EU Taxonomy – observations, implications & next steps

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Agenda

- 1 Taxonomy for positive environmental contribution
 - 1.1 Observations from first reports
 - 1.2 Criteria for the four other environmental objectives
 - 1.3 Nuclear and natural gas delegated act
- 2 Other possible Taxonomy extensions
 - 2.1 Social Taxonomy
 - 2.2 Significant Harm Taxonomy
- 3 Taxonomy implications



EU Taxonomy defines environmentally beneficial economic activities

Large listed companies need to report the Taxonomy eligibility and alignment of their Revenue, CapEx and OpEx



There are six environmental objectives

So far, criteria have been developed only for climate change mitigation and climate change adaptation





adaptation

Climate change Climate change mitigation

Sustainable use and protection of water and marine resources



Transition to a circular economy



and control





Protection and restoration of biodiversity and ecosystems



88 climate change mitigation activities in the EU Taxonomy



	0		marine economy prevention
🔔 Forestry	Energy	Water supply, sewerage, waste management and remediation	Transport
Afforestation	Electricity generation using solar photovoltaic		Passenger interurban rail transport
Rehabilitation and restoration of forests,	technology	Construction, extension and operation of water collection, treatment and supply systems	Freight rail transport
including reforestation and natural	Electricity generation using concentrated solar power	concertor, reactment and supply systems	Urban and suburban transport, road passenger
forest regeneration after an extreme	(CSP) technology	Renewal of water collection, treatment and	transport
event	Electricity generation from wind power	supply systems	Operation of personal mobility devices, cycle logistics
Forest management	Electricity generation from ocean energy technologies	Construction, extension and operation of waste water collection and treatment	Transport by motorbikes, passenger cars and
Conservation forestry	Electricity generation from hydropower	Renewal of waste water collection and	light commercial vehicles
Environmental protection	Electricity generation from geothermal energy	treatment	Freight transport services by road
and restoration activities	Electricity generation from renewable non-fossil	Collection and transport of non-hazardous	Inland passenger water transport
Restoration of wetlands	gaseous and liquid fuels	waste in source segregated fractions	Inland freight water transport
	Electricity generation from bioenergy	Anaerobic digestion of sewage sludge	Retrofitting of inland water passenger and freight transport
Manufacturing	Transmission and distribution of electricity	Anaerobic digestion of bio-waste	Sea and costal freight water transport, vessels
Manufacture of renewable energy		<u> </u>	for port operations and auxiliary activities
technologies	Storage of electricity	Composting of bio-waste	Sea and coastal passenger water transport
Manufacture of equipment for the	Storage of thermal energy	Material recovery from non-hazardous waste	Retrofitting of sea and coastal freight and
production and use of hydrogen	Storage of hydrogen	Landfill gas capture and utilization	passenger water transport Infrastructure for personal mobility, cycle
Manufacture of low carbon technologies	Manufacture of biogas and biofuels for use in transport	Transport of CO2	logistics
for transport	and of bioliquids	Underground permanent geological storage of	Infrastructure for rail transport
Manufacturing of batteries Manufacture of energy efficiency	Transmission and distribution networks for renewable and low-carbon gases	C02	Infrastructure enabling low-carbon road
equipment for buildings	District heating/cooling distribution	Construction and real estate	transport and public transport
Manufacture of other low carbon		activities	Infrastructure enabling low-carbon water transport
technologies	Installation of electric heat pumps	Construction of new buildings	Low carbon airport infrastructure
Manufacture of cement	Cogeneration of heat/cool and power from solar energy	Renovation of existing buildings	
Manufacture of aluminium	Cogeneration of heat/cool and power from geothermal	Installation, maintenance and repair of energy	Information and communication
Manufacture of iron and steel	energy	efficiency equipment Installation, maintenance and repair of	Data processing, hosting and related activities
Manufacture of hydrogen	Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels	charging stations for electric vehicles in	Data-driven solutions for GHG emissions
Manufacture of carbon black	Cogeneration of heat/cool and power from bioenergy	buildings (and parking spaces attached to	reductions
Manufacture of disodium carbonate	, i o,	buildings)	Professional, scientific and
Manufacture of chlorine	Production of heat/cool from solar thermal heating	Installation, maintenance and repair of instruments and devices for measuring,	technical activities
Manufacture of organic basic chemicals	Production of heat/cool from geothermal energy	regulation and controlling energy performance	Close to market research, development and
	Production of heat/cool from renewable non-fossil	of buildings	innovation
Manufacture of anhydrous ammonia	gaseous and liquid fuels	Installation, maintenance and repair of	Research, development and innovation for direct air capture of CO2
Manufacture of nitric acid	Production of heat/cool from bioenergy	renewable energy technologies	Professional services related to energy
Manufacture of plastics in primary form	Production of heat/cool using waste heat	Acquisition and ownership of buildings	performance of buildings

4 | Source: Annex I - Climate Change Mitigation - Commission Delegated Regulation supplementing Regulation EU 2020/852 (Provisional text, April 2021)



95 climate change adaptation activities in the EU Taxonomy



ransport

nger interurban rail transport rail transport and suburban transport, road passenger ort tion of personal mobility devices, cycle S port by motorbikes, passenger cars and ommercial vehicles transport services by road passenger water transport freight water transport itting of inland water passenger and transport Id costal freight water transport, vessels rt operations and auxiliary activities id coastal passenger water transport itting of sea and coastal freight and ger water transport ructure for personal mobility, cycle s ructure for rail transport ructure enabling low-carbon road port and public transport

ructure for water transport

infrastructure

Professional, scientific and echnical activities

ering activities and related technical Itancy dedicated to adaptation to climate

to market research, development and ation

Education

Arts, entertainment, recreation

ve, arts and entertainment activities es, archives, museums and cultural ies picture, video and television programme

tion, sound recording and music ing activities

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	🐨 work	0	related activities	
Residential care activities Reinsurance public	Residential care activities	Reinsurance	Programming and broadcasting activities	pub



Large listed corporates have started to disclose their Taxonomy eligibility

Most companies simply state eligibility but some also provide additional, voluntary details

Vestas ———			
EU taxonomy reporting 2021	mEUR	Eligible (%)	Non-eligible (%)
Revenue (turnover)	15,587	100	0
Operating expenses (OPEX)	14,344	97	3
Capital expenditure (CAPEX)	1,106	91	9

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Sales	OPEX	CAPEX
85%	76%	80%
15%	24%	20%
100%	100%	100%
	85%	85% 76% 15% 24%

NÄRTSILÄ	

KPI	Total, MEUR	Eligible, %	Non-eligible, %
Turnover	4,778	8	92
CapEx	226	22	78
OpEx	176	8	92

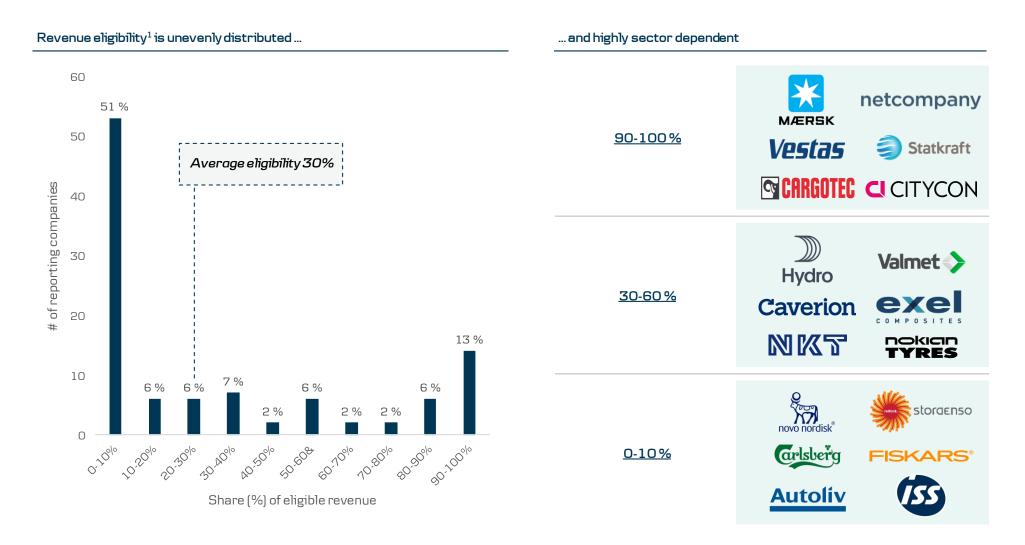
	Energy performance certificate with 'A' rating	Others that fall within the top 15%	Taxonomy-eligible proportion of property management portfolio	Total property management portfolio
Sales, MSEK	241	2,225	46%	5,324
Operating expenses, MSEK	-16	-161	58%	-305
Capital expenses, MSEK	25	1,859	24%	7,887
Property value, MSEK	3,745	43,585	48%	98,453
Lettable area, sq. m.	158,883	1,470,557	46%	3,543,194
No. of properties	17	165	37%	498

Orsted -

	Revenu	е	OPEX		EBITDA	λ	CAPEX ¹	
Economic activities, 2021	DKKm	%	DKKm	%	DKKm	%	DKKm	%
Taxonomy-eligible activities	51,326	66	4,586	80	21,803	90	49,960	99
– Electricity generation using solar PV (4.1) and wind power (4.3)	43,700	56	4,080	71	19,314	80	49,165	97
– Cogeneration of heat/cool and power from bioenergy (4.20)	7,626	10	506	9	2,489	10	795	2
Taxonomy-non-eligible activities	26,347	34	1,174	20	2,493	10	455	1
– Gas sales	16,270	21	-	-	1,846	8	-	-
– Coal-based activities	1,790	2	-	-	560	2	-	-
– Other activities ²	8,287	11	-	-	87	0	-	-
Total	77,673	100	5,760	100	24,296	100	50,415	100

Majority of Nordic companies have reported a low Taxonomy eligibility

First reports show Taxonomy's limited scope and focus on selected sectors



Next step will be Taxonomy alignment reporting

Standardized EU taxonomy-alignment reporting table for non-financial corporates

				Sul	bstantia	l cont	ributic	on crit	eria	('I		NSH ot Sigr			ırm')			_		
Economic activities (1)	Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy- aligned proportion of turnover, year N (18)	Taxonomy- aligned proportion of turnover, year N-1 (19)	Category (enabling activity or) (20)	Category '(transitio nal activity)' (21)
		Currency	%	%	%	%	%	%	%	Y/ N	Y/ N	Y/N	Y/ N	Y/ N	Y/N	Y/N	Percent	Percent	E	Т
A. TAXONOMY-ELIGIBLE ACTIVITIES			%						•	•		•								•
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Activity 1 ³				%	%	%	%	%	%		Y	Y	Y	Y	Y	Y	%		Е	
Activity 2			%	%	%	%	%	%	%	Y	Y		Y	Y	Y	Y	%			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)			%	%	%	%	%	%	%								%			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Activity 1			%						1										I	
Activity 3			%																	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)			%																	
Total (A.1 + A.2)			%														%		%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES Turnover of Taxonomy-non-eligible	 	1																8		•

Turnover of Taxonomy-non-eligible activities (B)		%
Total (A + B)		%

51 proposed activities for the other environmental objectives



Agriculture, Forestry and Fishing	Manufac
Animal production	Manufacture of ch
Crop production	
Fishing	Manufacture of pla
Restoration, Remediation	Manufacture of ele equipment
Conservation of habitats and ecosystems	Furniture: manuface sale of spare parts, as-a-service etc.
Restoration of biodiversity and ecosystems	Manufacture of foo
Restoration of ecosystems	Wandlacture of foc
Remediation activities	Finishing of textiles
Waste management	Wearing apparel: r refurbishing/ sale service etc.
Collection and transportation of non- hazardous and hazardous waste as a means for material recovery	Footwear and leath manufacturing, rep parts/ sale of second
Collection and transportation of hazardous waste	etc.
Treatment of hazardous waste	Tanning of leather
Recovery of bio-waste by anaerobic digestion and/or composting	Repair, refurbishm sale of spare parts
Remediation of legally non-conforming landfills and abandoned or illegal waste dumps	Preparation for re- product componen
Depollution and dismantling of end-of-life products	Sale of second-han
Sorting and material recovery of non- hazardous waste	Product-as-a-servion result-oriented service

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ectrical and electronic

acturing, repair/ refurbishing/ s/ sale of second-hand/ product-

od products and beverages

s

manufacturing, repair/ of spare parts/product-as-a-

her goods: Wearing apparel: pair/ refurbishing/ sale of spare ond-hand/ product-as-a-service

nent and remanufacturing and

e-use of end-of-life products and nts

nd goods

ice and other circular use- and ervice models

Water supply, Sewerage and Waste Management

Water supply

Urban wastewater treatment

Phosphorous recovery from waste water

Production of alternative water resources

Sustainable urban drainage systems

Energy

Environmental refurbishment of electricity generation facilities producing electricity from hydropower

Transport

Urban and suburban passenger land public transport

Manufacturing of aircraft

Leasing of aircraft

Passenger and freight air transport

Air transport ground handling operations

\square Disaster risk management

Emergency services - emergency health services

Emergency services – disaster response coordination

Emergency services -disaster relief

Emergency services -search and rescue

Emergency services - hazardous materials response

Emergency services -firefighting

Emergency services -technical protection response and assistance

Flood risk prevention and protection infrastructure for inland river and costal floods

Nature based solutions for flood risk prevention and protection for both inland and costal waters

Buildings

Construction of new buildings

Renovation of existing buildings



Civil engineering

Maintenance of roads and motorways, bridges andtunnels



Nuclear and natural gas criteria for the EU taxonomy

Now approved to be added to the Taxonomy



Nuclear & natural gas - eligibility criteria

Nuclear:

Eligibility criteria:

- Life-cycle GHG emission intensity below 100gC02e/kWh
- Deadline for upgrades of existing nuclear plants at 2040
- Deadline for construction permits for new nuclear plants at 2045
- radioactive waste management fund and a nuclear decommissioning fund which can be combined
- Requirement to use accident-tolerant fuel from 2025 onwards
- Projects authorized after 2025 has a documented plan with detailed steps to have in operation, by 2050, a disposal facility for high-level radioactive waste

<u>Conclusion</u>: Only selected nuclear facilities will be able to meet the requirements, but the exact share is still very much unknown

Natural gas:

Eligibility criteria:

- A gas-related activity must either have lifecycle emissions below 100gC02e/kWh, or:
- by 2030, obtain a permit for construction where renewables are not available at sufficient scale, and have direct emissions below 270gC02e/kWh or,
- for electricity generation, annual direct GHG emissions must not exceed an average of 550kgC02e/kWh of the facility's capacity over 20 years. In this case, the activity must replace a facility using solid or liquid fossil fuels, ensure a full switch to renewable or low-carbon gases by 2035, and obtain a regular independent verification of compliance with the criteria.

<u>Conclusion</u>: Only selected natural gas facilities will be able to meet the requirements, but the exact share is still very much unknown



Next steps

- The complementary climate delegated act was not vetoed by the EU Council and Parliament.
- The act will enter into force on 1 January 2023

Agenda

- 1 Taxonomy for positive environmental contribution
 - 1.1 Observations from first reports
 - 1.2 Criteria for the four other environmental objectives
 - 1.3 Nuclear and natural gas delegated act
- 2 Other possible Taxonomy extensions
 - 2.1 Social Taxonomy
 - 2.2 Significantly Harm Taxonomy
- 3 Taxonomy implications



First proposal social taxonomy targets three social objectives



Revenue, Capex and Opex disclosures suggested to corporates; share of investments in socially beneficial companies to investors

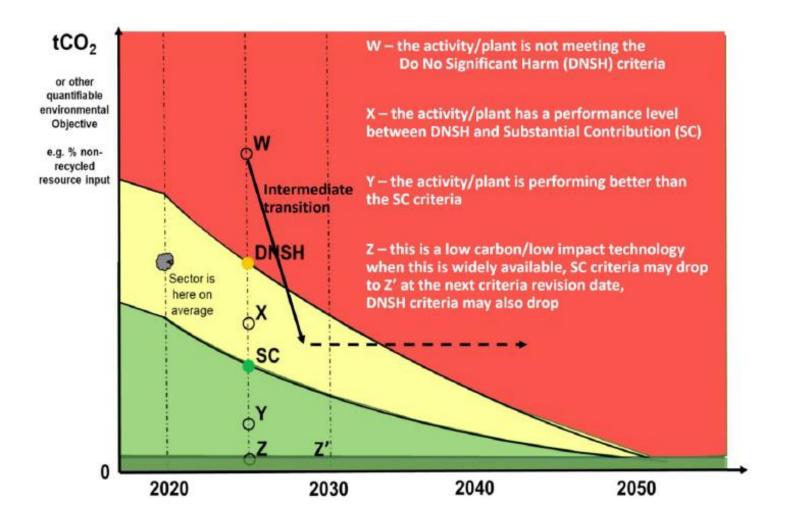
	Example sector types	Example substantial contribution	Decentwork	Adequate living standards & wellbeing for end users	Inclusive & sustainable communities
Decent work	 Sectors with skills shortages Exposed to international competition (e.g. textiles) or social dumping (e.g. agriculture) 	 Extensive programs for skills & upskilling/reskilling of workers Decent wagethroughout the supply chain 	 Skills development strategy ILO core labour standards Adequate minimum wage 	N/A	 No discrimination training
Adequate living standards & wellbeingfor end users	 Safe and affordable housing Services for basic human needs (e.g. healthcare) 	 Improve availability/ accessibility Availability for low income and disadvantaged categories 	 ILO core labour standards Minimum wage 	 Housing units follow environmental taxonomy DNSH Security of tenure 	 No involuntary resettlement No pollution of drinking water when building flats
Inclusive & sustainable communities	 Large land footprint (e.g. agriculture, forestry, mining) 	 Contribute to rural development Local food production 	 ILO core labour standards Minimum wage is paid to workers 	N/A	• Access to basic economic infrastructure

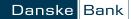
Do No Significant Harm

Suggestion for extending Taxonomy classification



Platform on Sustainable Finance deliberation of Significant Harm, Intermediary and No-Significant Impact activities





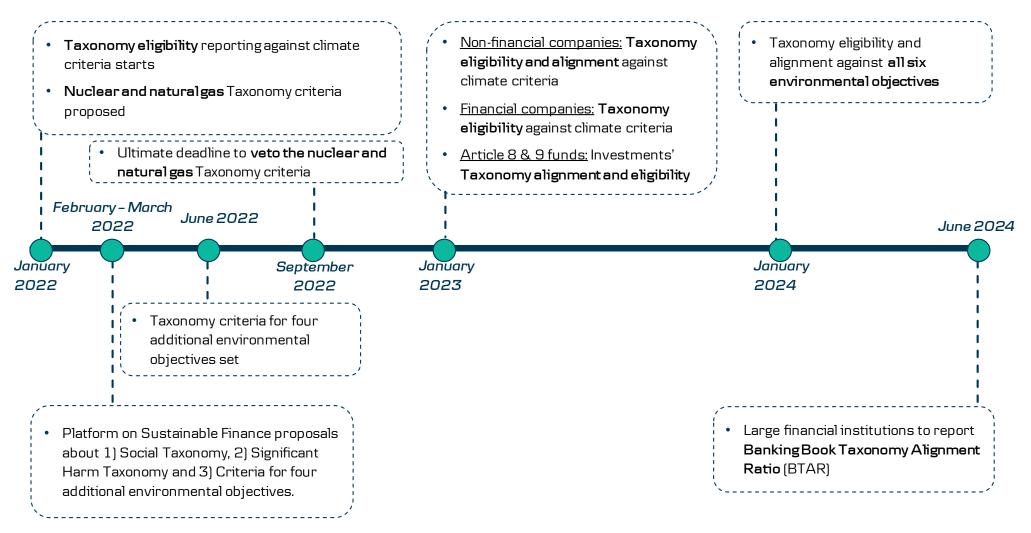
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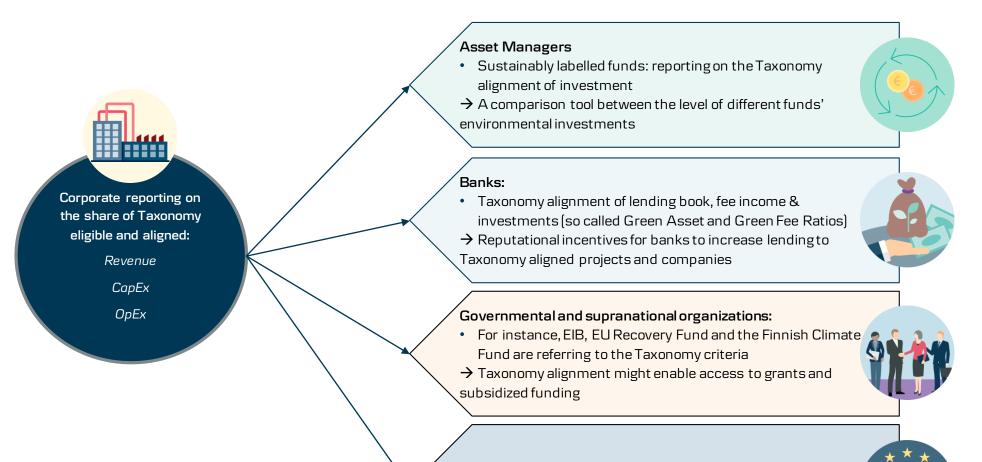
Timeline for EU Taxonomy criteria development and disclosures

First Taxonomy disclosures have started, but we're still in the early days of Taxonomy implementation



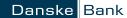
EU Taxonomy users and impacts

Corporate real economic activity and reporting provides the information that is utilized by multiple stakeholders in decision making



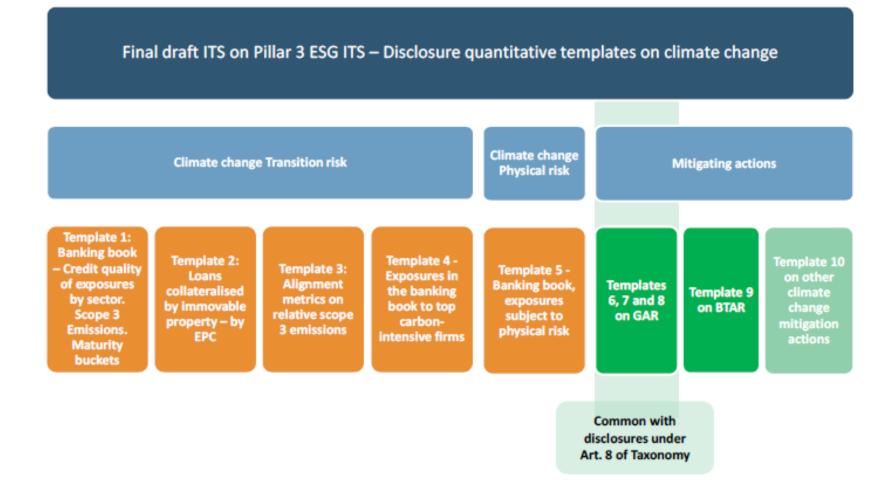
EU Green Bond Standard:

 Taxonomy alignment percentage of the EU Green Bond standard expected to be high (80-100%)



Taxonomy will be just one of the mandatory ESG disclosures

Example: EBA final draft on Pillar 3 disclosures on ESG risks for large financial institutions



Takeaways

- 1. Taxonomy use has officially started
- First results show that average Taxonomy eligibility is 30 % with large differences between industries
- 2. Taxonomy criteria will be further expanding
 - Additional environmental criteria will scope in, for instance, many circular economy business models
 - The nuclear and natural delegated act will enable these technologies to achieve Taxonomy alignment, but inclusion
 of especially gas has also reduced Taxonomy's overall credibility
 - Social and Significant Harm Taxonomies would further expand the scope but their development is still uncertain
- 3. There will be a supply-demand imbalance for Taxonomy aligned assets
 - All major financial institutions will be required to report on Taxonomy alignment at both product & entity levels
 - Listed companies' Taxonomy alignment is estimated to be around 5 % (for Climate Delegated Regulation)
- 4. Taxonomy scarcity means a low Taxonomy alignment will be the norm
 - The minority of companies that can show even moderate Taxonomy alignment are likely to benefit from it
 - Low Taxonomy alignment will not endanger access to financing
- 5. Taxonomy will be just one of the many approaches in investors and financiers' toolbox
 - Even regulation will require focus also on, for instance, GHG emissions and sectoral climate transitions
 - Green bond market continues to widely use also other environmental criteria
 - Most important ESG topics will continue to vary between companies

Thank you for your time and attention! Questions?



Sustainable Finance weekly Wrap-up covers the key stories from a Nordic angle

Subscribe by emailing mikko.eloranta@danskebank.com

Danske Bank

25 February 2022



Dear Mikko

ESG & defence industry, mandatory ESG due dilligence, EU wind stats

Are ESG considerations at odds with funding the defence industry?

The war in Ukraine has made the discussion about how sustainable investing and finance approaches the weapons and defence industry as topical as ever. In recent months, the defence industry has actively highlighted that while maintaining a strong European defence industry is vital for the region's security, the popularity of sustainable investing and financing is increasingly stigmatizing the sector and endangering its financial viability. Last October, ASD, an association of European defence and security companies, published a <u>position paper</u> that voiced this concern by stating "Defence is a crucial component of security, and security is the precondition for any sustainability."

Sustainable investing has been wary towards the defence industry both due to the inherently high ESG risk of the sector but also due to ethical and value based decisions. Defence companies are most directly affected by the so called negative screening strategy that excludes specific sectors from the investable universe on, for instance, ethical grounds. Negative screening is the most common sustainable investing strategy in Europe with around 75 % of assets managed with this approach, according to a <u>Global Sustainable Investing Alliance</u> (GSIA) study. Moreover, within negative screening criteria, weapons are amongst the most popular. An <u>Eurosif study</u> showed that already in 2018 controversial weapons such as cluster bombs or land mines were the most common exclusion criteria but a blanket exclusion of all weapons was also very standard as the third most common criteria. Opinion pieces in, for instance, <u>Financial Times</u> and <u>Dagens Industri</u> have argued that the weapons industry should not be approach the same way as other commonly excluded sectors like tobacco and gambling that have no wider societal benefits.

The issue is significantly more pronounced in Europe compared to US. Both sustainable investing in general and negative screening specifically are more popular in Europe. Furthermore, as the general attitude towards the defence sector is also very different, a <u>Financial Times article</u> states that a valuation gap has emerged between defence companies in the two continents. Both <u>Affärsvärlden</u> and <u>Dagens Industri</u> have written that also multiple Nordic asset managers exclude all weapons companies from all their funds. Furthermore, Latvia's deputy prime minister <u>told Financial Times</u> a couple of weeks ago that an unidentified Swedish bank had refused to give a loan to an Latvian defence company due to ethical standards.

30 400 350 25 20 C 300 15 200 150 10 ≥ 100 5 50 0 2017 2018 2019 2020 2021 5055 2023 2024 2025 2026 Onshore Offshore — — Cumulative

Source: WindEurope

Notable sustainable bonds transactions of the week

Dete	lasuer	Rating (S&P/Moodys/ Fitch)	Coupon	Maturity	Volume (m)	Currency	Country	Industry group	Bond	Төр	lasuer type	
2022- 02-23	VASAKRONAN AB	-/A3/-	1.800	2027-03- 02	150	SEK	SE	REAL ESTATE	GREEN	New	CORPORATE	
2022- 02-22	HEMSO FASTIGHETS AB	A. / - / -	0.360	2025-03- 03	150	SEK	SE	REAL ESTATE	SUSTAIN ABILITY	New	CORPORATE	Carolin Corb
2022- 02-21	FASTIGHETS AB BALDER	BBB/BAA3/-	2.635	2027-03- 01	150	SEK	SE	REAL ESTATE	GREEN	New	CORPORATE	Carolin Dark
2022- 02-21	FASTIGHETS AB BALDER	BBB/BAA3/-	1.440	2027-03- 01	600	SEK	SE	REAL ESTATE	GREEN	New	CORPORATE	Carnete Sura
2022- 02-18	VASAKRONAN AB	-/A3/-	1.155	2025-02- 11	100	SEK	SE	REAL ESTATE	GREEN	Yes	CORPORATE	_
2022- 02-18	HUFVUDSTADEN FASTIGH AB	-/-/-	2.175	2027-02- 25	500	SEK	SE	REAL ESTATE	GREEN	New	CORPORATE	_

Wind power new installations and cumulative capacity (Europe)

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