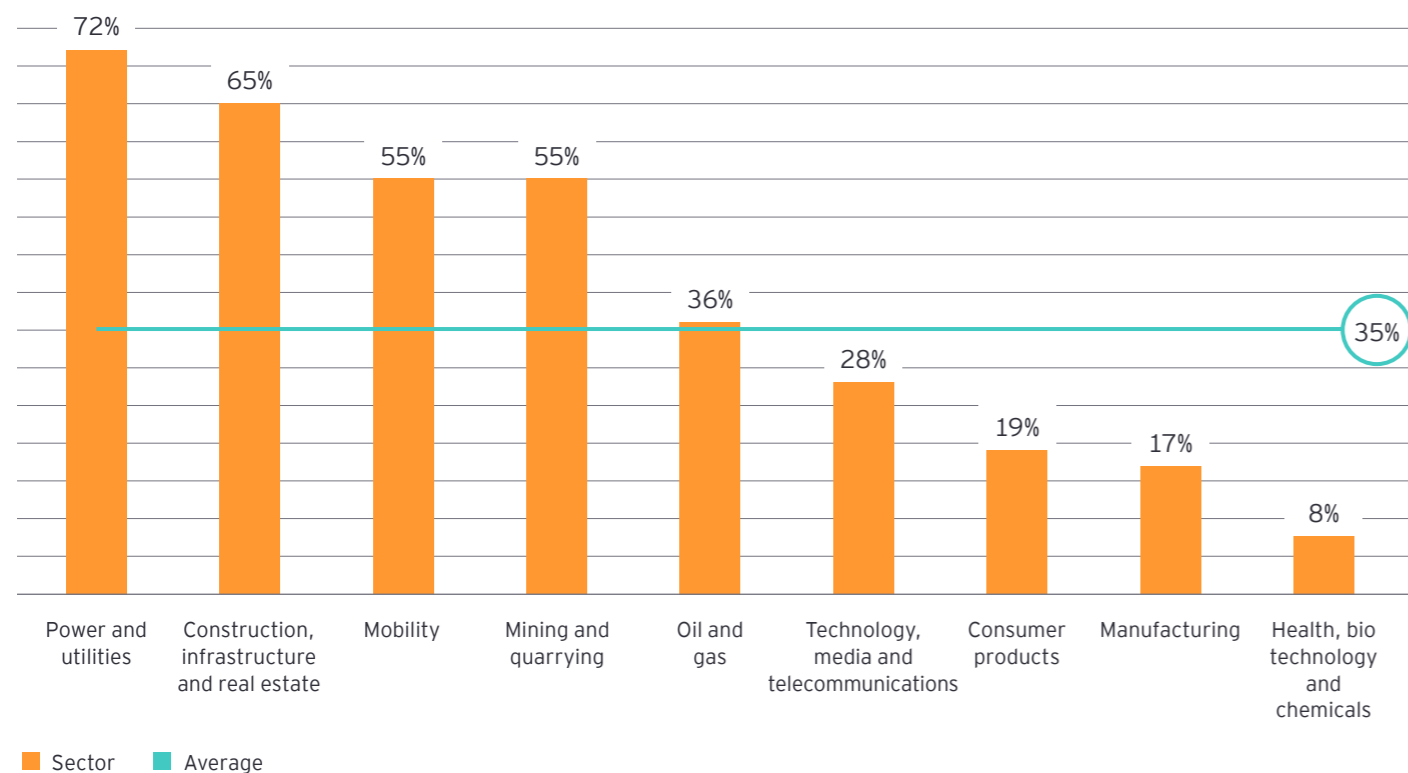
CapEx

Capex varies from 72% to 8% depending on industry (average 35%).

CapEx eligibility averages 35%, which is higher than the average turnover eligibility and the highest of all three KPIs. This is likely due to the fact that, in addition to the capital expenditure associated to eligible turnover, companies may also report the investments related to the purchase of Taxonomy-eligible output as eligible. This may be the case, for example, for measures leading to a greenhouse gas reduction, such as activities 7.2 – Renovation of existing buildings and 7.3 – Installation, maintenance and repair of energy efficiency equipment. Still, 19% of companies reported 0% CapEx eligibility, primarily from the health, biotechnology and chemicals sector (34% of the total number of companies reporting no eligible CapEx), consumer products sector (26%), and manufacturing sector (16%).

The companies with the highest eligibility, in terms of CapEx, are found in the same sectors as for the turnover KPI. The difference is that the CapEx KPIs for the construction, infrastructure and real estate, and power and utilities sectors are significantly higher than their turnover KPIs, which is in line with the expectations for the energy transition in these sectors. We observe the same development for the oil and gas sector. The level of CapEx in the consumer products sector is also interesting. Despite the low turnover eligibility, some companies in this sector have relative substantial eligibility in terms of CapEx.

Figure 4: CapEx eligibility by sector



Similar to turnover eligibility, the CapEx eligibility by country relates to the sectors.

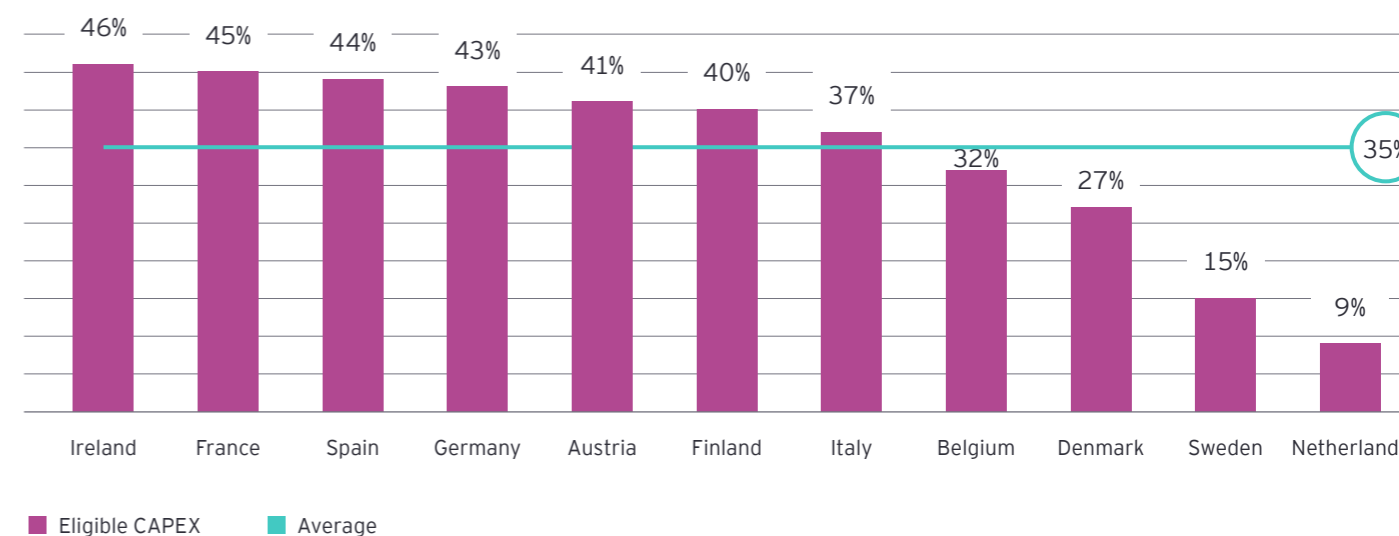
The sectors of companies listed in Ireland (ISEQ) that are driving the high eligibility are mainly construction, infrastructure and real estate, and mobility.

For France (CAC 40), they are mobility, construction, infrastructure and real estate, technology media and communication, and mining and quarrying.

In Sweden (OMX Stockholm) and Netherlands (AEX), the main sectors driving the low eligibility are the same as for turnover eligibility.



Figure 5: CapEx eligibility by country



OpEx

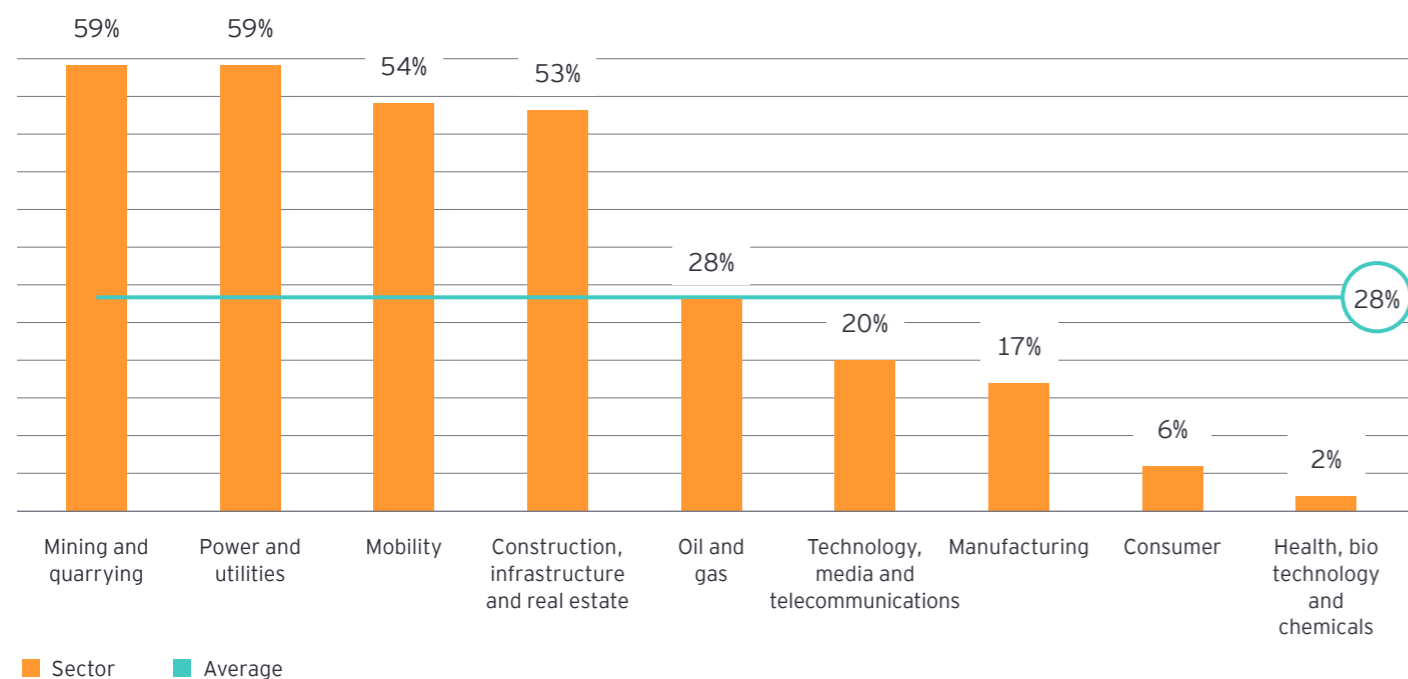
OpEx varies from 59% to 2% depending on industry (average 28%).

For OpEX, the average eligibility is more closely aligned with turnover than with CapEx, averaging at 28%. This could indicate that OpEx is more relevant to expenditures related to eligible turnover than CapEx. It could also suggest that OpEx, as per the regulation definition, is not relevant to their business model, as 14% of companies¹⁰ used the materiality exemption (see the Annex I of the Commission Delegated Act 2021/2178, par. 1.1.3.2).

The companies with the highest eligibility related to OpEx are found in the same sectors as for the revenue KPI and CapEx.



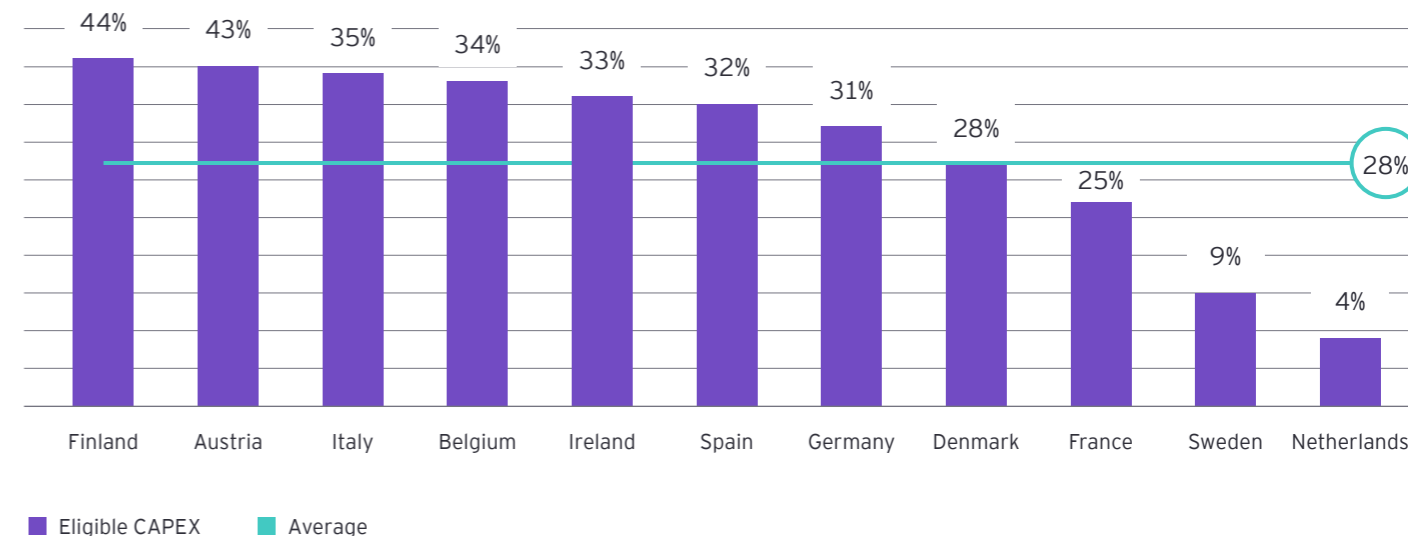
Figure 6: OpEx eligibility by sector



Country-level data shows also a stronger correlation between OpEx and turnover. The two countries with highest percentages are the same as for turnover, which is consistent with the sector analysis.

¹⁰ These companies have been accounted as zero for the averages.

Figure 7: OpEx eligibility by country



Construction and real estate activities are the activities reported the most by companies. Even if it was not a requirement for 2021, 80% of the companies disclosed the list of activities they were eligible to, and the activities related to construction and real estate were the ones reported the most by companies.

That does not mean that most companies are operating in the real estate market, but that they have buildings as part of their operations which can be eligible for CapEx and OpEx. As depicted by the graph below, the majority of the disclosed activities refer to interventions on companies' assets and premises, such as renovation or construction works, and acquisition of buildings, as well as investments aimed at limiting asset's energy consumption, such as energy efficiency measures and installation of solar panels.

Table 1: Top 10 activities disclosed (number of companies)

7.2	Renovation of existing buildings	41
7.3	Installation, maintenance and repair of energy efficiency equipment	40
4.1	Electricity generation using solar photovoltaic technology	34
7.6	Installation, maintenance and repair of renewable energy technologies	33
7.1	Construction of new buildings	30
3.6	Manufacture of other low carbon technologies	30
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	30
7.7	Acquisition and ownership of buildings	29
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	29
7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	29

The 17 economic activities below, out of the total of 102 included in the Delegated Act, were not disclosed as used by any of the companies in our sample:

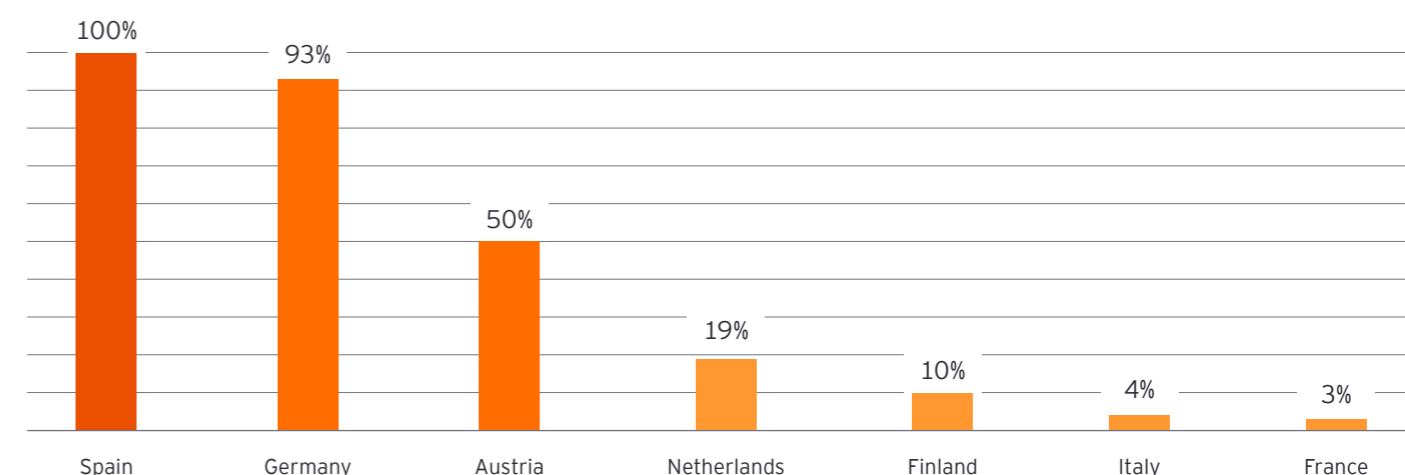
1.2	Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event	4.18	Cogeneration of heat or cool and power from geothermal energy
2.1	Restoration of wetlands	4.22	Production of heat or cool from geothermal energy
3.8	Manufacture of aluminum	6.7	Inland passenger water transport
3.11	Manufacture of carbon black	6.8	Inland freight water transport
3.12	Manufacture of soda ash	6.11	Sea and coastal passenger water transport
3.13	Manufacture of chlorine	10.2	Reinsurance
3.16	Manufacture of nitric acid	11.1	Education
4.17	Cogeneration of heat or cool and power from solar energy	12.1	Residential care activities
		13.1	Creative, arts and entertainment activities

Assurance practices

Thirty percent (or 62 companies) obtained voluntary assurance on their EU Taxonomy disclosures (excluding companies listed in Spain – the only country where assurance on EU Taxonomy disclosures is mandatory). It was also observed that obtaining external assurance on the EU Taxonomy disclosures was a common practice in Germany, where the supervisory board is required by law to audit the nonfinancial report.



Figure 8: Percentage of companies that obtained assurance by country



Other insights on disclosures

While carrying out the study, the following additional developments were observed:

- ▶ Almost 7% (15 undertakings) of the companies explained that they are not in scope of the Climate Delegated Act and did not disclose their percentages for any of the three KPIs.
- ▶ Nearly 6% (or 12 companies – mainly in the power and utility sector) went beyond the eligibility and also reported the share of activities aligned to the Taxonomy.
- ▶ Length of the disclosures vary as much as from 74 to 2,857 words.
- ▶ Approximately 9% (or 19 companies) decided to create their individually defined KPIs, which ranged from earnings before interest, taxes, depreciation and amortization (EBITDA); capital employed; operating profit; and others.

Financial undertakings

Credit institutions

The contribution of banks to the EU's environmental objectives is expressed by one key metric: eligible assets, which reflect the banks' potential contribution of the credit and investment portfolio to the environmental objectives, ranging from 0% to 55% with an average of 30%.

Banks' exposure to eligible assets mainly includes retail mortgages, and consumer loans for vehicles and building renovation. In the first year of reporting, banks were not required to assess whether the activities they financed were compliant with the technical screening criteria defined in the EU Taxonomy. Therefore, all loans financing economic activities listed in the Taxonomy were considered eligible.

Given the absence of actual counterparty data on eligibility, general purpose loans and investments could not be included in the mandatory disclosures. A significant number of banks relied on internal proxies for developing voluntary disclosures on eligibility of counterparties to complement mandatory KPIs.



Insurance undertakings

The contribution of insurers to the EU environmental objectives is expressed by two different metrics:

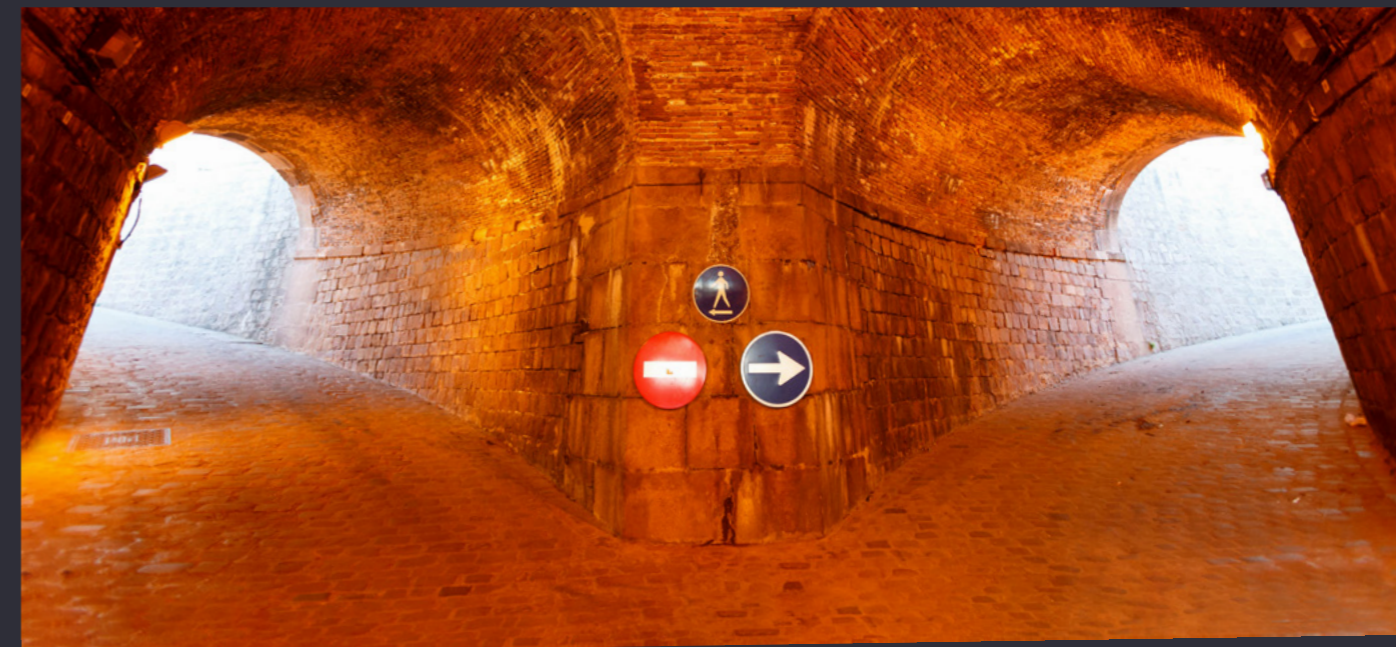
- ▶ "Eligible premiums" reflect the insurers' potential contribution of the underwriting portfolio to climate change adaptation, ranging from 13% to 93% with an average of 57%.
- ▶ "Eligible assets" indicate the insurers' potential contribution of the investment portfolio to the environmental objectives, ranging from 0% to 25% with an average of 8%.

When comparing the methodology used by insurers to calculate the investment KPI, disclosures show that companies did not apply a consistent approach. Regarding the denominator, most insurers (71%) referred to their investments excluding exposures to central governments, central banks and supranational issuers, while the remaining insurers defined the denominator differently.

Comparing both KPIs, insurers potentially contribute much more to environmental objectives through their underwriting activities (in relative terms). However, in absolute terms, the potential contribution through the investment portfolio is much larger due to the size of the investment portfolio. In terms of future alignment KPIs that measure the actual contribution to the environmental objectives, it is reasonable to assume that the underwriting KPI will be much lower, while the investment KPI will be higher due to increasing data availability, as alignment information will become available from investee companies.

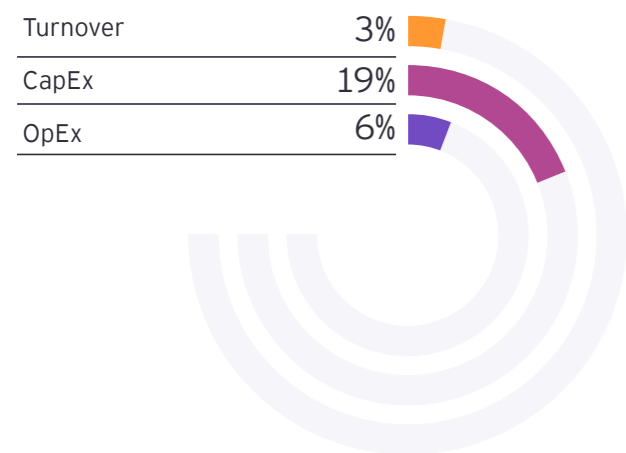
When comparing banks and insurers, it is worth mentioning that banks' eligible assets are relatively higher than insurers' eligible assets (30% versus 8% on average). This might indicate that banks are "greener" than insurers. However, this is driven by data availability due to the business model and the extent to which companies have access to information about their counterparties.

Sector findings



- ▶ Consumer products
- ▶ Construction, infrastructure and real estate
- ▶ Health, biotechnology and chemicals
- ▶ Manufacturing
- ▶ Mining and quarrying
- ▶ Mobility – vehicle manufacturing and transport
- ▶ Oil and gas
- ▶ Power and utilities
- ▶ Technology, media and telecommunications
- ▶ Credit institutions
- ▶ Insurance undertakings

Consumer products



Turnover

The overall share of eligibility for turnover equals 3%, as the list of business activities that are considered to substantially contribute to climate change mitigation and adaptation within the Taxonomy do not encompass the manufacturing and sales of most consumer goods so far. Moreover, there are several differences between the main subsectors:

- ▶ Food and beverage companies record an average of 2.4% eligibility, with a median of 0% considering that all the companies analyzed reported 0%, except for a company specialized in delivery services.
- ▶ Textile and apparel sector has an average of 0% eligibility.
- ▶ Retail has an eligibility rate equal to 1% as few companies, in addition to retailing activities, manufacture certain product categories that are associated with the activities listed in the Climate Delegated Act.
- ▶ Other consumer goods have an average of 8.15% eligibility, ranging from 0% to a maximum of 45%; the difference is connected to the type of products whereas only some categories are listed in the Climate Delegated Act (i.e., 3.5 – Manufacture of energy efficiency equipment for buildings).

CapEx

The average increases to 19% for CapEx, witnessing that companies in the industry lean toward sustainable solutions when they make investment decisions. Moreover, within the consumer sector, higher values are recorded for the textile and apparel (38%) subsector, and the retail (28%) subsector; most of the eligible activities mentioned are connected to investments linked to the owned and managed stores and properties, primarily in energy efficiency measures. Nevertheless, these investments are not immediately reflected into operative expenses incurred for managing these CapEx, as their figures differ considerably.

OpEx

The overall share of eligibility for the OpEx KPI is 6%; while 64% of companies reported 0% eligibility and 38% referred to the absence of materiality of OpEx to explain the reason why the numerator is zero.

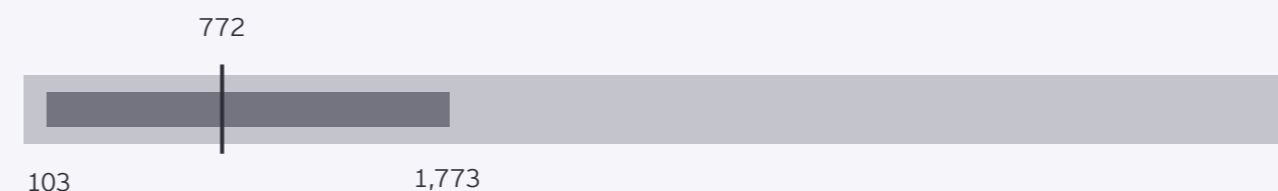
The following are the top 7 economic activities that the companies in the consumer sector were eligible for:

Table 2: Consumer products – top activities disclosed (number of companies)

7.3	Installation, maintenance and repair of energy efficiency equipment	7
7.7	Acquisition and ownership of buildings	7
7.1	Construction of new buildings	7
7.2	Renovation of existing buildings	7
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	5
3.6	Manufacture of other low carbon technologies	4
3.5	Manufacture of energy efficiency equipment for buildings	4

Length

With an average of 772 words, ranging from 103 to 1,773, the disclosure of companies operating in this sector ranks as the ninth lengthiest.

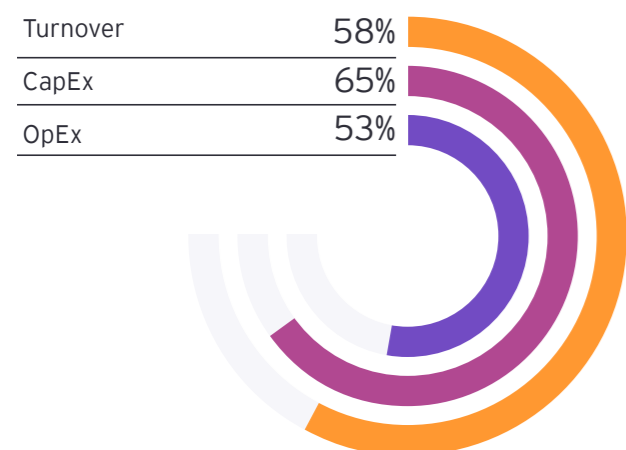


Perspectives on future eligible activities

It is worth noting that companies operating in the textile and apparel sector, which featured high values for CapEx and OpEx in 2021, will likely experience remarkable growth in their indicators, including turnover, as the Platform on Sustainable Finance (PSF) introduced specific activities about the transition to circular economy objective (e.g., 2.7 – Wearing apparel, except articles of fur and leather,

and 2.8 – Footwear and leather goods). Likewise, companies from the food and beverage sectors are also specifically addressed by the additional activities foreseen by the PSF. “Activity 2.5 – Manufacture of food products and beverages” will define how companies in this industry can give a substantial contribution to biodiversity and the transition to a circular economy.

Construction, infrastructure and real estate



Turnover

Companies in the construction, infrastructure and real estate sectors have reported an average 58% turnover eligibility to the EU Taxonomy, with significant disparities between the different actors of the value chain:

- ▶ Real estate companies that own, lease and manage buildings are more than 95% eligible.
- ▶ Transport infrastructure operators also have very high eligibility rates.
- ▶ Construction companies have a wide array of eligibility rates from 35% to 85%, depending on the type of assets they build. Buildings and railways are eligible, while roads and non-renewable energy infrastructures are not.
- ▶ Construction materials companies have an average of 50% eligible turnover with higher rates for the “pure players” of an eligible product (e.g., insulation) and lower rates for diversified players.

CapEx

For the CapEx KPI, the construction, infrastructure and real estate sector reported close to 65% Taxonomy eligibility on average, due to the high turnover eligibility and the individual eligibility of buildings which are the main assets.

OpEx

For the OpEx KPI, an average of 53% Taxonomy eligibility was reported with the same differences in reporting by subsector, as observed for the turnover KPI.

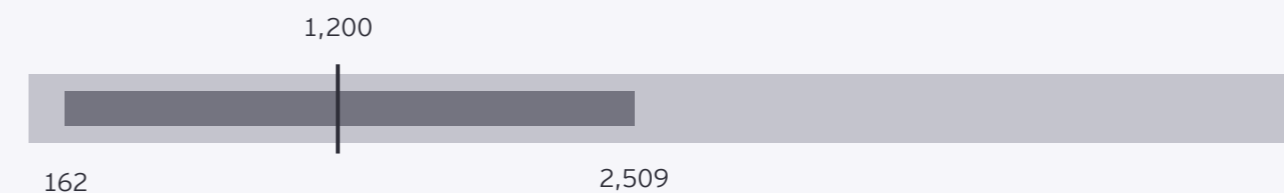
The following are the top 8 activities that the companies in this sector were eligible for:

Table 3: Construction, infrastructure and real estate – top activities disclosed (number of companies)

7.1	Construction of new buildings	12
7.2	Renovation of existing buildings	9
7.7	Acquisition and ownership of buildings	9
7.3	Installation, maintenance and repair of energy efficiency equipment	7
7.6	Installation, maintenance and repair of renewable energy technologies	6
4.1	Electricity generation using solar photovoltaic technology	5
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	5
6.14	Infrastructure for rail transport	5

Length

With an average of than 1,200 words, ranging from 162 to 2,509, the disclosure of companies operating in this sector ranks as the sixth lengthiest.



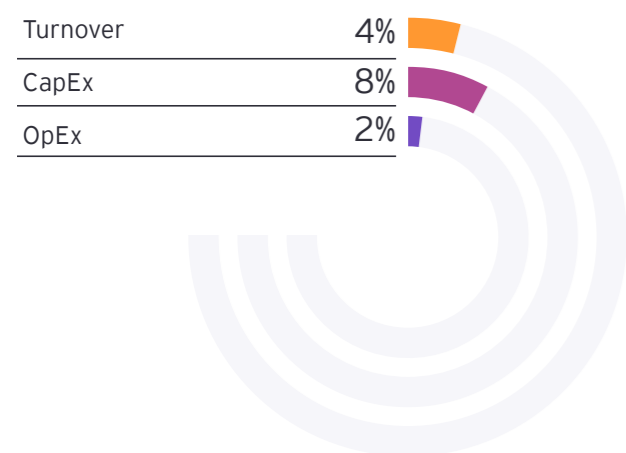
Perspectives on future eligible activities

The construction, infrastructure and real estate sector is expected to be little impacted by the four other environmental objectives. The main activities recommended are as follows:

- ▶ **4.2 – Maintenance of roads and motorways:** This activity could become eligible for the transition to a circular economy, with substantial contribution criteria very similar to those developed in the already existing activity
- 5.9 – Material recovery from nonhazardous waste** (climate change mitigation objective).

- ▶ **5.1 – Construction of new buildings:** In addition to climate change mitigation and adaptation, this activity could become eligible for the transition to a circular economy, with substantial contribution criteria based on the use of reused components, recycled content or responsibly sourced renewable materials.
- ▶ **5.2 – Renovation of existing buildings:** In addition to climate change mitigation and adaptation, this activity could become eligible for the transition to a circular economy, with substantial contribution criteria based on a minimum percentage of the original building to be retained and the use of reused components, recycled content or responsibly sourced renewable materials.

Health, biotechnology and chemicals



Turnover

Companies in the health, biotechnology and chemicals sector have reported only an average of 4% turnover eligibility to the EU Taxonomy. More than 75% of the companies reported 0% turnover eligibility. This is because, currently, only a few activities relate to the core activities for the companies in this sector, e.g., the manufacture of organic basic chemicals.

CapEx

For the CapEx KPI, the health, biotechnology and chemicals sector reported an average of 8% Taxonomy eligibility. Most of the companies with revenue-generating activities also reported a CapEx KPI.

Approximately 50% of the companies that did not report revenue-generating activities reported a CapEx KPI. The remaining companies did not identify any cross-cutting or infrastructure related activities.

OpEx

For the OpEx KPI, an average of only 2% EU Taxonomy eligibility was reported. Similar to the turnover KPI, almost 30% of the companies reported an OpEx KPI. As a result of the low eligibility of the core activities within the sector, the OpEx KPI, similar to the turnover KPI, was one of the lowest compared with the other sectors.

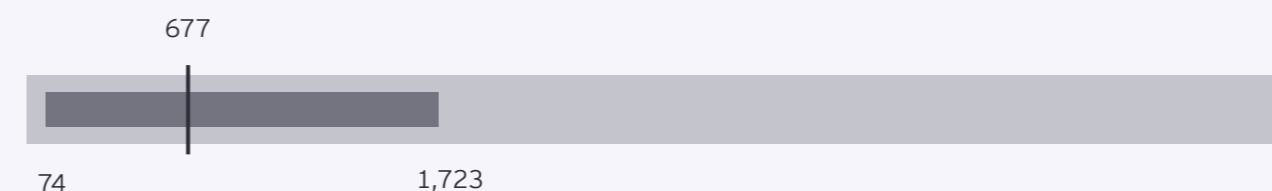
The following are the top 7 economic activities that the companies in this sector were eligible for:

Table 4: Health, biotechnology and chemicals – top activities disclosed (number of companies)

7.2	Renovation of existing buildings	5
7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	4
4.1	Electricity generation using solar photovoltaic technology	4
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	4
7.7	Acquisition and ownership of buildings	4
7.3	Installation, maintenance and repair of energy efficiency equipment	4
7.6	Installation, maintenance and repair of renewable energy technologies	4

Length

With an average of 677 words, ranging from 74 to 1,723, the disclosure of companies operating in these sectors ranks as the shortest one.

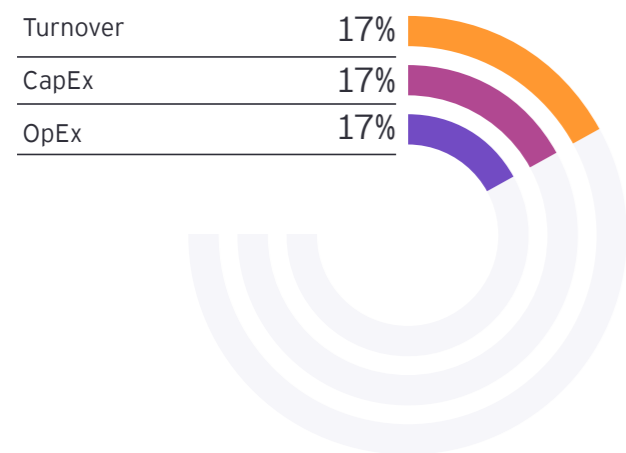


Perspectives on future eligible activities

Many of the main activities relevant for the sector are not yet covered by the Climate Delegated Act. For the other four objectives, only the manufacture of chemical products is currently considered. Activities for the manufacture of pharmaceutical products are not included in the final draft published by the PSF.

The PSF communicated that a second batch of activities expected in the course of the year will amend the final report. It is expected that the activities for pharmaceutical products will be part of this batch. Therefore, it is expected that the eligible and potentially aligned shares of the respective companies will rise as the activities are formally adopted by the EU Commission.

Manufacturing



These are the manufacturing companies that don't fit in the other categories, e.g., manufacturer of metals is reported under mining and quarrying .

Turnover

Companies have reported an average of 17% for turnover. As there is a wide range of different manufacturing, the eligibility ranges from 0% to 100% (e.g., for a company that manufactures wind turbines).

One-third of companies have reported 0% eligibility, which shows that still many manufacturing sectors are not included in the regulation yet.

CapEx

For the CapEx KPI, the manufacturing sector reported 17% Taxonomy eligibility on average. This number is the same as for turnover on average even if the results are different for each company. Some companies have a higher eligibility result on turnover than Capex because they invested in or acquired non-eligible businesses in FY21. Other companies have a higher eligibility result on Capex than turnover because their activities are little or not eligible, but they still make individually eligible investment businesses, such as buildings and vehicles.

OpEx

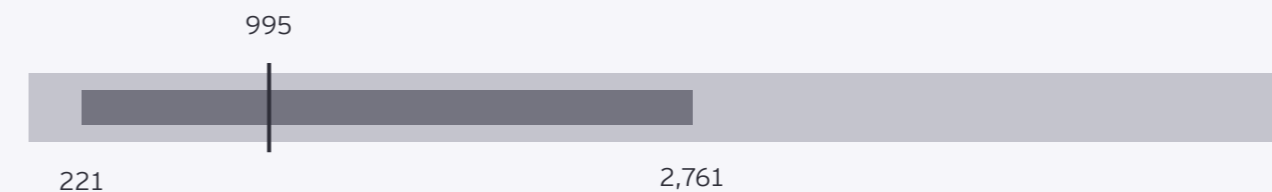
For the OpEx KPI, the average Taxonomy eligibility is 17%. The following are the top 9 activities that the companies in this sector were eligible for:

Table 5: Manufacturing – top activities disclosed (number of companies)

3.6	Manufacture of other low carbon technologies	8
3.1	Manufacture of renewable energy technologies	6
7.2	Renovation of existing buildings	5
3.5	Manufacture of energy efficiency equipment for buildings	5
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	4
7.3	Installation, maintenance and repair of energy efficiency equipment	3
4.9	Transmission and distribution of electricity	3
7.1	Construction of new buildings	3
3.3	Manufacture of low carbon technologies for transport	3

Length

With an average of 995 words, ranging from 221 to 2,761, the disclosure of companies operating in the sector industry ranks as the eighth lengthiest.

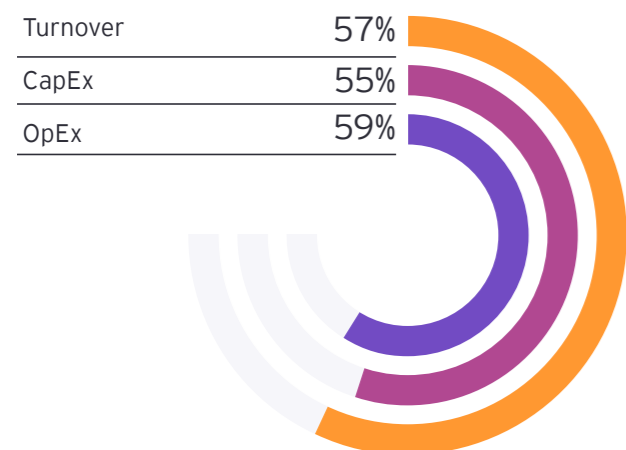


Perspectives on future eligible activities

For the next four environmental objectives, the following subsectors are expected to be included, and they will thus likely contribute to increase the average figures that companies from manufacturing sector will disclose on eligibility:

- ▶ Chemicals
- ▶ Plastic packing goods
- ▶ Electrical and electronic equipment
- ▶ Furniture
- ▶ Food products and beverages
- ▶ Finishing of textile, wearing apparel, footwear and leather goods
- ▶ Tanning of leather
- ▶ Spare parts
- ▶ End of life products and product components
- ▶ Sale of secondhand goods, and product-as-a-service and other circular use

Mining and quarrying



Turnover

The mining and quarrying sector is currently not specifically addressed in the Climate Delegated Act. However, the manufacturing of certain metals is included. Companies in the sector of mining and quarrying have reported an average of 57% of eligibility, ranging from 0% (one company with mining activities only) to as much as 94% in the steel industry.

CapEx

The average eligibility for CapEx is 55%, within the same range as turnover. This differs from most of the other sectors, where CapEx eligibility is higher than turnover, which is logical as companies with high turnover eligibility do not need to invest as much in their transition to more sustainable operations as the ones with lower turnover.

OpEx

On the other hand, OpEx eligibility was on average of 59%, which can indicate that the assets engaged in this industry are OpEx intensive.

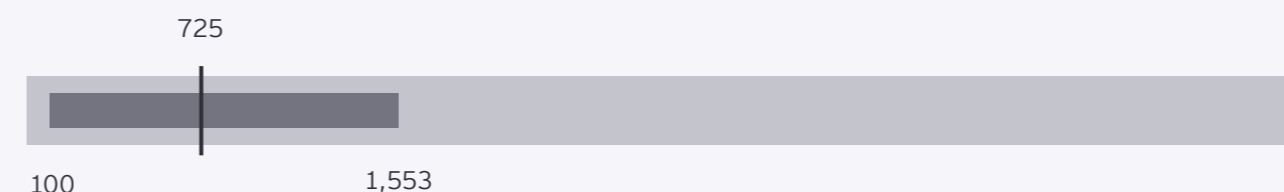
The following are the top 6 economic activities that the mining and quarrying companies were eligible for:

Table 6: Mining and quarrying – top activities disclosed (number of companies)

3.9	Manufacture of iron and steel	3
3.5	Manufacture of energy efficiency equipment for buildings	2
3.2	Manufacture of equipment for the production and use of hydrogen	1
3.4	Manufacture of batteries	1
3.6	Manufacture of other low carbon technologies	1
3.7	Manufacture of cement	1

Length

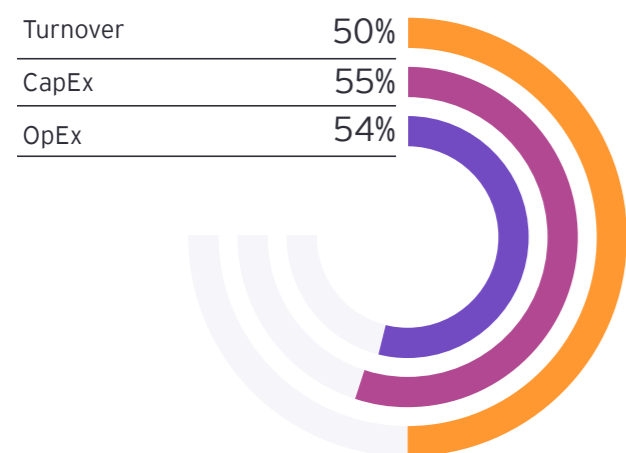
With an average of 725 words, ranging from 100 to 1,553, the disclosure of companies operating in this sector ranks as the tenth lengthiest.



Perspectives on future eligible activities

Land-based mining and quarrying of minerals have proven to be challenging where evidence is lacking or the approach for substantial contribution is not yet clear. Therefore, the PSF has postponed the criteria for future work; further criteria for development work will need to be undertaken on these activities in order to provide complete technical screening criteria (TSC).

Mobility – vehicle manufacturing and transport



Turnover

Companies in the mobility sector reported an average of 50% turnover eligibility to the EU Taxonomy, with significant disparities between the different actors of the value chain:

- ▶ Road, rail and maritime transport companies, including most postal services, that own or lease their vehicles are close to 100% eligibility.
- ▶ Air transport was not eligible in the applicable climate change delegated acts for 2021.
- ▶ Almost all vehicle manufacturers reported above 80% eligibility whereas the vehicle component manufacturers reported eligibility between 0% and 57% with a high variability for tires manufacturers (between 3% and 57%).

A clear description of the term “low carbon technologies for transport” is reported in FAQ no. 9 under activity 3.3 of Annex I to the Climate Delegated Act of the EU Commission. It clarifies that the definition of low carbon is not relevant for the eligibility assessment. As a result, all vehicle manufacturing activities, including the fossil fuel engine vehicles, could be reported as eligible.

Companies that are active in several areas across the value chain of a product or technology can disclose the revenue only under the specific revenue-generating activity of the final product, e.g., internal revenue with the manufacture of batteries (100% own used) should not be disclosed separately.

CapEx

For the CapEx KPI, the sector reported an average of 55% Taxonomy eligibility. This is due to the high turnover eligibility of the core business, transport vehicles (including light- and heavy-duty vehicles, trains, and ships) and the individual eligibility of assets (logistic buildings and warehouses).

OpEx

For the OpEx KPI, an average of 54% Taxonomy eligibility was reported with the same differences in reporting by subsector, as observed for the turnover KPI.

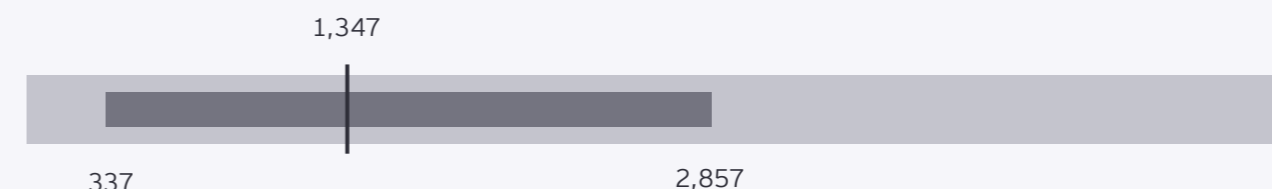
The below chart details the top 5 economic activities the companies in this sector were eligible for.

Table 7: Mobility – top activities disclosed (number of companies)

6.5	Transport by motorbikes, passenger cars and light commercial vehicles	8
3.3	Manufacture of low carbon technologies for transport	6
7.3	Installation, maintenance and repair of energy efficiency equipment	5
3.6	Manufacture of other low carbon technologies	5
6.6	Freight transport services by road	4

Length

With an average of 1,347 words, ranging from 337 to 2,857, the disclosure of companies operating in this sector ranks as the fourth lengthiest.



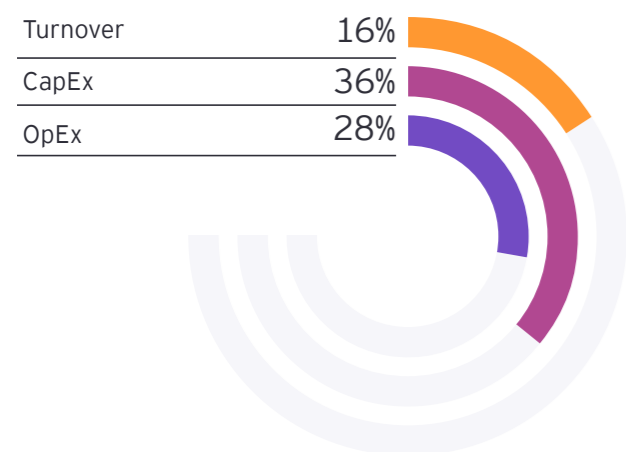
Perspectives on future eligible activities

Air transport is concerned by the potential extension of the list of eligible activities for climate change mitigation¹⁰, such as manufacturing of aircraft, leasing of aircraft, passenger and freight air transport, and air transportation ground handling operations.

There is no new transport activity expected to be eligible for the four other environmental objectives.¹⁰

The further development of EU Taxonomy regulations regarding the reporting for the vehicle manufacturing sector and especially for the vehicle component manufacturer is of high interest for all players in the sector. This is accompanied by discussions to include all economic activities of companies that enable the "production of low-emission and free motor vehicles" within the EU Taxonomy, as they are crucial for the transformation of the sector.

Oil and gas



Turnover

Companies in the oil and gas sector have reported an average of 16% turnover eligibility to the EU Taxonomy. This relatively low eligibility rate is because the only eligible activities for oil and gas companies are the production of renewable energy and the manufacturing of organic basic chemicals and plastics in primary form.

CapEx

For the CapEx KPI, the oil and gas sector reported an average of 36% Taxonomy eligibility. Eligible CapEx is significantly higher than eligible turnover, reflecting the investments made by the sector toward the energy transition. One oil and gas major published the CapEx KPI on both the “controlled scope” (13% eligible) and the “proportional scope” (27% eligible). This shows that energy companies make co-investments with noncontrolling interests in renewable energies to diversify their financial risks. Such investments made through equity affiliates do not contribute to the consolidated CapEx as defined by the Taxonomy.

OpEx

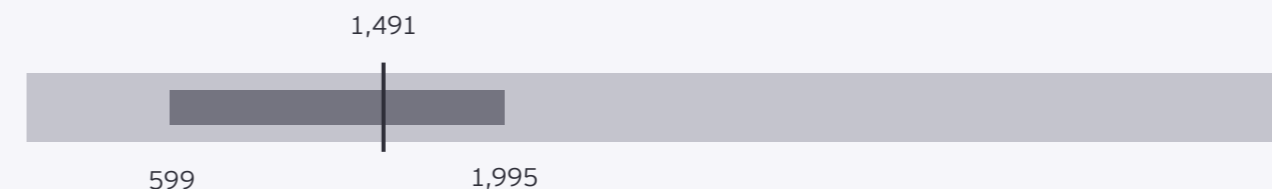
For the OpEx KPI, an average of only 28% Taxonomy eligibility was reported. The below chart represents the top 8 economic activities the companies in this sector were eligible for.

Table 8: Oil and gas – top activities disclosed (number of companies)

6.15	Infrastructure enabling road transport and public transport	4
4.1	Electricity generation using solar photovoltaic technology	4
4.3	Electricity generation from wind power	4
7.6	Installation, maintenance and repair of renewable energy technologies	4
3.1	Manufacture of hydrogen	3
3.17	Manufacture of plastics in primary form	3
3.14	Manufacture of organic basic chemicals	3
7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	3

Length

With an average of 1,491 words, ranging from 599 to 1,995, the disclosure of companies operating in the oil and gas sector ranks as the second lengthiest. This can partly be explained by the general scrutiny of environmental disclosures in this sector, the energy transition being a strategic challenge.

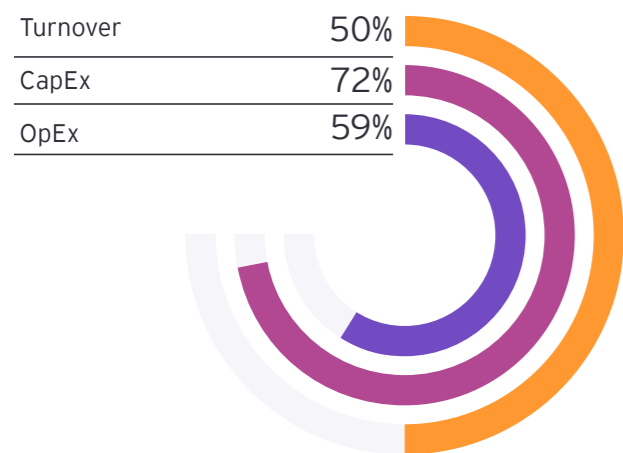


Perspectives on future eligible activities

Interestingly, the delegated act on nuclear and gas energy adopted in 2022 will not impact companies in the oil and gas sector, since only electricity generation and heat or cool production from natural gas will become eligible, but not the production and transport of natural gas itself.

For the other four objectives, only the manufacture of chemical products is considered.

Power and utilities



Turnover

Among all the analyzed sectors, power and utilities is one of the sectors with a higher eligibility on average among all three KPIs. Regarding turnover, the industry has reported an average of 50% of eligibility, ranging from 0% to 100% (in both cases reported by a single company); the high shares of eligible KPIs reflect the relevance the sector has in fighting climate change.

As evidence for this, majority of Taxonomy-eligible activities identified in the power and utilities sector substantially contribute to climate change mitigation and, in particular, to activities related to renewable energy generation (activities 4.1, 4.3 and 4.5), and electricity transmission and distribution (activity 4.9 and 4.14).

CapEx

For the CapEx KPI, the power and utilities sector has the highest eligibility, with an average percentage of 72%. Every company reported a CapEx KPI with a range of eligible activities between 12% and 100%.

OpEx

With regard to the OpEx KPI, an average of 59% of Taxonomy eligibility has been identified, which again allows power and utilities to position itself in the top half of the analyzed sample of sectors. A very wide range of eligibility is due to a company reporting 0.1% of its OpEx to be Taxonomy-eligible and two companies having their OpEx at 100% eligible.

The chart on the right represents the top 8 economic activities that the companies in this sector were eligible for.

Additional KPIs and alignment

Approximately 58% of the companies that voluntarily disclosed at least one alignment KPI fall within the power and utilities sector. What differentiates this sector from the others is the presence of several players that have already sought to identify Taxonomy-aligned activities moving forward, and not only eligible ones. In particular, the value of the reported alignment KPIs range from 15% to 100% for turnover, from 37% to 100% for CapEx, and from 10% to 100% for OpEx.

For this specific group of companies in this sector, alignment seems relatively high compared with the eligibility.

Table 9: Power and utilities – top activities disclosed (number of companies)

4.9	Transmission and distribution of electricity	10
4.1	Electricity generation using solar photovoltaic technology	10
4.3	Electricity generation from wind power	10
4.5	Electricity generation from hydropower	7
8.2	Computer programming, consultancy and related activities	7
4.14	Transmission and distribution networks for renewable and low-carbon gases	7
7.6	Installation, maintenance and repair of renewable energy technologies	7
7.3	Installation, maintenance and repair of energy efficiency equipment	6

Length

With an average of more than 1,300 words, ranging from 566 to 2,394, the disclosure size (measured in number of words) of companies operating in the power and utilities industry ranks as the fifth lengthiest.

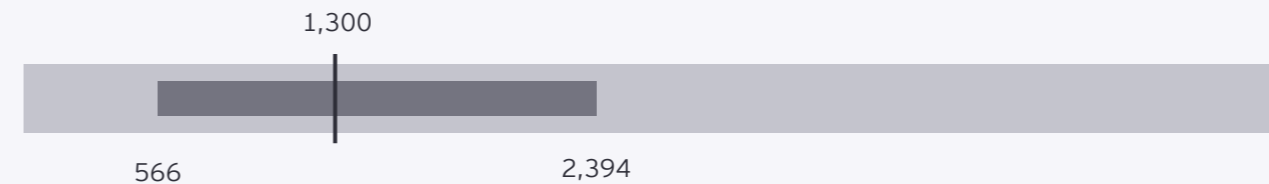
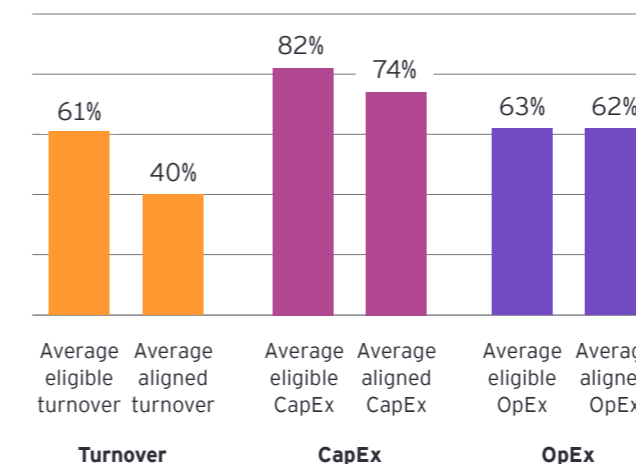


Figure 9: Average eligibility and alignment by KPI

(selection of companies in the power and utilities)



Note: The graph refers only to seven companies that have disclosed alignment KPIs in the power and utilities sector. Therefore, KPIs on eligibility differ from what was previously reported because of a more limited panel of companies analyzed.

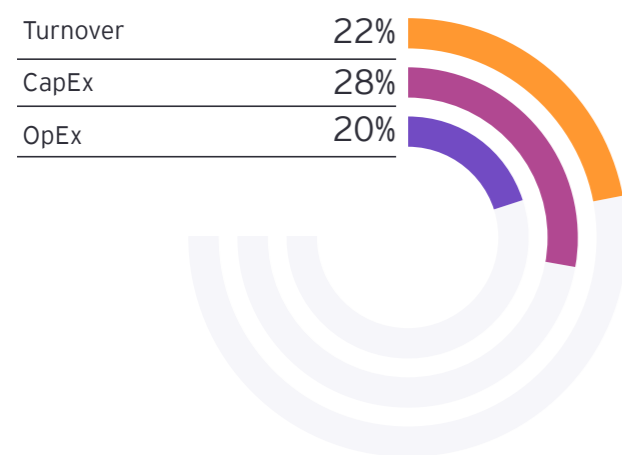
Perspectives on future eligible activities

The sector will likely be impacted by the Complementary Climate Delegated Act, i.e., the amendment to the Climate Delegate Act, including, under certain conditions, specific nuclear and gas energy activities. The Complementary Delegated Act was published in July 2022 and will apply from January 2023, adding six further activities within the energy sector for both climate objectives and thus widening the scope of activities falling within the perimeter.

In addition, for the remaining four environmental objectives,¹¹ it is expected that the power and utilities sector could be impacted, primarily for the ones regarding pollution prevention and control (considering activities about electricity generation using renewable sources, renewable non-fossil gaseous fuels and natural gas), and the protection and restoration of biodiversity and ecosystem objectives (impacting mainly hydropower plants).

¹¹ "Recommendations on TSC on the Four Remaining Environmental Objectives," PSF, 2022.

Technology, media and telecommunications



Turnover

The average share of eligibility for turnover reported by technology, media and telecommunications sector equals 22%, including values that vary from 0% (24% of the companies among the pool) to 100% (only one technology company), placing the sector among those featuring a relatively lower degree of eligibility with respect to the two climate objectives.

CapEx

Likewise, the average eligibility of CapEx is 28%. Among the pool analyzed, 10% of companies reported 0% eligibility and the KPI varies up to 100%. Similar to other sectors analyzed, technology, media and telecommunication sector tends to disclose a higher degree of eligibility in their CapEx KPI, thus showing the trend toward sustainable investments that could potentially strengthen their overall eligibility level in the future.



OpEx

On average, the sector reports 20% eligibility. Overall, 38% of the companies reported 0% eligibility. The figures are highly variable, and a significant share of the sample (58% of the companies) did not identify any suitable activity for OpEx and reported 0% eligibility.

The values of the KPIs, compared with other sectors, appear to be below average. This reflects the fact that the industry encompasses a lower number of activities that are considered to substantially contribute to climate change mitigation and adaptation within the EU Taxonomy.

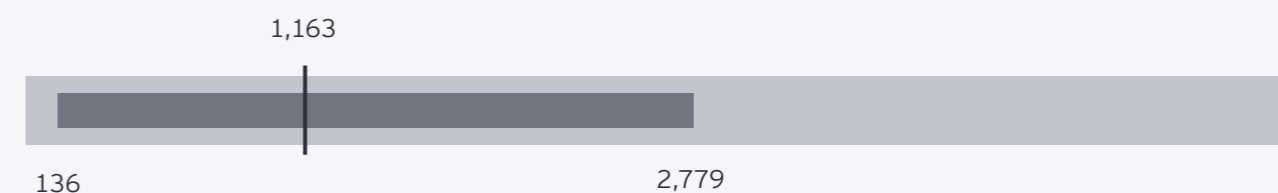
The following are the top 10 economic activities that the companies in this sector were eligible for:

Table 10: Technology, media and communications – top activities disclosed (number of companies)

8.2	Computer programming, consultancy and related activities	15
8.1	Data processing, hosting and related activities	15
7.2	Renovation of existing buildings	9
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	8
7.3	Installation, maintenance and repair of energy efficiency equipment	8
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	7
8.3	Programming and broadcasting activities	7
7.7	Acquisition and ownership of buildings	6
7.6	Installation, maintenance and repair of renewable energy technologies	6
7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	5

Length

With an average of 1,163 words, ranging from 136 to 2,779, the disclosure of companies operating in the sector ranks seventh lengthiest.



Perspectives on future eligible activities

It is expected that the technology, media and telecommunications sector will also be impacted by two other objectives of the EU Taxonomy: circular economy (mostly regarding electronic equipment and data-driven

solutions), and use and protection of water and marine resources. The publication by the EU Commission of the related Delegated Acts would lead the sectors' companies to broaden the range of eligible and, therefore, potentially aligned economic activities.

Credit institutions

Banks contribute to the EU environmental objectives through their investment and lending activities toward environmentally sustainable economic activities.

Proportion of exposures to Taxonomy-eligible activities

Companies in the banking sector have reported an average of 30% of exposures to Taxonomy-eligible and ineligible activities over covered assets. Results are driven by the portion of financing for which actual information was available because banks were not permitted to use estimates for the eligibility of counterparties. Usually, this included loans to households collateralized by residential immovable property, house renovation loans to households and loans granted to households for the acquisition of a motor vehicle (car loans).

Banks were not required to explicitly report the economic activities that they are financing, thus no clear information is available on this. However, the most widespread ones based on an analysis of the asset classes are the following:

- ▶ Construction of new buildings
- ▶ Renovation of existing buildings
- ▶ Installation, maintenance and repair of energy efficiency equipment
- ▶ Installation, maintenance and repair of instruments and devices for measuring, regulating and controlling energy performance of buildings
- ▶ Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
- ▶ Installation, maintenance and repair of renewable energy technologies
- ▶ Acquisition and ownership of buildings
- ▶ Transport by motorbikes, passenger cars and light commercial vehicles



Proportion of exposures to taxonomy-ineligible activities

Proportion of exposures to ineligible activities averaged around 41% across the EU area. However, the results vary significantly based on the interpretation of the KPI adopted by the banks. KPIs vary from 3% to 86%; some banks applied a narrow interpretation of ineligible assets, identifying as ineligible only those exposures that could potentially be eligible (i.e., exposures to undertakings that report under the nonfinancial reporting directive (NFRD)), while others reported the complementary portion as ineligible.

Proportion of exposures to undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU

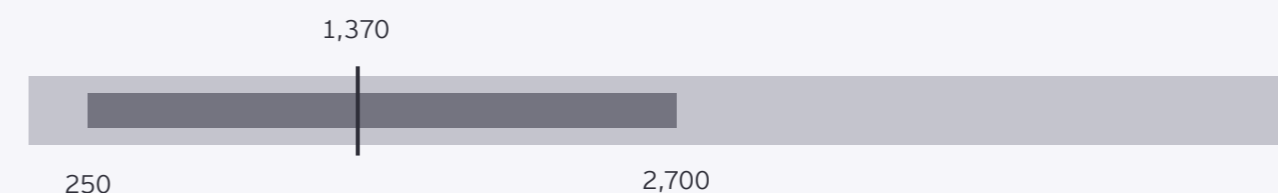
Proportion of exposures to undertakings that are not obliged to report under the NFRD averaged to 23% of banks' total assets. Such exposures include counterparties located outside of Europe and EU undertakings that do not meet the threshold defined by the directive. In some cases, these exposures were included in the proportion of exposures to taxonomy-ineligible activities, whereas in others they were presented separately.

Proportion of exposures to central governments, central banks and supranational issuers

Exposures to central governments, central banks and supranational issuers will be excluded from the denominator of future alignment KPIs disclosed by financial institutions and they represent on average 27% of the banks' total assets.

Length

With an average of 1,370 words, ranging from 250 to 2,700, the disclosure of companies operating in these sectors ranks as the third lengthiest.



Perspectives on future eligible activities

Given the absence of actual counterparty data for 2021 disclosures by banks, credit institutions could not evaluate the degree of eligibility of their general purpose loans and investments (for which the use of proceeds is not known) to undertakings in scope of the NFRD. Therefore, exposure to eligible activities referred only to loans and investments for which the use of proceeds was known, i.e., specialized.

However, 2022 disclosures by banks will evolve significantly, as they will be partially developed using the KPIs disclosed by the institutions' investees and borrowers. By using counterparty data to weigh their exposures, banks will move a step closer to the Green Asset Ratio, which will become mandatory from 2023.

Insurance undertakings

Insurers and reinsurers (specifically insurers in this context) were required to disclose information on their underwriting and investment activities for the first time in accordance with the taxonomy regulation.

Underwriting

Eligible premiums are at an average of 57%. Results are between 13% and 93%.

In general, eligibility results are driven by the underwriting of natural catastrophe events (except earthquakes). In addition, the results vary significantly due to different interpretations and applied approaches. A comparison by line of business shows that insurers primarily classified “fire and other damage to property insurance” (50%), “other motor insurance” (50%), and “marine, aviation and transport insurance” (50%) as eligible, whereas many insurers didn’t include information in their nonfinancial statements on how they classified these lines of business. Other lines of business show a more heterogeneous picture with regard to the eligibility assessment.

Almost 79% of insurers referred to their terms and conditions as the basis for the eligibility assessment. Furthermore, pricing information was noted as the second most used evidence.

The way results were presented varied from insurer to insurer. Only 43% of insurers with nonlife and reinsurance, both being material, disclosed eligible premiums not only on an aggregated level, but also separately for nonlife insurance and reinsurance activities. A breakdown into retained business and reinsured business was usually not disclosed.

Eligible premiums are quite high, which could indicate a high contribution of insurers to the EU environmental objectives. However, most insurers pointed out that aligned premiums to be reported for the first time for fiscal year 23 will be significantly lower, and thus the contribution to the EU environmental objectives.



Investments

Eligible assets are on average at 8%. Results are between 0 and 25%.

Results are driven by the portion of investments for which actual information was available because insurers are not permitted to use estimates to assess the eligibility of investee companies. Generally, this included only consolidated investments like real estate and mortgage loans. For direct investments in investee companies and investments in externally managed funds, usually no actual information was available. Furthermore, exposures to companies that are not obliged to report under the NFRD (on average 30% of insurers’ total assets), particularly those located outside of Europe, do not qualify as eligible. Hence, insurers were only allowed to assess a small proportion of their investment portfolio which significantly limited the assets that potentially qualify as eligible. For the second reporting year, insurers expect better data availability as disclosures from investee companies will be available from the 2021 reporting.

Almost 50% of insurers disclosed voluntary information based on actual information and estimates, which increased the eligible assets by only three percentage points. Again, the effect of using estimates was still limited due to a lack of data.

When comparing the methodology used by insurers, the disclosures show that companies did not apply a consistent approach. Regarding the denominator of the KPI, most insurers (71%) referred to their investments, excluding exposures to central governments, central banks and supranational issuers. Other insurers (7%) referred to the balance sheet total. Hence, the comparability of disclosures is limited, as the denominator has a significant impact on the KPI. Regarding the numerator, an analysis of the assets included in the numerator is only possible to a limited extent, since insurers did not have to provide standardized information for this. Company disclosures indicate that mortgage loans with non-retail customers (57%) and real estate (43%) were considered eligible by most insurers.

Compared with eligible assets, ineligible assets (on average 50%) are even more widespread as some insurers applied a narrow interpretation of ineligible assets, allowing for

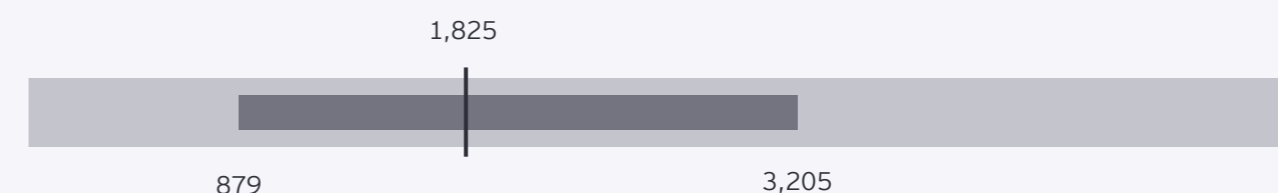
only those exposures where they had actual information to classify the exposures as ineligible. Others reported the complementary portion of assets as ineligible.

In addition, the presentation of the results in the market differs. Most insurers used a table to present the results but typically not the one that must be used to report aligned assets from financial year 2023 onward. 64% of the insurers published the absolute exposure that is invested in eligible assets in addition to the proportion of eligible assets.

Insurers were not required to report the economic activities that they are financing, thus no information is available on this.

Length

With an average of 1,825 words, ranging from 879 to 3,205, the disclosure of companies operating in these sectors ranks as the lengthiest.



Perspectives on future eligible activities

As for the second reporting year, taxonomy disclosures from investee companies will be available from the 2021 reporting. Insurers will report based on a more extensive data availability in the second reporting year. Increasing data availability and a more consistently

applied methodology across the sector will help evolving taxonomy disclosures and their comparability for investors. Increasing data availability for investments will also help to reduce the current delta between the underwriting and investment KPI.

Huge steps toward a comprehensive disclosure and still guidance is needed



This first year of implementation was the occasion for finance and sustainability departments to cooperate and jointly produce the requested information, setting the ground for the future of sustainability reporting.

Despite the simplified way of implementation of EU Taxonomy, companies faced a real challenge to comply with the regulation, because of the complexity to correctly interpret some concepts and criteria. Moreover, according to what the EU Commission declared, the EU Taxonomy

will evolve, and the delegated acts will be integrated progressively, in order to include all the activities with the potential to contribute to the six environmental objectives. This means that some industries have been excluded by the current Climate Delegated Act (e.g., most of the manufacturing activities do not include the steps of their own supply chains as eligible, but only the final product), with the risk to favor those that have been included from the beginning.

For those companies that had to report the required disclosures in their annual report as of 31 December 2021, this was a huge challenge. During many calls and video conferences EY teams were confronted with the challenges the companies were facing. Examples of this include:

- ▶ **Short time frame:** the EU Taxonomy regulations were finally issued not before June 2021. The Delegated Act on Article 8 C (2021) 4987 was finally issued on 6 July 2021, the Annexes 1 and 2 to the Delegated Act C (2021) 2800 were finally issued on 4 June 2021.
- ▶ **Lack of suitable processes:** processes for identifying, assessing and reporting on the economic activities had to be set up in the short-term, as best as information was collectible within the companies.
- ▶ **Difficulty of information sourcing:** although the EU Taxonomy required only the eligibility reporting for the disclosures in 2022, the required information to be reported was not directly available and needed to be accumulated via additional information generated in the system or requested in a manual process.
- ▶ **Room for interpretation:** the regulatory documents of the EU Taxonomy partially have shown far-reaching scope for interpretation, so questions arose regarding the interpretation of the regulatory requirements.

Overall, the production of the first Taxonomy reporting revealed that some eligibility and alignment criteria are not precise enough to ensure a standardized approach within a sector. The EU Commission's FAQs and the interpretation notice published in early 2022 began to address this issue. However, more guidance is needed, both on the disclosure methodology and on the technical criteria interpretation.



What comes “next” and “beyond”?



To comply with the reporting requirements, most companies have been focusing mainly on the “now” phase during the last months. For the upcoming reporting and additional requirements of further developed or new EU regulations, it is also important to anticipate what comes next and beyond.

Concerning the four additional environmental objectives – sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems – the PSF published its final report in March 2022, outlining the proposed activities and the technical screening criteria for substantial contribution and DNSH. The EU commission is expected to adopt these environmental objectives in the course of 2023. Additionally, the PSF published another report on methodology and TSC in November 2022 and is working on further integrating the Regulation for the next years.

The EU Taxonomy requires companies to develop structured and continuous processes for identifying,

assessing and reporting on the eligibility and alignment of their economic activities. In order to be able to report robust and detailed EU Taxonomy information, it may be necessary for companies to set up new internal processes. This may require additional effort as the activity-based classification introduced by the EU Taxonomy is a level of detail that companies did not report on previously.

Also, the EU Corporate Sustainability Reporting Directive (CSRD) approved in November 2022 by the EU Council and EU Parliament explicitly requires that the assurance report of sustainability reporting includes “an option as regards [...] the compliance with the reporting requirements of article 8 of regulation (EU 2020/852)”¹² related to Taxonomy. This new requirement is expected to start from reporting period open after 1 January 2024, with a progressive calendar depending on the nature and size of the Understanding subject to the CSRD.

It is therefore essential for companies to understand to which extent they are directly and indirectly affected by the EU Taxonomy and prepare for the requirements early on.

Where to start – the EY approach

- 1

Eligibility assessment

 - ▶ In-depth and complete understanding of the economic activities carried out by the company (both revenue- and non-revenue-generating)
 - ▶ Assessment of the identified activities to determine which of them can be considered "eligible" under the Taxonomy Regulation Delegated Acts

2

Alignment, assessment and gap analysis

 - ▶ Assessment of the alignment of each eligible economic activity through a three-level test:
 1. Assessment of the compliance with the 'Substantial Contribution' criteria and analysis of main gaps
 2. Assessment of the compliance with the 'Do No Significant Harm' criteria and analysis of main gaps
 3. Assessment of the compliance with the 'Minimum Social Safeguards' criteria and analysis of main gaps
 - ▶ After the three-level test:
 1. Definition of the activities that can be considered Taxonomy-aligned
 2. Definition of an action plan to upgrade Taxonomy-eligible activities to Taxonomy-aligned in the future years

3

Design of the data collection process

 - ▶ Mapping of the financial data that are necessary for the calculation of the three KPIs (CapEx, OpEx, turnover) required by the EU Taxonomy Regulation.
 - ▶ Mapping of the Revenues, CapEx and OpEx related to the Taxonomy-eligible and Taxonomy-aligned activities.
 - ▶ Design of the data collection process and controls – for example tools, responsibilities and timing – also considering the evolution of the assurance requirements.

4

Reporting

 - ▶ Implementation of the data collection process
 - ▶ Elaboration and consolidation of the collected data and information
 - ▶ Drafting of the Taxonomy disclosure to be inserted in the nonfinancial report

¹² Proposed amendment n°10 to the directive 2013/34/EU as per the EU CSRD November 2022, p73. Source: [Council gives final green light to corporate sustainability reporting directive - Consilium \(europa.eu\)](https://www.consilium.europa.eu/en/press/communications/2022/PC221000/).

Scope of the study and methodology



To understand how the undertakings in the scope of the Taxonomy Regulation complied with its requirements during the first year of application, a list of countries that represent approximately 86% of EU Gross Domestic Product (GDP) was selected and the most relevant European companies, in terms of capitalization, that are listed in their main stock markets were analyzed.

The final sample of analyzed companies is 245 – 204 nonfinancial undertakings and 41 financial undertakings. Of the total initial population of 285, 18 companies did not publish any information related to the EU Taxonomy, while 22 companies had not published their reports at the time of compiling the data.

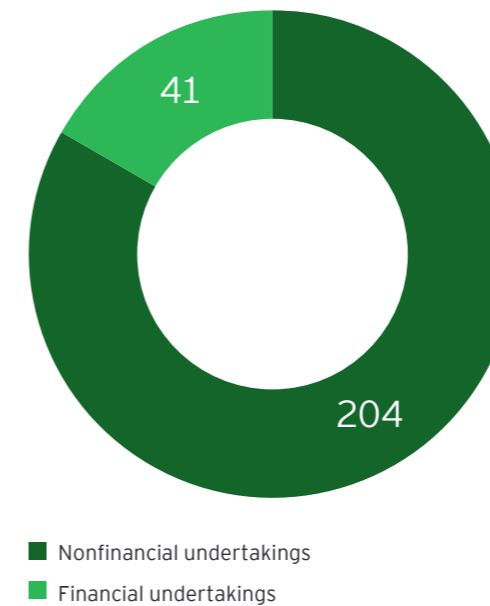
Country-specific analysis was based on the following list of countries in which companies that published a Taxonomy disclosure were classified:

Table 11: Indices in scope by country

Country	Index	Number of EU companies
Austria	ATX	15
Belgium	BEL20	11
Denmark	OMXC20	15
Finland	OMX Helsinki 25	22
France	CAC40	37
Germany	DAX	32
Ireland	ISEQ	7
Italy	FTSE MIB	33
Netherlands	AEX	19
Spain	IBEX35	30
Sweden	OMX Stockholm	24

The criterion for determining the country of an organization is the stock exchange on which it is listed, not the location of its legal entities. For example, if a company has legal entity in the Netherlands and is listed in Italy, it will be counted as an Italian company in the report.

Figure 10: Sample size



The results of this study are based on the information collected through the analysis of the Taxonomy disclosures published by the sampled companies in either annual reports or nonfinancial reports issued between 1 January 2022 and 30 April 2022.

The research has been focused on the analysis of both the mandatory and voluntary (e.g., additional KPIs) quantitative and qualitative information reported. Moreover, the results have been elaborated at consolidated level as well as at industry level to underline common practices and main differences.

Sector-specific analysis was based on the following list of sectors in which companies that published a Taxonomy disclosure were classified:

Table 12: Sectors in scope of study

Sector	Number of EU companies
Nonfinancial	
Construction, infrastructure and real estate	18
Consumer products	36
Health, biotechnology and chemicals	28
Manufacturing	27
Mining and quarrying	10
Mobility – vehicle manufacturing and transport	27
Oil and gas	6
Power and utilities	22
Technology, media and telecommunications	29
Financial	
Credit Institutions	26
Insurance undertakings	15

The total number of companies does not correspond to the sample size of 245 because one company does not fit into the defined sectors.

Double counting of companies was avoided by considering only one sector and one country per company. The average percentages reported in the study are simple averages.

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