How to deal with EU Taxonomy disclosures

An insight into the Dutch market

June 2022

Sustainalize
an ERM Group company

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1. Introduction to the EU Taxonomy

How the EU Taxonomy plays a role in the EU Green Deal ambitions

To tackle and overcome the massive challenges of climate change and environmental risks, the EU has set the ambition to become the first climate-neutral continent in 2050. A set of policy initiatives, also known as the EU Green Deal, has been developed to reach this ambition.

A key pillar of the Green Deal is to finance the transition. Since the investment scale is challenging, the financial sector has a key role to play in achieving climate-neutral goals. It is of the essence that private investment is channeled towards the transition to a climate-neutral, resource-efficient, and fair economy as a complement to public funds.

Multiple challenges need to be tackled to reorient capital flows towards a sustainable economy. Therefore, the European Commission has developed an action plan on sustainable finance. This plan translates into different pieces of legislation and addresses the core issues hindering sustainable investments.

To mitigate the risk of greenwashing, create clarity on what 'sustainable' entails, and decide what activities contribute toward a climate-neutral future, the European Commission developed a classification system for sustainable activities, the so-called EU Taxonomy.

The EU Taxonomy is the cornerstone of the action plan on sustainable finance and is linked to two other regulations, the SFDR and the CSRD:

- **Sustainable Finance Disclosure Regulation (SFDR)** focuses on financial market players to consider sustainability risks and provide transparent investment information.
- **Corporate Sustainability Reporting Directive (CSRD)** focuses on companies providing transparent and reliable sustainability information.

The European Green Deal

EU Sustainable Finance Action Plan

Core Problems	Actions	Goals	Regulation	Tool
No universal definition of 'sustainable investments'	EU classification (taxonomy)	Reliable information	EU taxonomy	
Risk of 'greenwashing' investment products	Certainty about 'green' financial products			
Financial actors often ignore climate risks	Investigation of capital requirements for climate risks	Sustainability and risk management	SFDR	
Investors often neglect sustainability factors	Consider sustainable finances when allocating assets			
Lack of comparability with sustainability activities of companies	Improvement of sustainability reporting	Long-term leadership	NFRD / CSRD*	

A classification system for "sustainable" activities

Companies must disclose which part of their turnover, capital expenditure, and operational expenditure meets the criteria set out in the EU Taxonomy. This allows investors and other stakeholders to make better informed (investment) decisions.

In total, the EU Taxonomy consists of six annexes, each covering a different environmental objective:

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

Currently, only the annexes of **Climate Change Mitigation** (Annex 1) and **Climate Change Adaptation** (Annex 2) have been formally adopted. The Platform on Sustainable Finance prioritized these annexes since they cover the sectors responsible for almost 80% of direct Greenhouse Gas Emissions in Europe[1]. The other four annexes are still under development.

The idea of a sustainable activity is that it makes a substantial contribution to one (or multiple) of these six environmental objectives. Other activities that are categorized as neutral (e.g., consultancy services) or harmful to the environment (e.g., fracking of oil) are not part of the EU Taxonomy.

	Type	Economic activity	Example
Part of the EU Taxonomy annexes	Taxonomy eligible, possibly aligned	**Eligible & aligned** Activity makes a **substantial contribution to one of the 6 environmental objectives** of the Taxonomy and comply with the technical screening criteria, the do no significant harm principles and minimum social safeguards	Installation of photovoltaic panels that DNSH
		Enabling activity **Enables** other activities to make **a substantial contribution** to one or more environmental objectives provided it does not undermine long-term environmental goals	Transmission & distribution of energy
		Transitional activity Significantly lowers GHG emissions compared to sector or industry average (**industry best practice**) and **avoids lock-in** to carbon-intensive assets of processes	Manufacture of aluminum
Not part of the EU Taxonomy	Neither substantial contribution, nor significant harm	**Neutral activity:** • **Does not contribute substantially** to any of the 6 environmental activities of the EU Taxonomy • Has a **neutral effect** on or does no significant harm to the environment	Consultancy services
	Significant harm	**Activities that will never make a substantial contribution:** Activities that are **inherently harmful** to the environment (e.g. Fracking)	Fracking of oil

Activity is included in the Taxonomy | Activity not currently included in the Taxonomy, but might be in the future | Activity will never be included in the Taxonomy

1 Platform on Sustainable Finance: Technical working group. Retrieved from the European Commission

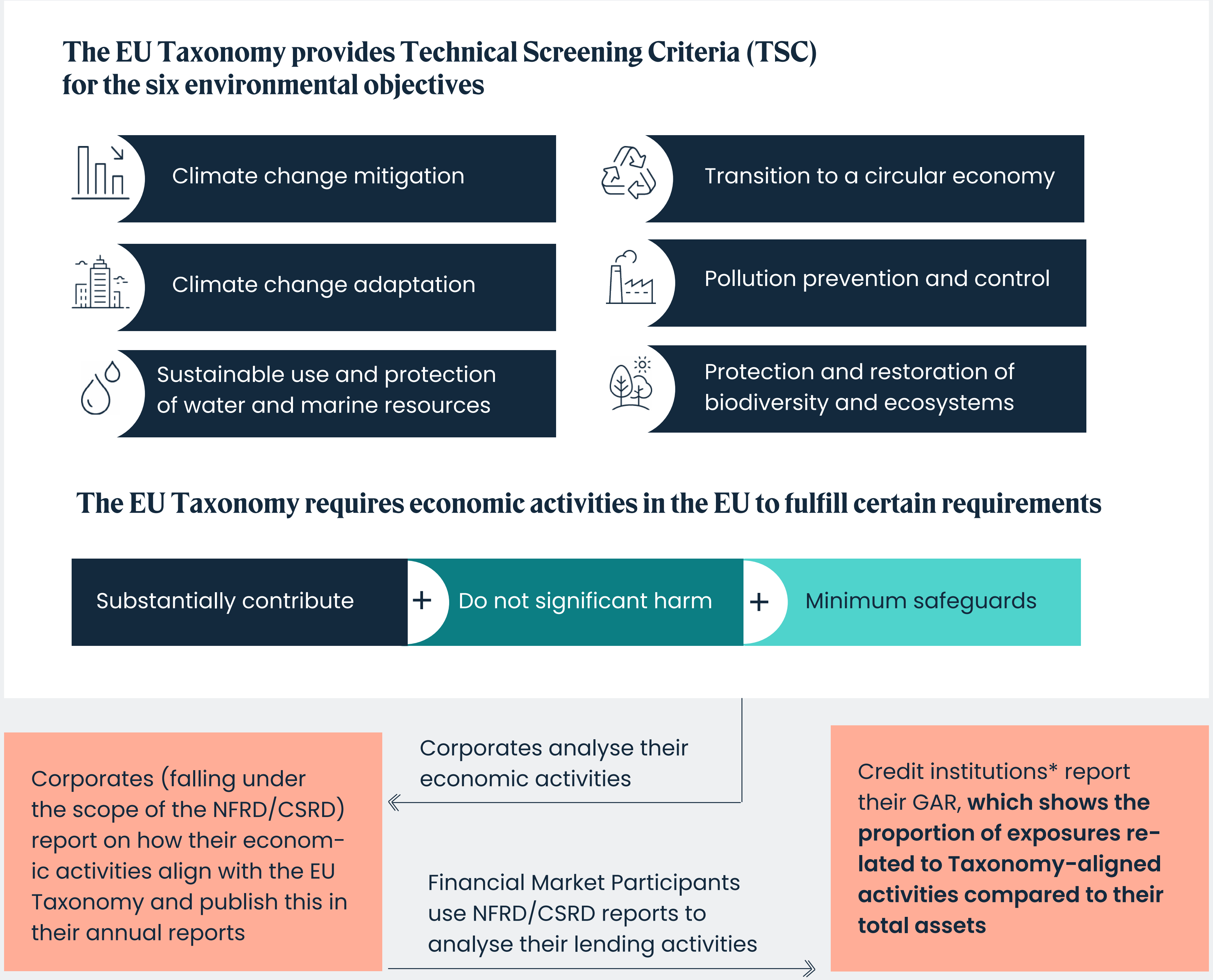
The difference between eligibility and alignment

It is important to capture the difference between 'eligibility' and 'alignment' to understand the EU Taxonomy. To be eligible, a certain activity needs to be covered under one of the six environmental objectives of the Taxonomy. Being eligible means that the economic activity of a company has the potential to have a significant impact on one of the environmental objectives. When an activity is aligned with the EU Taxonomy, it has to comply with the following requirements listed for the covered activity:

1. **Substantially contribute**; make a substantial contribution to one of the six objectives, by complying with the technical screening criteria in the annexes.
2. **Do-no-significant-harm (DNSH)**; the activity does no significant harm in relation to the other environmental objectives, as defined for every economic activity included in the annexes.
3. **Minimum social safeguards (MSS)**; the activity is carried out in compliance with the minimum safeguards, which entails follwoing the OECD Guidelines for multinational enterprises and UN Guiding Principles on Business and Human Rights.

Only if it complies with all three of these steps can the activity be marked 'aligned' with the EU Taxonomy and become a sustainable activity.

It should be highlighted that the EU Taxonomy is still a work-in-progress and should be seen as a living document. Throughout the years, new technical screening criteria might be introduced when new technology or equipment becomes available. To ensure that new sectors and activities, including transitional and enabling activities, can be added to the scope over time, the criteria will be reviewed regularly.



*How financial market participants have to report on the EU Taxonomy differs per institution. See chapter 3 for more information

Companies that have to report under the EU Taxonomy

In this first year of EU Taxonomy reporting, only companies that fall within the scope of the EU NFRD (Directive 2014/95/EU)[2] had to report Taxonomy-related information. It is important to note that there is a difference between reporting on the EU Taxonomy for non-financial undertakings (companies) and financial undertakings. More information about financial undertakings can be found on *page 14*.

Currently, the EU Taxonomy already covers the largest EU-listed companies, but its importance will only grow in the years to come. The scope of the EU Taxonomy will be expanded to all companies falling under the CSRD.

Reporting eligibility on climate change mitigation and adaptation for FY 2021

Due to the massive amount of work for the European Commission, the implementation of the 6 annexes is spread out over several years.

This year, companies within the scope were only required to report on their eligibility for the first two environmental objectives of **climate change mitigation** and **climate change adaptation.**

More concretely, this meant reporting on their *share of eligibility* related to three KPIs for FY 2021. This entailed only reporting if their economic activities were part of the potentially sustainable activities in one of the Taxonomy annexes on climate change mitigation or adaptation.

Companies did not yet have to report on alignment. However, this will be on the agenda for next year (FY 2022). Reporting on the other four annexes will follow as well, but the timelines are still uncertain. In the coming years, companies will have to report on their share of alignment for all six annexes.

2 Directive 2014/95/EU of the European Parliament and of the Council lays down the rules on disclosing non-financial information by certain large, listed companies with more than 500 employees. It amends the Accounting Directive 2013/34/EU

What is the CSRD?

The European Commission has developed a legislative proposal to ensure there is adequate publicly available information about the risks that sustainability issues present for companies, and the impacts of companies on people and the environment. It is currently developing a sustainability reporting standard, to ensure sustainability information is comparable, reliable, and easy to find. Reporting on the EU Taxonomy is part of the CSRD requirements.

The ‘successor’ of the NFRD will expand the scope of companies that fall under its scope from 11 000 to approximately 50 000. With the CSRD implemented the new threshold for Taxonomy reporting will be all companies that comply with at least two out of these three requirements:

- > 250 employees
- > Turnover € 40 million
- > Balance sheet € 20 million

Read more about the CSRD proposal

The calculation of the taxonomy KPIs (eligibility)

<table>
<tr><th></th><th>Turnover</th><th>Capital Expenditure (CapEx)</th><th>Operational Expenditure (OpEx)</th></tr>
<tr><td>Formula</td><td>$\frac{\text{\% Turnover Taxonomy eligibility}}{\text{Total turnover}}$</td><td>$\frac{\text{\% CapEx Taxonomy eligibility}}{\text{Total CapEx}}$</td><td>$\frac{\text{\% OpEx Taxonomy eligibility}}{\text{Total OpEx}}$</td></tr>
<tr><td>% Taxonomy eligibility</td><td>The percentage of turnover derived from products or services that are associated with taxonomy eligible/aligned activities. (Excluding turnover derived from activities that substantially contribute to climate change adaptation)</td><td>The part of the CapEx that is any of the following:
Related to assets or processes that are associated with taxonomy eligible/aligned activities
Part of a plan to expand Taxonomy eligible/aligned activities
Related to the output of Taxonomy aligned, enabling or transitional activities as well as activities related to the installation, renovation and repair of building or renewable energy solutions</td><td>The part of the OpEx that is any of the following:
Related to assets or processes that are associated with taxonomy eligible/aligned activities
Part of a plan to expand Taxonomy eligible activities
Related to the output of Taxonomy aligned, enabling or transitional activities as well as renovating activities</td></tr>
<tr><td>Total</td><td>Net turnover derived from the sale of products and the provision of services</td><td>All investments or additions to tangible and intangible assets during the financial year, as well as business combinations (= IFRS aligned)</td><td>Costs relating to research & development, short-term leases, maintenance, renovation and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment both by the undertaking itself or any third party linked to the operations</td></tr>
</table>

2. Investigating the Dutch market on its EU Taxonomy reporting

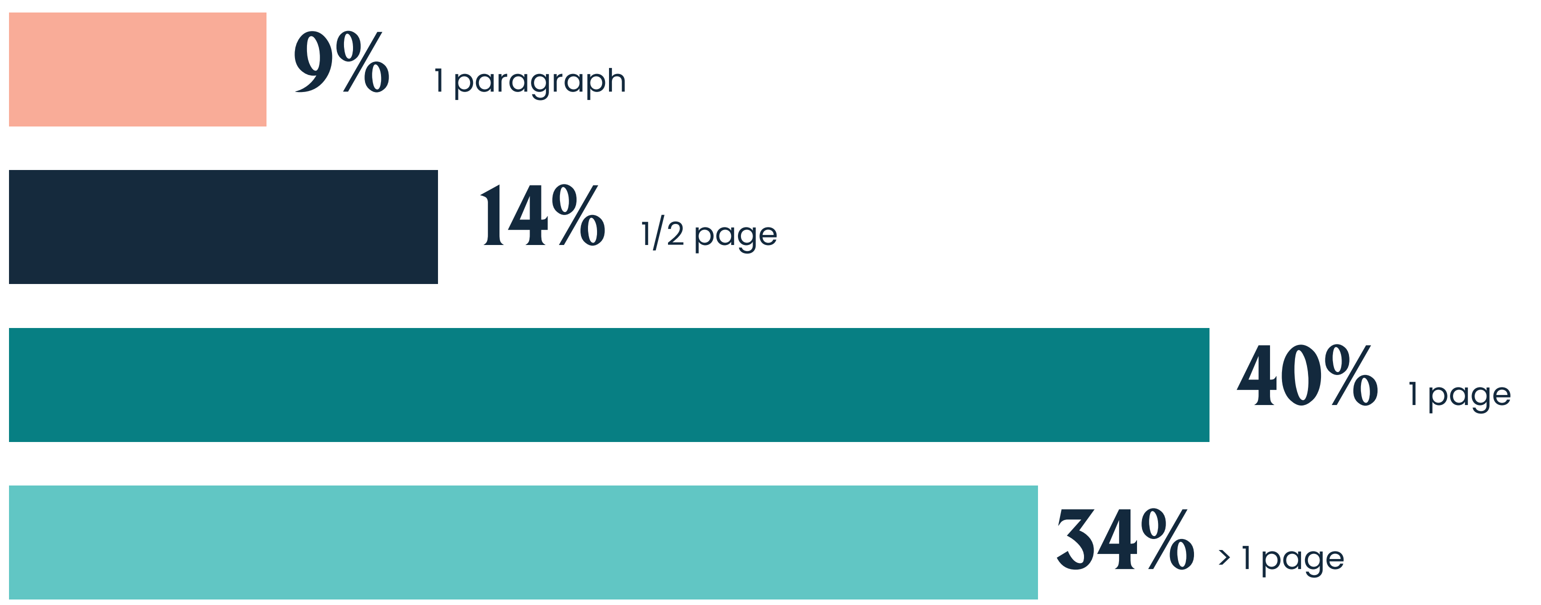
This research aims to give an overview of the reporting on the EU Taxonomy eligibility of the Dutch listed companies on the AEX and the AMX for the environmental objectives of climate change mitigation and adaptation. The Dutch market has a reputation for being a frontrunner in sustainability reporting, including non-financial information in the annual report and publishing integrated reports. Due to the market's maturity, we believe it to be a valuable exercise to analyze how the largest listed companies in the Netherlands have reported on the EU Taxonomy.

Our research consists of 35 non-financial undertakings that are included in the AEX and AMX that fall under the Non-Financial Reporting Directive (NFRD) scope and have published their reports by April 1st, 2022. This date was chosen to have a clear research scope. See the *Appendix* for a list of all companies.

Almost all AEX and AMX companies report on the EU Taxonomy

Out of the 35 analyzed companies, 34 companies reported at least some information on the EU Taxonomy (97%). The companies take up approximately one or two pages in their reports to explain the EU Taxonomy. The information is usually taken up within the chapter on Environmental, Social, and Governance reporting.

Length allocated in the report on EU Taxonomy information



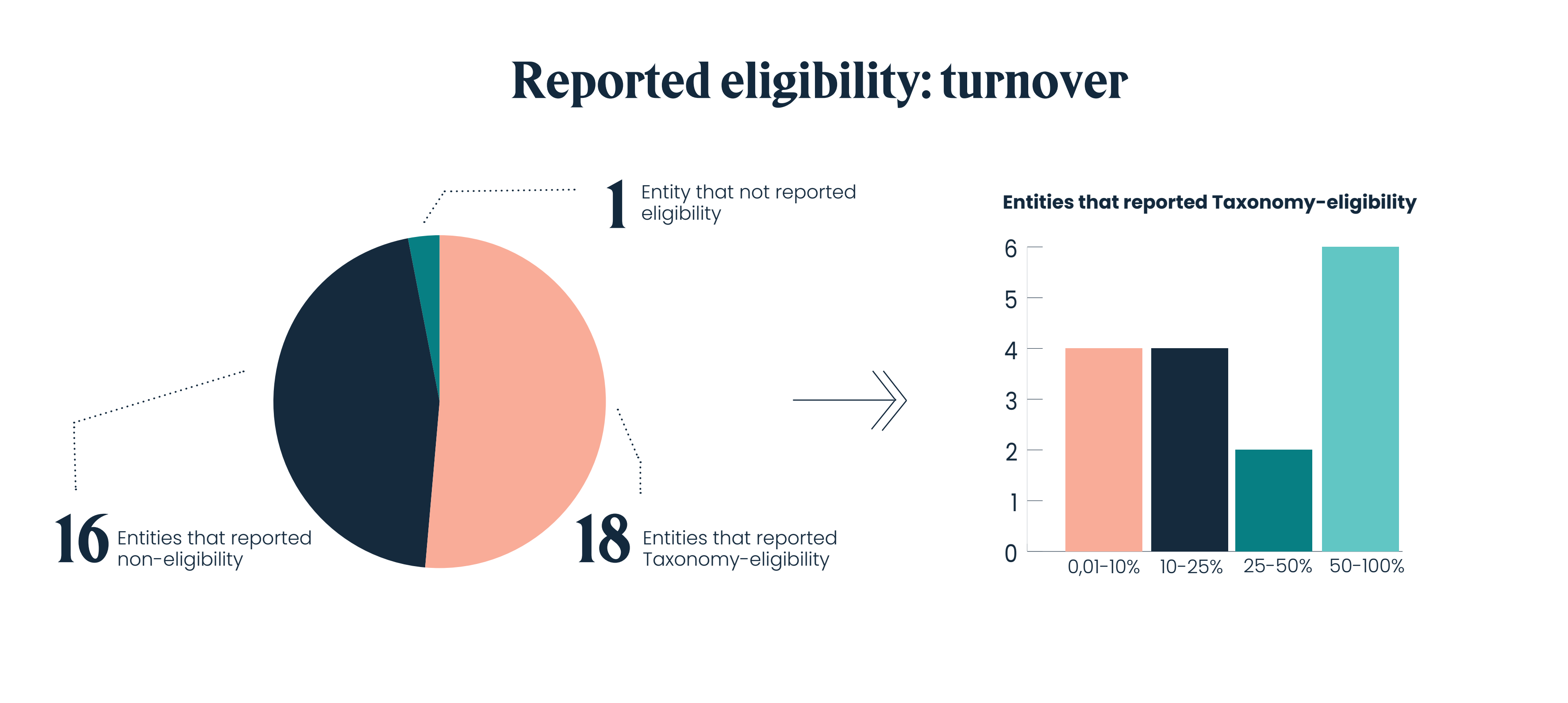
Reporting on turnover

47% of the companies reported some percentage of eligible turnover. As can be observed in the image below, the percentages that companies have reported differ. Only six companies reported eligible turnover percentages higher than 50%. These came from industries such as manufacturing, transport, construction, real estate and energy On *page 13 & 14*, you will find an example of a company in the energy sector and the transport sector.

Overall, companies were able to report the percentages of eligible turnover using the guidelines as set out by the European Commission.

Yet, some companies had difficulties calculating exact percentages. For example, one company left a certain percentage of turnover unassessed because the data was not available or not considered sufficiently reliable. Another company reported a percentage range (eligible turnover: 20-25%). Although it is understandable that calculating turnover is complex, the European Commission does not recommend reporting in a range[3].

The companies that reported 0% eligibility are part of industries that are not (yet) covered by the Taxonomy annexes, such as consumer goods, information technology, telecommunications, or professional services.



3 FAQ released by the European Commission on 21 December 2021, question 12.

Reporting on CapEx

Another important indicator for Taxonomy disclosures is capital expenditure (CapEx). Twenty-two reviewed companies (65%) identified some eligible CapEx.

As stated before, the European Commission has outlined different categories of CapEx that can be recognized as aligned or eligible under the EU Taxonomy. Below, we have highlighted these different CapEx categories, including examples:

1. **CapEx (assets or processes) related to Taxonomy eligible economic activities**

   If you have an eligible economic activity, the CapEx assets and processes related to that activity directly count as 'eligible CapEx'. It is observed that companies that reported high percentages of eligible turnover also reported high eligible CapEx. Examples of companies with high eligible CapEx, in line with high eligible turnover, are Arcelor Mittal, ALFEN, Corbion, Inpost, and PostNL.

2. **CapEx plan - to expand aligned economic activities or to allow eligible economic activities to become aligned**

   Companies can allocate CapEx for a so-called 'CapEx plan'. This is a plan to work towards meeting the Taxonomy criteria and becoming an 'aligned' activity. Some companies reported low percentages of eligible turnover, but high percentages of eligible CapEx, for purposes of the CapEx plan.

An example is AMG, a specialty metals and energy products company:
"Our CapEx KPI represents the proportion of a non-financial undertaking's capital expenditure that is either already associated with environmentally sustainable economic activities or is part of a credible plan to extend such activities or for activities which are not yet Taxonomy-aligned. CapEx for each project was considered 100% eligible[4]."

AMG reported 27% eligible turnover, 83% eligible CapEx, and 25% eligible OpEx.

CapEx plans will become relevant in the future and can be directly linked to the attraction of Green Finance, such as Green Bonds or Green Loans.

3. **CapEx related to individual measures that support the reduction of greenhouse gas emissions**

Besides CapEx investments directly related to an eligible economic activity, it is also possible to invest in CapEx related to individual measures that support the reduction of greenhouse gas emissions. For example, the implementation of energy efficiency measures in office buildings or installing solar panels. The Taxonomy has identified specific investments that contribute to the transition to a low-carbon economy . These investments are not necessarily related to a company's core business but can reduce greenhouse gas emissions.

For FY 2021, it was voluntary to report on this KPI if a company did not have any eligible turnover. Of the 22 companies that reported some eligible CapEx, five companies reported on individual CapEx measures.

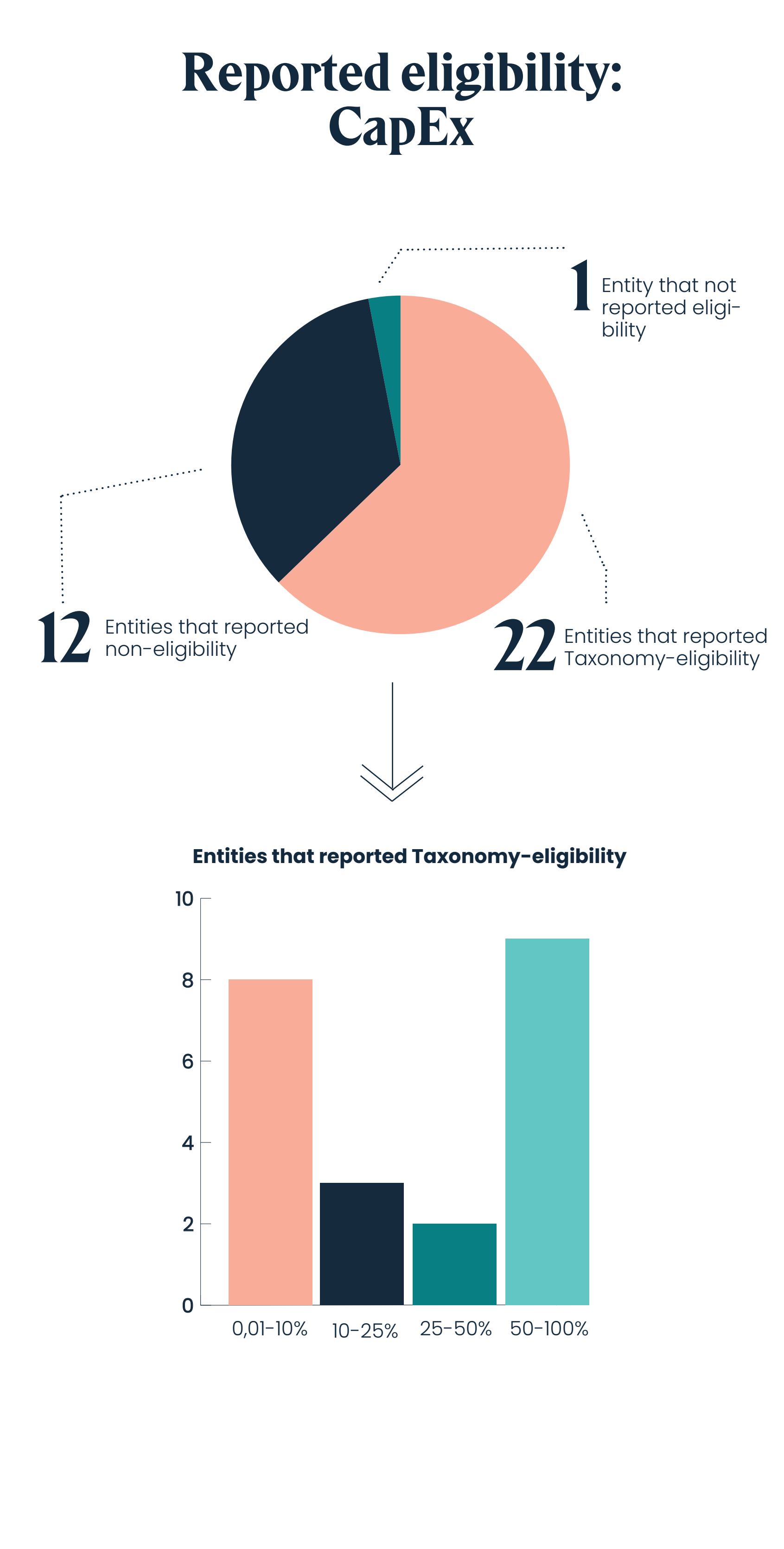
For example, Philips wrote:
"Reportable Taxonomy-eligible capital expenditures in 2021 amounted to EUR 10 million, or 1% of total capital expenditure (non-eligible capital expenditures 99%), and mainly related to energy efficiency improvement measures in our buildings (installation, maintenance, and repair of energy efficiency equipment), as well as onsite renewable electricity generation (installation, maintenance, and repair of renewable energy technologies)[5]."

Philips reported 0% eligible turnover, 1% eligible CapEx, and 0% eligible OpEx.

Reporting on OpEx

Strongly linked to the CapEx indicator is the Operational Expenditure (OpEx) KPI. Most companies that reported eligible turnover and CapEx, also reported eligible OpEx. In line with the CapEx KPI, if a company reported a high percentage of turnover, eligible OpEx percentages were high as well.

The scope for eligible OpEx for the EU Taxonomy refers to maintenance costs, building renovation measures, and research & development. Since these costs are often not directly linked to an economic activity, calculating the exact percentage of eligible OpEx can be challenging for companies.
An interesting OpEx category for the Taxonomy is Research & Development (R&D). Often, companies need to invest in developing sustainable services, technologies, or products. Therefore, it could be valuable to investigate the investments in Taxonomy-aligned R&D.

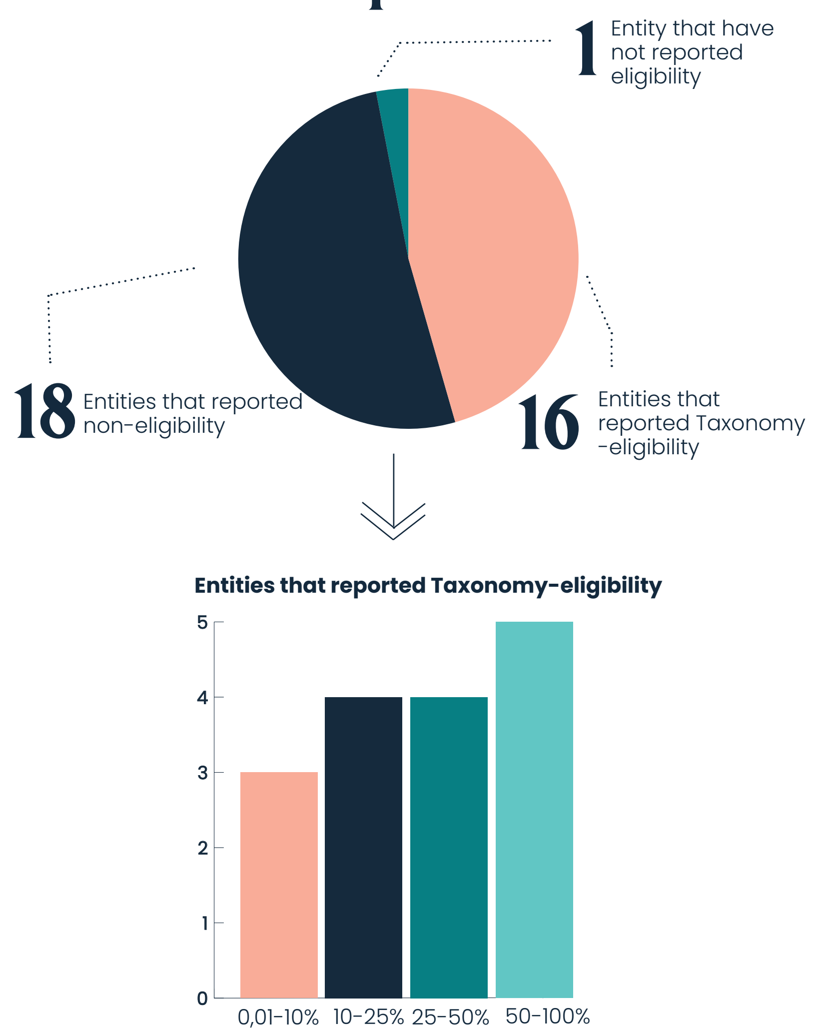


4 AMG Annual report 2021
5 Philips Annual Report 2021

A good example of a company that has used OpEx for sustainability R&D is SBM Offshore:
"The eligible part of OPEX relates mainly to R&D activities into non-carbon solutions as explained in section 2.1.9. Other items are non-capitalized investments into increased energy efficiency of office buildings[6]."

SBM offshore reported 1% eligible turnover, 0.2% eligible CapEx, and 30.5% eligible OpEx.

Reported eligibility by OpEx



6 SBM Offshore Annual Report 2021
7 Disclosure Delegated Act, Annex 1, 1.2.1.
8 KPN Integrated Annual Report 2021
9 Council of the European Union

Accounting policies in reports and audited information need improvement

A principal element of the mandatory reporting requirements of the Taxonomy is to have accounting policies that explain how the different KPIs were determined and calculated, including assessments made. Companies should include references to the related line items in the financial statements for turnover and CapEx[7].

A good example of a company that did this is KPN: in their Integrated Report, accounting policies on turnover, CapEx, and OpEx are explained and linked to the consolidated financial statements[8].

Since many companies have not explicitly included their accounting policies, it is difficult to understand how they have obtained their KPI percentages. However, if we look at the percentages presented, we see that there is still some confusion among companies regarding the reporting requirements.

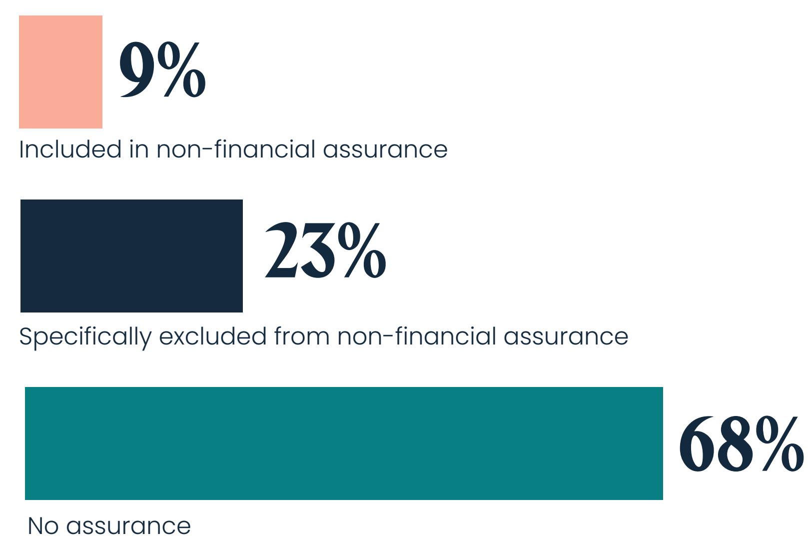
If not streamlined, the reporting differences between companies may ultimately hinder The EU Taxonomy. Reliable and comparable information is key to providing investors information on the non-financial performance of companies. Accountants can play an important role in ensuring clear, transparent information. However, at this point in time, there is no legal requirement to have EU Taxonomy information reviewed by an accountant. And for only three companies, the EU Taxonomy was part of the non-financial assurance of the external auditor. Notably, eight companies (23%) specifically excluded the Taxonomy paragraph in their assurance review of the external auditor.

With the expected implementation of the CSRD, limited and eventually reasonable assurance is expected to become mandatory for non-financial information[9]. In the meantime, it is advised to ensure that reported Taxonomy information is clear and reliable, so the information provided can serve its goal.

Companies have not yet reported on alignment in FY 2021

In FY 2021, companies were obliged to report which of their economic activities were 'eligible' for the EU Taxonomy. Put differently, which of your economic activities can potentially become a sustainable activity? Although it was not yet mandatory for the reporting year 2021, it is remarkable that not a single company that was part of this research scope reported on alignment. The Do Not Significant Harm principles and Minimum Safeguards were addressed in some reports, yet only to explain that this would be a requirement for next year.

External assurance on the EU Taxonomy



What is the Social Taxonomy?

Besides the increasing recognition of a need for a classification system for environmental activities, growing demand has shown the importance of a similar system for social activities. On the 28th of February 2022, the Platform on Sustainable Finance published the final report on Social Taxonomy. This is the next step in harmonizing the measurement of social sustainability. The Social Taxonomy will aid investors to make informal decisions and help to direct resources towards socially responsible activities and companies

The Social Taxonomy is based on Human Rights principles. More specifically, the Social Taxonomy is led by principles set out in the International Bill of Human Rights, the ILO conventions, the UN Guiding Principles, and the OECD Guidelines for Multinational Enterprises. This ties in with the minimum social safeguards of the Environmental Taxonomy – which is based on the same standards. There is no set timeframe yet for implementing the Social Taxonomy, but we expect more information to be brought out soon by the European Commission.

Read more about the Social Taxonomy.

Strategic use of the EU Taxonomy is still lacking

Reflecting on the first reporting year on the EU Taxonomy, companies are taking the first steps to report on the set requirements. However, while most companies have met these requirements, only a few have taken the opportunity to look at the EU Taxonomy from a strategic point of view. Currently, the EU Taxonomy is often addressed in a stand-alone section on sustainability or other non-financial information and is not yet integrated throughout the rest of the report (e.g., in risks & opportunities, strategy, KPI development, etc.).

Looking at the companies within the scope of this research, SBM Offshore and Signify have attempted to move beyond the minimum requirements by connecting the EU Taxonomy and their Key Performance Indicators. For example, SBM Offshore uses the EU Taxonomy as a KPI for R&D investments. By 2022, they have set a target of investing 50% of the R&D budget into EU Taxonomy eligible technologies[10]. While Signify may not have identified a clear KPI, they extensively explain what they define as Taxonomy-eligible sales (related to climate action). Signify herewith emphasizes the importance of the IPCC (International Panel on Climate Change) report's findings and the Paris Climate Agreement and how this influences their strategic choices[11]. These examples point towards a greater opportunity to incorporate the EU Taxonomy and other regulations in reporting and strategic decision-making and implementation.

The EU Taxonomy disclosures can serve to attract finance and engage with investors when used in a strategic way. We see opportunities for companies to further translate the EU Taxonomy into their business operations. It offers companies a pathway towards defining and classifying sustainable activities. For example, companies can incorporate the EU Taxonomy into their sustainability strategies, capital expenditure plans, due diligence processes, etc. We encourage them to look beyond the scope of the minimum requirements and engage in conversations with their stakeholders on the topic of the EU Taxonomy.

10 SBM Offshore Annual Report 2021
11 Signify Annual Report 2021

3. The EU Taxonomy in practice

The role of the energy sector in Climate Change Mitigation

The importance of the energy sector
As heat and electricity generation accounts for about 25% of the greenhouse gas emissions in the European Union, this sector is seen as vital to the decarbonization process[12]. The EU Taxonomy acknowledges the crucial role of this sector by including it as one of the primary sectors for climate change mitigation. However, it only includes those economic activities that are linked to renewables: solar, wind, geothermal, and hydropower, as well as energy activities linked to bio-energy.

At the beginning of 2022, certain gas and nuclear energy activities were added to the list. However, these activities are yet to be approved by the European Parliament and Council[13].

The role of the transport sector in Climate Change Mitigation

The importance of the transport sector
To achieve the targets set by the European Union for 2050, a 90% reduction is needed in transport emissions compared to the 1990 baseline. As the transport sector is responsible for about a third of all European energy consumption, a significant contribution is asked from the road, rail, aviation, and waterborne transport[14].

The complexity of the transport sector: who is accountable for what?
The complexity of the role of transport in the EU Taxonomy resides in the fact that transport is a facilitating activity for its main activities for many corporations. The price paid for this transport is often included in the cost of sales for their main product or service. It is only considered a separate economic activity when it results in external revenue. For example, when a subcontractor or third party performs the transport, a company first needs to determine whether it should report turnover or not (based on the IFRS rules). If this is the case, the entity should decide whether it controls the economic activity provided by the subcontractor. 'Control' in this context means whether the entity controls the circumstances under which the subcontractor works. Only when a company has operational control over the subcontractor, it should report on the activity for the EU Taxonomy.

Another element to be considered is that of transport services that are consumed internally and externally. Under Taxonomy-eligible reporting, an entity should only include the turnover from external sales in its numerator. Turnover from 'internal sales' could be disclosed voluntarily; thus, a choice that may vary per corporation.

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12 Platform on Sustainable Finance: Technical working group. Retrieved from the European Commission.
13 European Commission, Press Release: EU Taxonomy: commission presents complementary delegated act to accelerate decarbonization
14 Platform on Sustainable Finance: Technical working group. Retrieved from the European Commission
15 Alfen Annual Report 2021

The role of the energy sector - an example

Alfen – The EU Taxonomy in practice
Alfen's core business focuses on smart grid, electric vehicle charging, and energy storage. Almost all these economic activities fall within the scope of the currently published EU Taxonomy annexes.

In their annual report[15], 98,8% of turnover is considered eligible under the EU Taxonomy scope, 90,3% of their capital expenditures and 100% of their operational expenditures. Due to recent investments in IT infrastructure, about 10% of capital expenditures are excluded from this scope, while all operational expenses are considered eligible. Alfen states that it operates at the heart of the energy transition, working on the electricity grid of the future. The company is required to report on alignment for FY 2022. It will be interesting to see what Alfen will report on Taxonomy alignment next year.

The role of the transport sector - an example

PostNL - The EU Taxonomy in practice

PostNL is a logistics provider with a broad range of delivery and related services, with which it plays a vital role in the logistic value chain in the Benelux and beyond. Most of its turnover streams are primality related to collecting, sorting, and delivering mail and parcel items, which are eligible under the EU Taxonomy. In their annual report[16], 86% of PostNL's turnover is considered eligible, as well as 76% of capital expenditures and 100% of operational expenditures.

On an average day, PostNL transports mail, parcels, and goods over 1.2 million kilometers across the Benelux. Looking at the climate change mitigation objectives of the EU Taxonomy, PostNL is aware that the company can play a role in decarbonizing its operations as stated in their report: *"We focus on increasing the share of renewable fuels we use as a transitional solution as we work towards expanding the electrification of our owned and leased fleet across our networks."*

From FY 2022, the company is required to report on alignment for FY 2022. This can give more insights into the clean kilometers of PostNL, and thereby their contribution to climate change mitigation.

The specific role of financial market players in the EU Taxonomy and the EU Green Deal

Financial market players play an important role in supporting the EU objectives of carbon neutrality and the EU Green Deal. The EU Action Plan on Sustainable Finance aims to reorient capital flows towards sustainable economic activities, as laid down in the EU Taxonomy. To understand the investments that financial market players make, they are required under the EU Taxonomy to report how their balance sheets support economic activities that contribute to the EU Green Deal objective of becoming a climate-neutral continent.

Following this, financial undertakings have a specific status in the EU Taxonomy. Banks, insurers, reinsurers, asset managers, etc., invest in non-financial undertakings and therefore rely on the companies they invest in to provide them with the data they need for their Taxonomy disclosures.

Because of this interdependency, the timelines for financial and non-financial undertakings are different. While non-financials falling under the NFRD should already report (partially*) on alignment in FY 2022, financial undertakings should only report on their eligibility for FY 2021 and FY 2022 and alignment in FY 2023. Moreover, financial undertakings are required to disclose different information. Although exact disclosure requirements differ among financial undertakings, the required information generally revolves around the ratio between the total investment amount and the amount of investment that can be identified as being Taxonomy-eligible or aligned.

For FY 2021 financial undertakings had to report on the proportion in their total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities and the complementary qualitative information[17].

16 PostNL Annual Report 2021
17 European Commission: Delegated regulation of July 6th, 2021. Annex 2-11.

* depending on the EU's decision to include alignment on the other four environmental objectives already for FY 2022

Observations in the financial sector on Taxonomy reporting on FY 2021

A few general observations regarding the reporting made by financial undertakings listed on the AEX or AMX in reporting year 2021:

- All the disclosures made by the financial undertakings on the EU Taxonomy are quite extensive (between 3 and 5 pages).
- Eligibility percentages all range between approximately 30% and 40% of the total assets.
- None of the financial undertakings have tried to estimate or calculate their alignment KPIs yet.

It is interesting to see how the financial undertakings have handled the information gaps regarding the calculation of their total eligibility percentage.

Financial undertakings did not yet have full insight into the eligibility of their investments or other assets when publishing their annual report. Because of this, they couldn't calculate exactly how much of their total asset portfolio was eligible or not. Some have worked with internally available information on their assets and estimates to close this gap[18]. Others solved these data limitations by determining their exposure to corporate counterparties as 'zero' for the time being. It will be interesting to see how financial market players will handle these information gaps in the future since this will be mainly reliant on the information presented by non-financial undertakings.

18 The inclusion of estimates in the mandatory disclosures is prohibited by the EU. Estimates can only be included in voluntary reporting. See Question 12 of FAQ December 2021.

The link between the EU Taxonomy and SFRD

Relevant to mention for financial undertakings is the link between the SFDR and the Taxonomy since this affects the financial undertakings on a product level. The SFDR obliges financial market players that market their funds as an art. 8 or art. 9 funds to report on the proportion of their funds that have sustainability characteristics or a sustainable objective by July of 2022. These sustainability characteristics or sustainable objectives are directly linked to their EU Taxonomy alignment.

The timing, however, is proving to be problematic since the art. 8 and art. 9 funds must disclose how much of their funds are Taxonomy-aligned before the non-financial undertakings that are included in these funds have reported on alignment themselves. This puts the fund owners in a tough spot since they are required by law to disclose information that is not yet available and over which they themselves have no control.

4. Looking ahead

Although there may still be some confusion about how to best report on the EU Taxonomy directive, we can safely say that most AEX- and AMX-listed companies have attempted to answer the call to report. We have now reached a point to draw up the lessons learned over the first reporting year and take these with us as we look ahead to the year to come. In doing so, we see two focal points: the actual reporting choices as well as the bigger picture of integrating the EU Taxonomy directive into company strategy.

Reporting choices: lessons learned

Learning from the first year of reporting, we see a clear strength among the companies that have prioritized transparency and openness in presenting their conclusions and describing the decisions taken to come to their calculations and conclusions. In the spirit of the European Commission to promote transparency, in the coming year, companies should (ideally) not only report their conclusions on eligibility and alignment but also disclose which concrete activities fall within the scope of the EU Taxonomy.

Moreover, to present clear and reliable information it is necessary to provide information on the accounting policies, assumptions, and considerations made in the Taxonomy process. Over the coming years, it is going to be important for companies to explain how they are going to work towards increased alignment, including the investments needed. In working towards alignment, companies should not overlook the importance of the Minimum Social Safeguards.

Keeping the bigger picture in mind: using the EU Taxonomy to establish sustainability ambitions

Besides the reporting choices and disclosures, companies must continue reflecting on the bigger picture of the EU Taxonomy, linking it to the goals of the EU Green Deal and the Paris Climate Agreement. It is encouraged to look at the EU Taxonomy as not just a mandatory reporting obligation but as a tool and guide that can inform strategic decision-making. This can help companies define what steps they can take to translate their sustainability ambitions into concrete action.

Once a company can integrate the EU Taxonomy into its strategy, vision, or purpose, its next step is to look beyond its own walls, up and down the value chain and financial partners. A company may explore options to assist its stakeholders in working on their Taxonomy goals.

Looking ahead: timelines

After reviewing the first reporting year on the EU Taxonomy, it is time to look ahead. For FY 2022 there are still some uncertainties. Companies will have to report on the alignment of their economic activities for climate change mitigation and adaptation. The EU commission has communicated that it will publish the definitive legislative text on the other four environmental objectives (water, circularity, pollution, and biodiversity) before the end of 2022, applying for FY 2022.

Currently, this still means that for FY 2022 both eligibility and alignment will be required to report on all six annexes by non-financial undertakings. However, depending on when the current preliminary draft will be turned into legislation, the possibility exists that for these other four environmental objectives only eligibility will be required to report over FY 2022. Moreover, the timelines for implementing the CSRD for smaller companies as well are still under development. The latest communication entails a delay of the CSRD towards FY 2025, although this has not been officially approved yet. As a result, the scope of the EU Taxonomy will only be expanded once the CSRD is officially implemented.

Timelines for companies falling under the NFRD and CSRD

Reporting year 2021

- Disclosure of the **proportion of Taxonomy-eligible** and Taxonomy non-eligible economic activities in their total turnover, capital and operational expenditure (for **climate change mitigation and adaptation**)
- In 2022 EC will pass a DA on **other four environmental objectives**

Reporting year 2022

- **Currently unclear** – normally all qualitative information and KPIs (Turnover, CapEx, OpEx) would need to be disclosed by non-financial undertakings for all 6 environmental objectives
- Due to delay in timeline an **intermediate solution** (e.g., only eligibility for the other four environmental objectives) is **likely**

Reporting year 2023

- **All qualitative information and KPIs** (Turnover, CapEx, OpEx) would need to be disclosed by non-financial undertakings for all **6 environmental objectives**
- **Scope** of the Taxonomy is **expanded** to include also companies that fall under the **CSRD**

Reporting year 2024/25

- **Scope** of the Taxonomy is **expanded** to include also companies that fall under the **CSRD**
- Smaller companies due to the CSRD **expanding the scope** from 11000 to 50000 companies.
- This timeline is still in draft

● Non-financial undertakings falling under the NFRD

● CSRD: timeline delayed, mandatory reporting expected in reporting year 2025

Appendix: Included non-financial undertakings

AEX	AMX
Adyen International B.V.*	ABN Amro Bank N.V.*
Aegon N.V.*	Alfen N.V.
Royal Ahold Delhaize N.V.	AMG N.V.
Akzo Nobel N.V.	Arcadis N.V.
ArcelorMittal S.A.	ASR Nederland N.V.*
ASM International N.V.	Basic-Fit N.V.
ASML Holding N.V.	Royal Boskalis Westminster N.V.
BE Semiconductor Industries N.V.	Corbion N.V.
Royal DSM N.V.	Flow Traders B.V.
Heineken N.V.	Fugro N.V.
ING Group N.V.*	Galapagos N.V.
Just Eat Takeaway.com N.V.	Inpost S.A.
Royal KPN N.V.	Intertrust Group N.V.
NN Group N.V.*	JDE Peet's N.V.
Royal Philips N.V.	OCI N.V.
Prosus N.V.	PostNL N.V.
Randstad N.V.	SBM Offshore N.V.
Shell plc.	TKH Group N.V.
Signify N.V.	Royal Vopak N.V.
Unibail-Rodamco-Westfield S.E.	
Unilever plc.	
Wolters Kluwer N.V.	

* The financial undertakings were not included in the general analysis of the report. However, they were analyzed for the part on financial institutions on page 14 & 15.

Colophon

Research
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