



The EU Taxonomy

A brief explanation on the EU Taxonomy
and its application in 2023 Annual Reports

forv/s
mazars

Four W's of this report

- 1. Who can make use of this report?** Companies subject to EU sustainability reporting requirements which need to prepare for Corporate Sustainability Reporting Directive (CSRD) and EU Taxonomy.
- 2. What is the content of this report?** Explanations of EU Taxonomy, and an analysis of listed companies' 2023 reports.
- 3. When does the EU Taxonomy regulation apply?** Companies that were in the scope of Non Financial Reporting Directive (NFRD) have been reporting their EU Taxonomy disclosures since 2021. Now with the CSRD, all companies falling under the scope of CSRD will also be required to disclose their EU Taxonomy related information according to the timeline explained in this report.
- 4. Why is this report relevant for you?** It provides general information on why sustainability matters, as well as where these requirements originate. Further, you will be informed on what the EU Taxonomy is, its requirements together with its timeline, and what companies reported in 2023 annual reports.





Abstract

For decades, states and supranational organisations have endorsed action plans to limit the human effect on the planet. Across the globe, the European Union aims to be the first climate-neutral continent by 2050. This requires substantial efforts from both public bodies and companies.

This report is for anyone interested in understanding the current landscape of sustainability reporting and the impact of the EU Taxonomy on corporate sustainability practices. This publication aims to serve as a valuable resource for companies to gain insights into regulatory requirements.

In addition to providing general information on the EU Taxonomy, this report also presents the results of Forvis Mazars Netherlands' analysis made on the EU Taxonomy disclosures in the 2023 annual reports of randomly selected 38 Dutch listed companies.

Contents

- 1** What is it all about?
- 2** What is the EU Taxonomy and what is its objective?
- 3** Forvis Mazars' analysis on 2023 annual reports
- 4** How to start your EU Taxonomy reporting journey and how can Forvis Mazars help you?

1. What is it all about?

We increasingly witness the effects of climate change across the globe: extreme weather events and heat waves, droughts, accompanied by biodiversity erosion, degradation of water quality and aquatic ecosystems. In addition to environmental challenges, global inequalities are rising.

To overcome these challenges, there have been several milestones in sustainability governance history. Before touching upon those, let's look at the most frequently used definition of sustainability which was published by United Nations Brundtland Commission in 1987:


“meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

In September 2015, the UN General Assembly adopted a new global sustainable development framework: the agenda for Sustainable Development that has the **Sustainable Development Goals (SDG)** at its core and covers the three dimensions of sustainability: economic, social and environmental.

Likewise, the **Paris Agreement** is an international treaty adopted in 2015 by 195 countries under the United Nations Framework Convention on Climate Change (UNFCCC) that aims to support the global response to the threat of climate change. Being a legally binding document made the Paris Agreement a turning point in the international recognition of the fight against the climate crisis. It sets quantified targets that must be achieved using concrete

mechanisms under a legally binding and opposable framework. Accordingly, all parties need to formulate and communicate long-term low greenhouse gas emission development strategies to translate the overarching 2°C pledge into operational transition plans. Additionally, it aims to strengthen the response to climate change by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. The European Union approved the Paris Agreement in 2016 and linked the SDGs to Union's policy with '**The European Green Deal**' in 2019. It is one of the most visible and comprehensive transition schemes which takes its origins in the Paris Agreement. The European Green Deal is one of the first concrete supranational policies which aims to make **Europe the first climate-neutral continent** (no net emissions of greenhouse gases) by 2050. An intermediary step towards zero emissions is to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels.

Corporate Sustainability Reporting Directive (CSRD) and EU Taxonomy Regulation that bring significant reporting requirements to companies in scope are based on the European Green Deal.



“meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

2. What is the EU Taxonomy and what is its objective?

In order to achieve sustainable and inclusive growth, capital flows need to be reoriented towards sustainable investment and an unified classification system for sustainable activities has to be established. Growing negative trends such as climate change, the loss of biodiversity, the global overconsumption of resources, food scarcity, ozone depletion, ocean acidification, the deterioration of fresh water system, and land system change as well as the appearance of new threats, such as hazardous chemicals and their combined effects have to be addressed.

The EU Taxonomy Regulation (2020/852/EU) entered into force in June 2020 and represents a key step towards achieving a climate-neutral EU by 2050. It establishes an EU-wide classification system for environmentally sustainable economic activities. It serves as a common language and clear definition of what is 'sustainable', based on harmonized criteria at European Union level. The EU Taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It helps to direct investments to economic activities most needed for the transition to sustainable investments, in line with the European Green Deal objectives.

The Regulation contains six objectives, designed to support the EU's Green Deal and climate and energy targets. These six objectives are also in line with CSRD's five environmental standards.

EU Taxonomy environmental objectives



climate change mitigation



climate change adaptation



sustainable use and protection of water and marine resources



transition to a circular economy



pollution prevention and control



protection and restoration of biodiversity and ecosystems



There are two main terms in EU Taxonomy Regulation; **eligibility** and **alignment**.

An economic activity that is described in the Delegated Acts of the EU Taxonomy Regulation is '**Taxonomy-eligible**', irrespective of whether it meets any of the conditions outlined in the Regulation.

The EU Taxonomy classifies an economic activity as green, or 'environmentally sustainable' (**Taxonomy-aligned**), if it **substantially contributes** to at least one of the EU's climate and environmental objectives, while at the same time **does not significantly harm** any of the other objectives and meets **minimum social safeguards**.

The Substantial Contribution and Do No Significant Harm criteria are referred to as the Technical Screening Criteria outlined in Climate Delegated Act (Commission Delegated Regulation (EU) 2021/2139) and in Environmental Delegated Act (EU) 2023/2486. To be classified as 'EU Taxonomy-aligned', an activity has to meet all of the right:

Substantially Contribute
to at least 1 of the 6 environmental objectives



Do No Significant Harm (DNSH)
to any of the other 5 environmental objectives



Comply with
Minimum Safeguards

While 'substantially contribute' and 'do not significant harm' criteria focus on environmental objectives of the EU Taxonomy, complying with 'minimum safeguards' ensures that entities meet minimum social and governance standards.

The EU Taxonomy establishes a common understanding of green economic activities that make a substantial contribution to EU environmental goals by providing consistent, objective criteria. Nevertheless, the EU Taxonomy is not a mandatory list of economic activities for investors to invest in. Nor does it set mandatory requirements on environmental performance for companies or for financial products. Investors are free to choose what to invest in. However, it is expected that over time, the EU Taxonomy will be an enabler of change and encourage a transition towards sustainability.

2. What is the EU Taxonomy and what does it aim at?

The EU Taxonomy Regulation (EU) 2020/852 requires undertakings that are subject to Articles 19a or 29a of Directive 2013/34/EU to disclose how and to what extent their activities are associated with environmentally sustainable economic activities. **Non-financial undertakings** have to disclose information on the proportion of the:

- **turnover**
- **capital expenditure**
- **operating expenditure**

(‘**key performance indicators**’) of their activities related to assets or processes associated with environmentally sustainable economic activities. Non-financial undertakings are also required to provide a breakdown of the key performance indicators on the proportion of Taxonomy-aligned activities based on each environmental objective to which those activities contribute substantially. All non-financial undertakings report by using the same table that are mandated in the Disclosures Delegated Act (Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021).

For financial institutions, the KPIs required by the Taxonomy Regulation are more oriented toward intercepting the share of investments or revenues made in environmentally sustainable economic activities and are different from the KPIs required of nonfinancial undertakings.

How do companies use the EU Taxonomy?	
Mandatory - Disclosure	Voluntary - Guide for investments
<p>Currently:</p> <p>Large financial and non-financial companies that fall under the scope of Non-Financial Reporting Directive have to disclose to what extent the activities that they carry out meet the criteria set in the EU Taxonomy.</p> <p>From 2024 on:</p> <p>Companies that will have to report in accordance with the CSRD are also required to report on the EU Taxonomy</p>	<p>There are many possible voluntary use cases of the EU Taxonomy by market participants, which are not defined in policy instruments. For example;</p> <ul style="list-style-type: none"> • companies can use the criteria of the EU Taxonomy as an input for their environmental and sustainability transition strategies and plans. • Companies and project promoters can choose to meet the criteria of the EU Taxonomy with the aim of attracting investors interested in green opportunities. • Investors can choose to use the EU Taxonomy criteria in their due diligence for screening and identifying sustainable investment opportunities aiming to achieve a positive environmental impact.

Asset managers have to disclose the proportion of investments they made in Taxonomy-aligned economic activities in the value of all investments managed by them resulting from both their collective and individual portfolio management activities. That proportion of Taxonomy-aligned investments should be calculated as the proportion of Taxonomy-aligned economic activities of investee undertakings which results from their respective key performance

indicators, because those key performance indicators reflect the environmental performance of investee undertakings.



2. What is the EU Taxonomy and what does it aim at?

The main key performance indicator for credit institutions is the green asset ratio (GAR). This shows the proportion of exposures related to Taxonomy-aligned activities compared to the total assets of those **credit institutions**. The GAR relates to the credit institutions' main lending and investment business, including loans, advances and debt securities, and to their equity holdings to reflect the extent to which those institutions finance Taxonomy-aligned activities. Credit institutions also have to disclose what proportion of their fees and commission income is derived from commercial services and activities that are associated with Taxonomy-aligned economic activities of their clients. Off-balance-sheet exposures are also subject to disclosure. In addition to disclosures concerning the banking book, credit institutions also have to separately disclose the overall composition of their total assets, including their trading book, and any trends and limits in terms of climate and environmental risks.

The key performance indicators for **investment firms** for dealing on own account reflect which proportion of the total assets is composed of assets related to Taxonomy-aligned activities. It focuses on the investment firms' investments, including debt securities and equity instruments in investee companies. The key performance indicator of investment firms' services and activities on behalf of all their clients are based on the revenue in the form of fees, commissions and other monetary benefits that investment firms generate from their investment services and activities carried out for their clients.

The key performance indicators for **insurance and reinsurance undertakings** capture their non-life underwriting activities and investment policy that are part of their business model to show the extent to which those activities are aligned with the Taxonomy. One key performance indicator relates to the investment policy of such insurance and reinsurance undertakings for the funds collected from their underwriting activities and shows the proportion of assets invested in Taxonomy-aligned activities in their overall assets. A second indicator relates to the underwriting activities themselves and shows what proportion of the overall non-life underwriting activities is composed of non-life underwriting activities that relate to climate adaptation and which are performed in accordance with Commission Delegated Regulation (EU) 2021/2139 (3) ('Climate Delegated Act').

In addition to quantitative information, financial undertakings and non-financial undertakings have to disclose qualitative information.

2. What is the EU Taxonomy and what does it aim at?

Companies in scope of the Non-Financial Reporting Directive (NFRD) have been reporting in accordance with EU Taxonomy since 2022 over 2021 activities. The EU Taxonomy Regulation interacts with CSRD. Now with implementation of CSRD, reporting on EU Taxonomy is also a requirement for companies that

are obliged to comply with CSRD. Within sustainability statements based on the CSRD, companies are also required to provide information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable in line with the EU Taxonomy.

financial year >

2021	2022	2023	2024	2025
<p><u>Non-financial undertakings:</u> Only eligibility with respect to Climate Delegated Act (2 climate objectives)</p> <p><u>Financial Undertakings:</u> Only eligibility with respect to Climate Delegated Act</p>	<p><u>Non-financial undertakings:</u> Eligibility & alignment with respect to Climate Delegated Act via the tables in Annex II of the Delegated Act (EU) 2021/2178</p> <p><u>Financial Undertakings:</u> Only eligibility with respect to Climate Delegated Act</p>	<p><u>Non-financial undertakings:</u></p> <ul style="list-style-type: none"> • Eligibility & alignment for the 2 climate objectives • Eligibility for the 4 other environmental objectives (Environmental Delegated Act) <p><u>Financial undertakings:</u></p> <ul style="list-style-type: none"> • Eligibility & alignment for the 2 climate objectives • Eligibility for the 4 other environmental objectives (Environmental Delegated Act) 	<p><u>Non-financial undertakings:</u> Eligibility & alignment for all 6 objectives</p> <p><u>Financial undertakings:</u></p> <ul style="list-style-type: none"> • Eligibility & alignment for the 2 climate objectives • Eligibility for the 4 other environmental objectives (Environmental Delegated Act) 	<p><u>Non-financial undertakings:</u> Eligibility & alignment for all 6 objectives</p> <p><u>Financial undertakings:</u> Eligibility & alignment for all 6 objectives</p>

3. Forvis Mazars' analysis on 2023 annual reports

We, as Forvis Mazars in the Netherlands, performed an analysis of EU Taxonomy disclosures of Dutch listed companies. This report presents the results of our study on 2023 Annual Reports that were included in our sample.

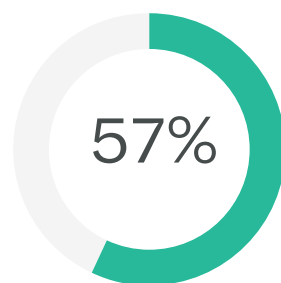
The main objectives of our study were to identify whether companies disclosed their EU Taxonomy eligible and aligned activities and to analyse their quantitative disclosures.

The sample of our study consisted of 38 (23 large cap, 13 mid cap and 2 small cap) companies listed on the Amsterdam Stock Exchange. Publications in 2024 for the 2023 financial year must present information on eligibility and alignment for two climate objectives (adaptation and mitigation) as well as information on eligibility for the other four environmental objectives (water and marine resources, circular economy, pollution, biodiversity-ecosystems).

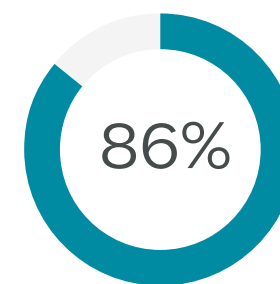
All of the companies were already required to report on EU Taxonomy. 95% of the companies, published on their eligibility and alignment with the EU Taxonomy.

5% of the companies did not report on the EU Taxonomy and also did not state the respective reason, even though it was mandatory to report EU Taxonomy disclosures.

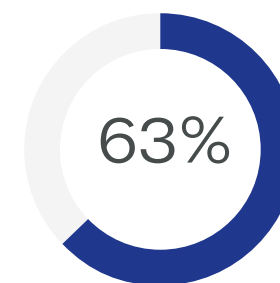
The figures below present the percentage of companies that reported eligibility more than zero for turnover, capital expenditure and operating expenditure.



turnover
% of companies that reported eligibility > 0



CapEx
% of companies that reported eligibility > 0

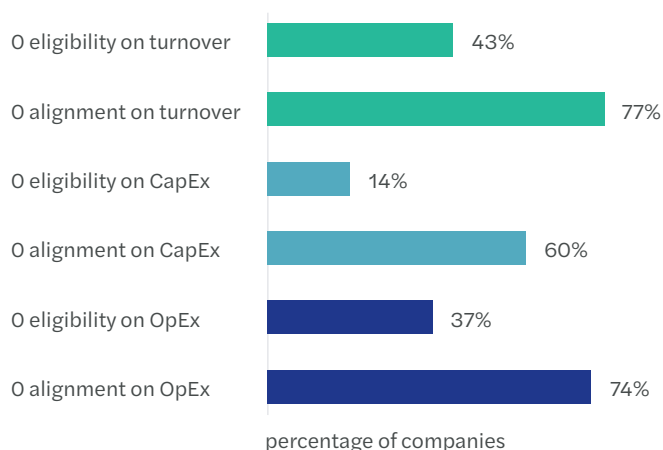


OpEx
% of companies that reported eligibility > 0

3. Forvis Mazars' analysis on 2023 annual reports

Our study revealed that a significant portion of the companies reported zero eligibility and/or alignment with EU Taxonomy.

% of companies reporting no eligibility or alignment on the respective KPI



3.1 Turnover

57% of the companies reported that a proportion of their turnover is EU Taxonomy eligible. Companies which reported that a proportion of their turnover is eligible to the EU Taxonomy reported a 46% of turnover eligibility on average. The average percentage of EU Taxonomy aligned activities on the proportion of turnover is 26%. It worths emphasizing that the percentage of the companies having an alignment with the EU Taxonomy on a proportion of their turnover remains at 26%.

3.2 CapEx

86% of companies reported that part of their CapEx is EU Taxonomy-eligible. On average they have a CapEx eligibility of 41% and an alignment of 25%. While 22 companies reported no alignment for CapEx, the average percentage of the proportion of aligned CapEx of the companies that reported some alignment is 25%.

3.3 OpEx

Two thirds of the analysed companies published that their operating expenses are to some extent eligible to the EU Taxonomy. It is relevant to note that the average percentage of the proportion of eligible OpEx is ranging significantly. The analysis shows that a third of the companies reported a percentage with one digit of eligible OpEx, a third published a proportion of eligible OpEx of about 35% and a third published a proportion of eligible OpEx of above 85%. The average percentage of proportion of EU Taxonomy aligned OpEx of the companies that reported more than zero is 29%.

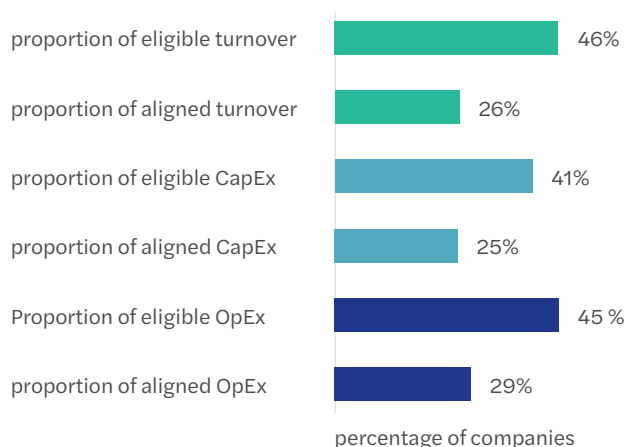
10 out of the 36 companies that reported the EU Taxonomy eligibility of turnover, CapEx or OpEx reported on three to six environmental objectives. But when it comes to alignment, almost all companies reported alignment only on the climate change mitigation objective. And only two companies reported alignment with climate change



adaptation. There is no reported alignment for the other four objectives in the analysed 2023 reports. This might be because the respective companies are not obliged to report on alignment with objectives other than climate change mitigation and climate change adaptation.

3. Forvis Mazars' analysis on 2023 annual reports

average of the eligibility and alignment ratios of the companies that reported more than 0%



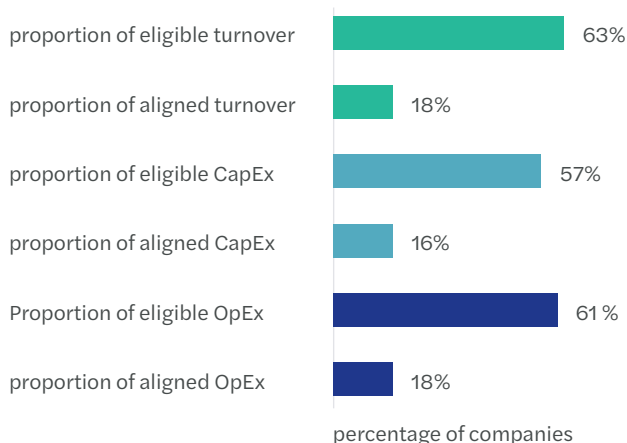
3.4 Sector analysis

The percentages of turnover, CapEx and OpEx eligibility and alignment differ significantly between sectors. This makes it interesting to have a closer look at certain sectors. As many of Forvis Mazars in the Netherlands' clients belong to the financial sector, and are manufacturing, technology, wholesale or retail companies, we decided to further assess those sectors.

An analysis of the **financial companies** in the sample shows that the EU Taxonomy KPIs differ widely and range from reporting 0%, to reporting a percentage with one digit to reporting on an eligibility of about 40% on turnover and CapEx.

An analysis of the **manufacturing companies** of the sample shows that on average, 92% of the companies' turnovers are Taxonomy eligible and on average 18% of the turnover is aligned to the EU Taxonomy. The average percentage of proportion of EU Taxonomy eligible CapEx of the manufacturing companies amounts to 57% and the percentage for aligned CapEx comes to 16%. The percentage for OpEx are similar to the ones of CapEx.

average of the eligibility and alignment ratios of manufacturing companies that reported more than 0%



37% of the **technology companies** reported zero turnover eligibility, the remaining companies on average reported a turnover eligibility of 58%. Only one of the technology companies in our sample reported Taxonomy alignment on turnover. All technology

companies reported CapEx eligibility. Of which 37% reported below 10%, while the rest reported a proportion of 64% of eligible CapEx on average. Half of the technology companies reported CapEx alignment. Concerning OpEx eligibility, more than half of the companies reported zero, while the remainder have an OpEx eligibility of 97% on average. A fourth of the technology companies reported alignment of OpEx.

Wholesale and retail companies in our sample reported no eligibility and alignment on turnover. A proportion of their CapEx and OpEx are taxonomy eligible, and some part of their CapEx is aligned. As the KPIs differ widely, an average is not meaningful.

In brief, almost all analysed companies complied with the EU Taxonomy and reported on their Taxonomy eligible and aligned economic activities. Most companies disclosed that their economic activities potentially impact the climate objectives climate change mitigation, climate change adaptation and circular economy (eligibility). Concerning alignment, companies only reported an effect on the climate objectives climate change mitigation and adaptation.



4. How to start your EU Taxonomy reporting journey and how can Forvis Mazars help you?

To sum up, reporting requirements with regards to sustainability are increasing and mandatory disclosures are expanding. Companies need to collect, process, assess and report on data to comply with the CSRD and the EU Taxonomy. CSRD requires companies to have their sustainability statements, including their EU Taxonomy reporting, verified by an independent auditor. Above all, these are more than just reporting requirements: they are a driving force for sustainable business transformation. Considering their complexity and detailed analysis required, it is crucial for companies to start their CSRD and EU Taxonomy reporting journey as soon as possible. To do so:

Step 1: Get familiar with the requirements

Step 2: Anticipate impacts on sustainability reporting systems, processes and tools

Step 3: Perform a gap analysis

Step 4: Set up an action plan

Step 5: Implement new processes and adapt the reporting systems

Beyond auditing the sustainability statements of its clients, Forvis Mazars also helps companies of all sizes to get ready for their EU Taxonomy reporting. You can reach out to our professionals to learn more about our services.

Contacts

Ron Horsmans

Partner

Sustainability Reporting & Assurance

ron.horsmans@forvismazars.com

Danny Janssen

Director Sustainability

danny.janssen@forvismazars.com

Gözde Ince Abik

Senior Manager Audit

Sustainability Reporting & Assurance

gozde.ince@forvismazars.com

Forvis Mazars is a global leader in audit & assurance, outsourcing, tax, advisory and consulting. We operate in more than 100 countries and, with a team of more than 40,000 professionals, we are committed to deliver an unmatched client experience. With in-depth knowledge of regulations and thorough understanding of the market, we help our clients to do business with confidence and in a future-oriented way.