Implementation of the EU Taxonomy Regulation

◆

How are French companies coping with the first year of alignment disclosure

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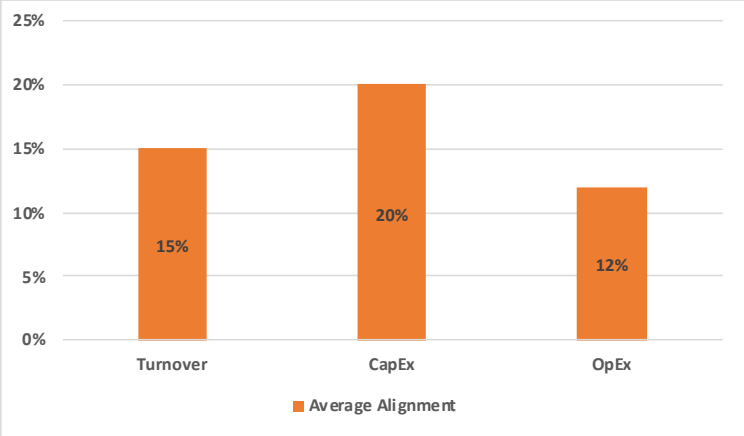
Executive Summary

For the first time, in 2023 companies have had to disclose new information and indicators in their yearly publications concerning the alignment of their activities with the Taxonomy. Members of Afep are part of the stakeholders who must communicate these new requirements, hence the publishing of this study.

This analysis relies on **a sample accounting for 31% of Afep Members**. The chosen firms are listed, non-financial undertakings and have, in average, an eligible Turnover of 42%.

Overall, **the average alignment stands at 15%, 20% and 12% for turnover, CapEx and OpEx key performance indicators (KPIs)**. However, these metrics fall drastically to 5%, 9%, and 4%, when looking at the medians.



Source : AFEP

No major difficulty stands out when it comes to the analysis of the Turnover. 70% of the sampled firms published an aligned Turnover. The latter is on average 15% aligned to the Taxonomy. The firms with the highest aligned KPIs are found in the following sectors: Industrial Transportation, Media, and Real Estate Investment Trusts.

CapEx is on average the highest metric regarding both alignment and eligibility. 89% of sampled companies declared an aligned CapEx KPI. CapEx KPI are on average 20% aligned. This high level is explained by the definition of CapEx by the Taxonomy Regulation, which allows companies to analyze CapEx linked to eligible activities, individual measures, and CapEx Plans. However, **the complementary information regarding eligible CapEx could be improved** for the Taxonomy reporting to be seen and used as an effective tool to attract investments. The companies with the highest aligned CapEx KPI are found in the same sectors as for Turnover alignment.

OpEx KPI is the most problematic KPI of the three. 59% of sampled companies declared an aligned OpEx, its average alignment is of 12% and its average eligibility is of 29.7%. As for the CapEx KPI, its alignment and eligibility levels can mostly be explained by the definition of OpEx by the Taxonomy Regulation. However, conversely to the CapEx, **the definition of the OpEx is extremely narrow, leading firms to use the materiality exemption**. The top-3 aligned sectors in terms of OpEx are Media, Gas, Water and Multi-utilities, and Electronic and Electrical Equipment.

Most of the aligned activities are enabling activities, and most are disclosed as contributing to climate change mitigation. A few firms chose to disclose voluntary indicators to give context to their reporting and sometimes explained why their eligibility and alignment levels could be higher. Overall, there are at this date **significant differences between companies regarding the precision and quantity of information** in their reporting, which are most of the time explained by difficulties encountered throughout their analysis. These difficulties cover the short time frame they must abide by, the large quantity of new data they must analyze, interpretation of the legislation passed.

In conclusion, this study shows that **the proportion of aligned activities is larger than expected but represents a small part of companies' activities**. This raises the question of whether the Taxonomy will really support transition. This question should however be mitigated by the fact that the Taxonomy is a journey and **what eventually matters is the trajectory**. In this regard **the CapEx KPI appears to be the most useful tool for both reporting entities and investors**.

Considering the findings of this study, companies could **consider the following points in order to enhance effectiveness of their Taxonomy reporting**:

1. **Try providing the most contextual information possible, accompanying the Key Performance Indicators** ;
2. **Put the emphasis on the CapEx indicator**, and detailing the nature of the CapEx plans ;
3. Detail the methodology employed to assess the company's activities and, in particular, **mention how double counting was avoided** ;
4. **Favor a presentation of eligible activities and of the assessment of DNSH in a table**, before describing further the methodology employed;
5. **Allocation of substantial contribution for each activity in the tables could be harmonised**, the most instinctive approach being splitting the percentage of alignment between each activity, the end-sum being the alignment KPI.

1 Introduction

This study relies on a sample accounting for 31% of Afep Members. The chosen firms are listed, non-financial undertakings and have an eligible turnover.

1.1 The Taxonomy in brief

In order to implement the EU Green Deal, the European Union published the Taxonomy Regulation[1] (The Regulation) in the Official Journal on 22 June 2020, entering into force on 12 July 2020.
The EU Taxonomy is a classification system of all potentially sustainable activities, and outlines the technical screening criteria, specific to each activity, in order to determine whether activities are sustainable or not. Its main objective is to increase and help redirect investments towards sustainable activities. By defining what sustainable activities are, this regulation creates a common language for sustainable investment. The second purpose of the Regulation is identifying and dealing with financial risks induced by ESG factors such as climate change. Finally, this measure targets further transparency, by creating a standardized framework that favors the understanding and analysis of the sustainable scope of economic activities.
Sustainability is defined accordingly to six environmental objectives that are the pillars of the EU Taxonomy: (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 and (6) protection and restoration of biodiversity and ecosystems.
Since 2022, companies have had to disclose new information and indicators in their yearly publications concerning their activities and 2023 is the first year of disclosure of the alignment with the Taxonomy (whether or not said activities are sustainable and the proportion of revenue, capital expenditures and operating expenditures associated with these activities).

Members of Afep are part of the stakeholders who must communicate these new requirements, hence the publishing of this study. This quantitative and qualitative analysis of the Taxonomy reporting of the members of Afep aims at better grasping how they are affected by this new regulation, regarding either the indicators published, but also the heavy load of complementary information that accompanies these indicators. Understanding where they stand, what difficulties they are encountering, which sectors are most affected and which are least affected.

[1] Regulation (EU) 2020/852 of 18 June 2020.

1.2 Timeline

The European Commission completed the Taxonomy Regulation with Delegated Acts which specify the criteria and the methodology to follow in order to apply the Regulation. Three Delegated Acts have been published in the Official Journal of the EU for now:

- The **Climate Delegated Act**[2], published on 9 December 2021, and applicable from 1 January 2022 details the activities and the criteria the latter must follow in order to be considered environmentally sustainable, regarding climate change mitigation and adaptation.
- The **Disclosure Delegated Act**[3], published on 10 December 2021 and applicable from 1 January 2022, provides the methodology to follow and the way the required information must be disclosed by financial and non-financial undertakings.
- The **Complementary Climate Delegated Act**[4], published on 15 July 2022 and applicable from 1 January 2023, modifies the two previous Delegated Acts cited hereabove by including the strict conditions for nuclear energy and gas related activities that fall under the initial list of activities concerned by the Taxonomy Regulation.

The European Commission adopted in June 2023 a series of amendments and additions to the first Delegated Acts. Firstly, these amendments deal with the new technical screening criteria that apply to activities substantially contributing to the remaining four environmental goals: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystem. Secondly, amendments to the **Taxonomy Climate Delegated Act** (concerning climate change mitigation and adaptation) and on the **Taxonomy Disclosure Delegated Act** (concerning the methodology to follow) have been adopted. Changes were mainly made to Manufacturing and Transport sectors.

1.3 Disclosure requirements

The Regulation requires distinctive disclosures depending on the relevant party (financial undertakings, non-financial undertakings, asset managers), in order to better target their specific activities. For non-financial undertakings, the Regulation requires the analysis and reporting of the following financial metrics or key performance indicators (KPIs):

- Turnover;
- Capital Expenditures (CapEx);
- Operational Expenditures (OpEx).

Companies based in Member States or operating a European legal entity with more than 500 employees and subject to the Non-Financial Reporting Directive[5] were under the obligation to disclose the eligibility of their activities from 2022, and then the alignment from 2023.

[2] Regulation (EU) 2021/2139 of 9 December 2021.
[3] Regulation (EU) 2021/2178 of 10 December 2021.
[4] Regulation (EU) 2022/1214 of 15 July 2022.
[5] Article 1 (c) of the Taxonomy Regulation "This Regulation applies to: (…) (c) undertakings which are subject to the obligation to publish a non-financial statement or a consolidated non-financial statement pursuant to Article 19a or Article 29a of Directive 2013/34/EU of the European Parliament and of the Council (68), respectively."

Consequently, this study aims at assessing the first complete reporting of non-financial undertakings for the first two climate objectives, in order to identify to what extent, the Taxonomy is significant for stakeholders, and which main difficulties companies were confronted with in the implementation of their new disclosure requirements.

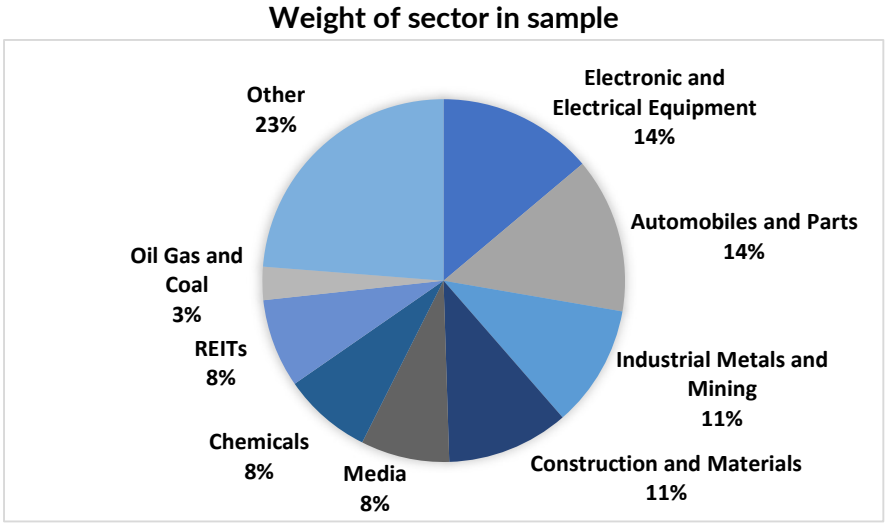
2 Framework and Methodology

2.1 Sampling

For this report, the sample was based on the 118 members of Afep[6]. The selection criteria are threefold. **Selected companies are:**

- **listed,**
- **non-financial undertakings,**
- **with an eligible turnover**, meaning they have a non-null proportion of Turnover related to Taxonomy-listed economic activities).

An economic activity[7] of a non-financial undertaking can be eligible if its definition corresponds to one of the economic activities listed in the Climate Delegated Act, defining for now the two first objectives of the Taxonomy, climate change mitigation and adaptation. However, this eligibility does not necessarily induce contribution to sustainability, only its underlying potential for contribution. **Our sample is comprised of 37 companies, members of Afep, all of which have disclosed an eligible turnover**. Banks, insurance firms and firms with considerably low levels of eligibility for the three metrics were not taken into account. Firms of the sample are found in the following areas of activity:



Source: Afep

[6] Afep Members.

[7] As a reminder, economic activities are defined as such by the **Commission Notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets:** "*when resources such as capital, goods, labour, manufacturing techniques or intermediary products are combined to produce specific goods or services. It is characterised by an input of resources, a production process and an output of products (goods or services)*".

Other sectors include: Industrial Support Services (5%), Industrial Transportation (5%), Gas Water and Multi-utilities (5%), Software and Computer Services (3%), Telecommunications (3%) and Technology Hardware and Equipment (3%).

Members of Afep from the following sectors were not selected in the sample:

- Personal Care, Drug and Grocery Stores
- Travel and Leisure
- Aerospace and Defense
- Medical Equipment and Services
- Banks
- Food Producers
- Consumer Services
- Telecommunications Equipement
- Retailers
- Household Goods and Home Construction
- Personal Goods
- Pharmaceuticals and Biotechnology
- Health Care Providers
- Beverages
- General Industrials

The firms sampled come from activity sectors that are the most carbon emissive when compared to all the areas covered by Afep Members. This can be explained by the choice of the European Commission to first adopt the climate change objectives that tackle the economic activities accounting for most of the greenhouse gas emissions of the EU (93,5% in 2020).

In terms of stock market capitalization, **companies analyzed represent 29% of the total capitalization of Afep Members.**

Sectors	Capitalization (MEUR)	Weight of sector
Oil, Gas and Coal	154 593	20%
Electronic and Electrical Equipment	124 019	16%
Construction and Materials	113 798	14%
Chemicals	102 122	13%
Gas, Water and Multi-utilities	56 946	7%
Automobiles and Parts	43 488	6%
Technology Hardware and Equipment	36 597	5%
Telecommunications Service Providers	29 617	4%
Software and Computer Services	29 262	4%
Industrial Metals and Mining	27 262	3%
Industrial Transportation	23 955	3%
Industrial Support Services	18 466	2%
Real Estate Investment Trusts	13 369	2%
Media	12 032	2%
TOTAL CAPITALIZATION OF SAMPLE	**785 526**	**100%**

Source: Euronext Paris September 2023 (capitalization includes market capitalization of all Afep members and associated members listed on a regulated market)

Furthermore, **49% of the companies of our sample are included in the CAC40 Index** and account for 28% of the total capitalization of said index.

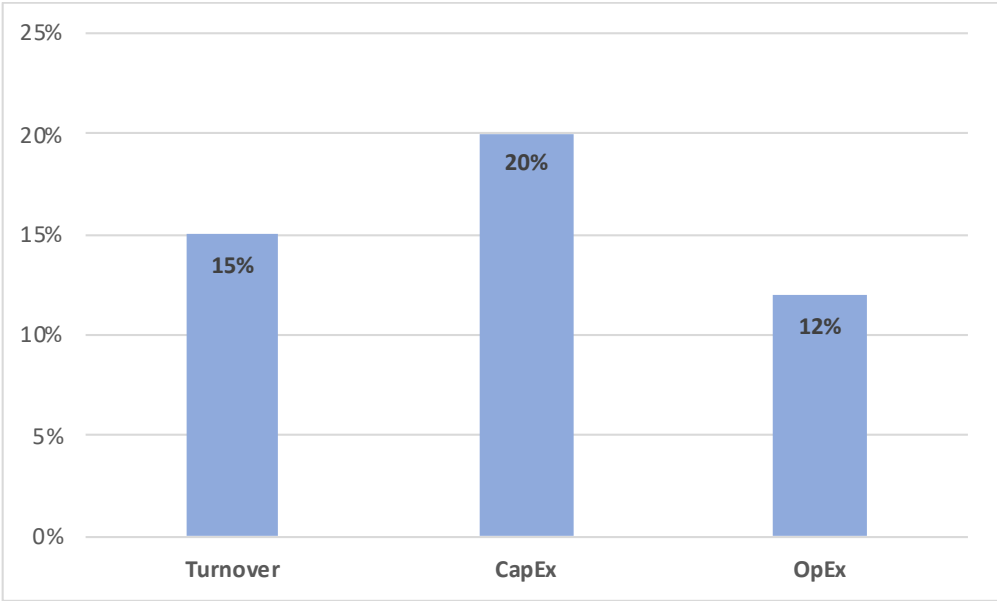
2.2 Source of information

The information used for this report were found in **the 2022 Universal Registration Documents** (URD) of the sampled companies (see Appendix I). The taxonomy templates and the complementary information published by the selected companies in the sections of their URD dedicated to the EU Taxonomy were therefore the basis of our analysis.

3 In-depth analysis of KPIs

In the graph below, the first key findings of our study show how aligned the firms from the sample are with respect to the Taxonomy.

Graph 1: Average alignment of Turnover, CapEx, OpEx



Source: Afep

On average, **the CapEx alignment is the highest and the OpEx alignment is the lowest**.

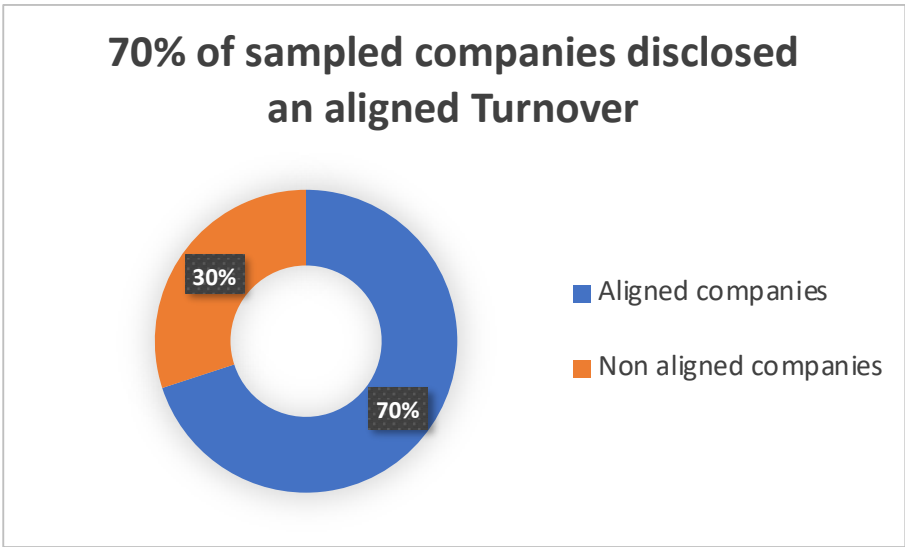
Seeing how CapEx are the leading KPI underlines where the main benefit and leverage point of the Taxonomy lies. Indeed, providing information on companies' investments and whether or not they are sustainable could redirect investments, by targeting the companies who need financial support in their transition or the companies who have already shown progress and efficiency in their transition. However, as it is revealed throughout this report, companies are facing multiple challenges regarding the processes implemented in order to meet the disclosure requirements. Indeed, firms are dealing with numerous difficulties, ranging from data collection to the comprehension of the legislation passed.

3.1 Turnover

70% of the firms of the sample published an aligned Turnover. The latter is on average 15% aligned to the Taxonomy (and 42% eligible). The firms with the highest aligned KPIs are found in Industrial Transportation, Media, and Real Estate Investment Trusts.

General Analysis

Graph 2: Companies disclosing aligned Turnover



Source: Afep

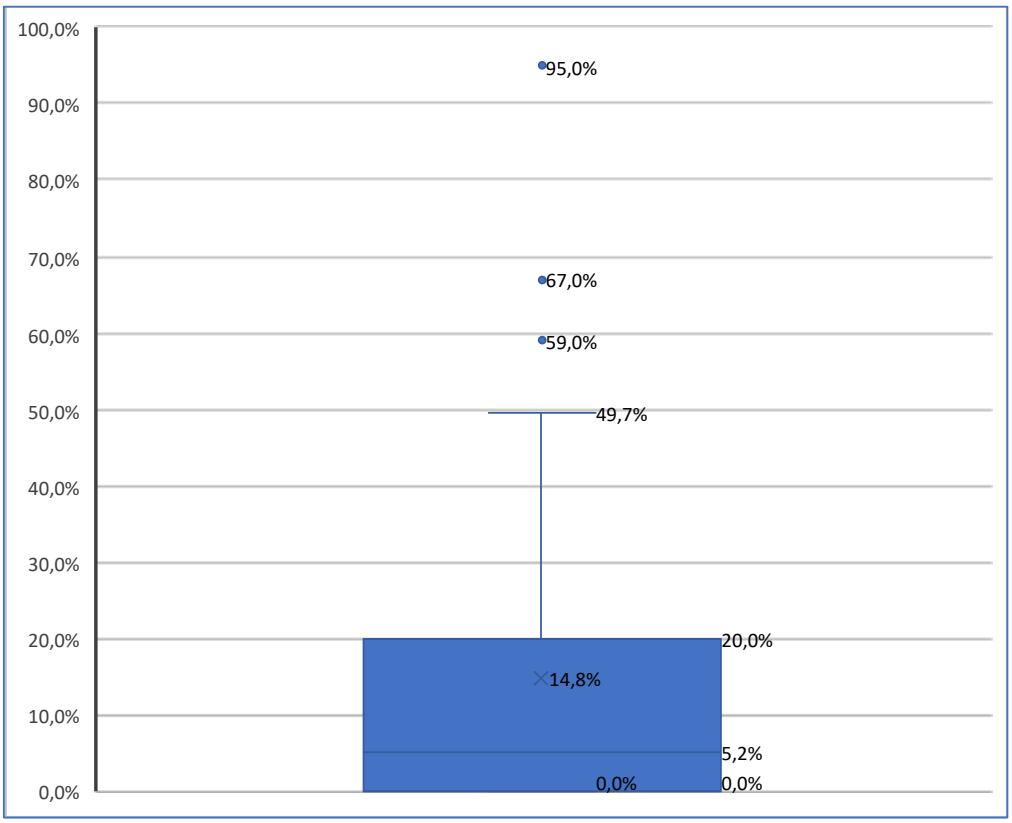
In terms of alignment, **70% of the sampled companies identified EU Taxonomy-aligned Turnover**. Companies from the sample **did not report any major difficulties regarding the analysis of the Turnover**.

Alignment of the Turnover KPI is **on average 15%.** This means that a firm of the sample has on average 15% of its Turnover that can contribute significantly to one of the two climate objectives. When looking at the distribution of turnover KPIs, they are quite closely clustered, **the median being 5.2%** and the 3rd quartile being only 20%, meaning that **75% of sampled companies have less than 20%** of their Turnover aligned to the Taxonomy.

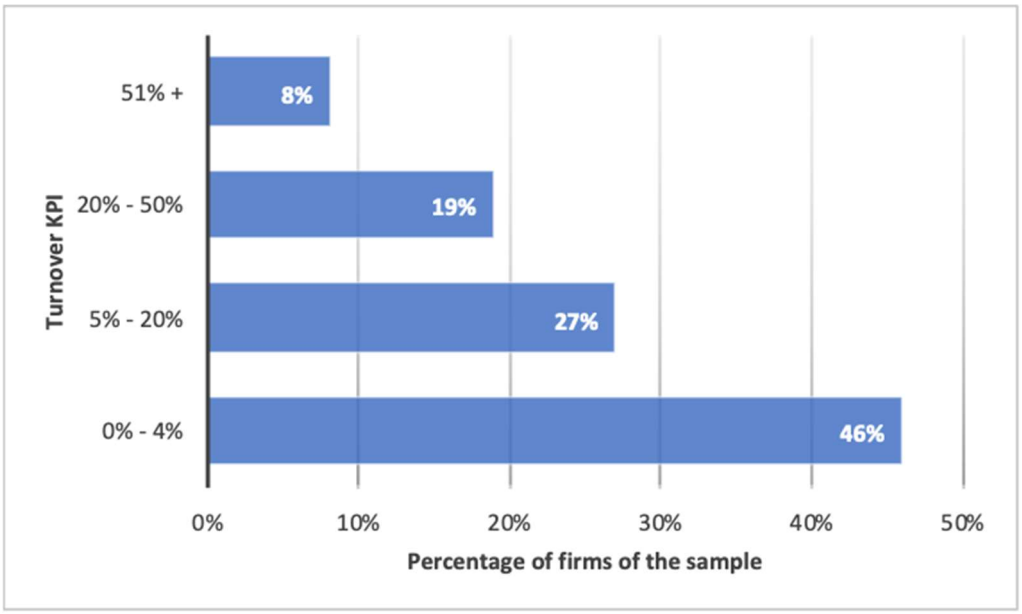
Graphs 3 and 3a illustrate the widespread of this KPI, with outliers ranging from 59% to 95%. The firms from the sample accounting for these significant levels of alignment are Alstom (59%), Technicolor (67%), and Getlink (95%).

Distribution of Turnover KPI

Graph 3



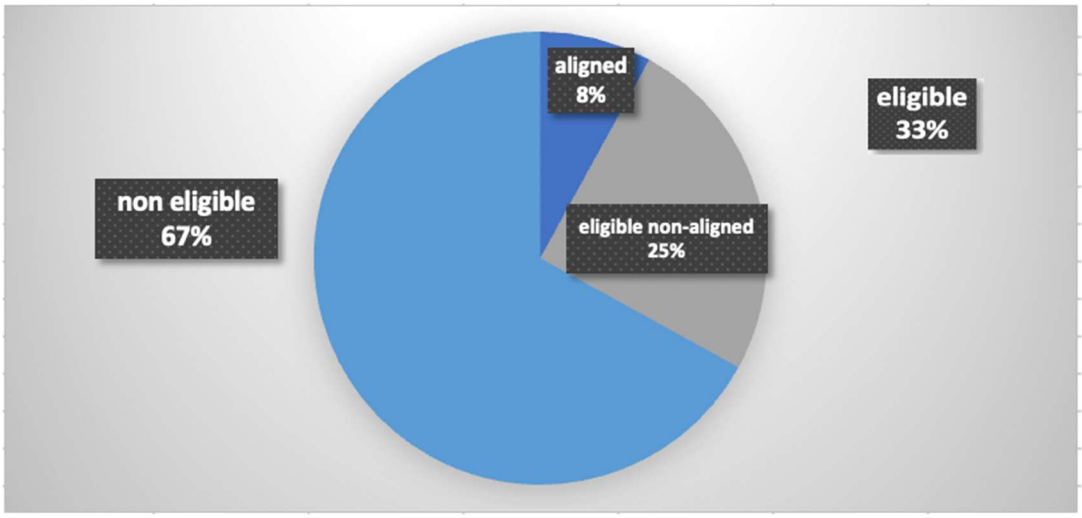
Graph 3a



Source: Afep

When analyzed in absolute values, 8% of the Turnover of the sample is aligned, which approximates 85bn€. The eligible Turnover accounts for much more of the sample Turnover, reaching 340bn€.

Graph 4: Turnover in absolute values



Source: Afep

30% of the companies disclosed that they declared non-aligned Turnover because they proceeded with caution, mostly regarding the interpretation of the DNSH requirements, and in particular regarding the "do no significant harm" (DNSH) criteria for pollution defined in Appendix C of the Climate Delegated Acts (see 4.2 below), rather than risking the misunderstanding of the Regulation and declaring themselves aligned when they are not. Such comprehension mistakes could indeed reflect poorly on a firm if it publishes high levels of alignment one year, and much lower levels the next, once they realize that they misinterpreted the regulation the first year.

> In analyzing the alignment of its products with the pollution DNSH, Plastic Omnium was not able to determine compliance with the *essential use for society* nature of substances listed by the taxonomy, as the objective criteria used to assess this notion are not defined by the regulations. Plastic Omnium has taken note that objective criteria to assess the notion of "essential use" will be defined in 2023 as indicated in the European Commission's answer to question 176 of the FAQ of December 19, 2022. This will enable the Group to reassess its alignment with the European Taxonomy on the basis of these criteria while continuing to deploy its ambitious sustainability policy as part of its ACT FOR ALL™ program.

Source: Compagnie Plastic Omnium's URD 2022

> (SVHC). The DNSH criteria linked to the Pollution Prevention and Control goal go beyond "REACH" requirements by prohibiting the manufacture, placing on the market and/or use of these substances, and even more generally of all non-regulated substances called "Substances Of Concern" (SOCs), except if their "use has been proven to be essential for the society". Such a requirement has not yet been precisely defined by the European authorities, and a many of these substances are currently needed to produce the majority of manufactured products while complying with current regulations. To date, we are unable to say whether the use

Source: Renault's URD 2022

We experienced challenges in the application of the specific criteria for the exception on the basis of the concept of "essential use for the society". The lack of clarity on this concept has resulted in us approaching this assessment in a conservative way to avoid that products would potentially unjustified be considered Taxonomy-aligned. As a result we have not defined nor used the concept of "essential use for the society" criteria despite our role in the energy transition notably for electric vehicle components and therefore have excluded certain products from this assessment. We did include chemicals benefiting from an RoHS exemption and which chemicals are also subject to (f) and (g) of the relevant DNSH – criteria following from the EU Taxonomy Delegated Act where no technical alternative exists.

Source: STMicroelectronics' URD 2022

Another reason for low levels of alignment of the Turnover compared to eligibility was that companies were not always able to conduct an analysis at the necessary and desired degree of granularity in order to classify turnover as aligned.

activities 3.2, 3.3 and 3.4, compliance with the criteria of substantial contribution is intrinsic to the notion of eligibility. On the other hand, for support activities whose alignment requires a detailed analysis, substantial contribution data was collected, after transmission of the operational guidelines and criteria, from the divisions. The latter were able to report the information on the basis of available local data by adopting a cautious position given the difficulty in accessing comprehensive information.

Sourc : Compagnie Plastic Omnium's URD 2022

For activity 8.1 "Data processing, hosting and related activities," the information provided by Orange Business Services' main suppliers was not granular enough to conduct a thorough analysis of the technical screening and DNSH criteria, which is why all the Data centers operated by these suppliers are considered non-aligned.

Source : Orange's URD 2022

Such difficulties are tackled in further detail in the section "Analysis of the reporting methodology".

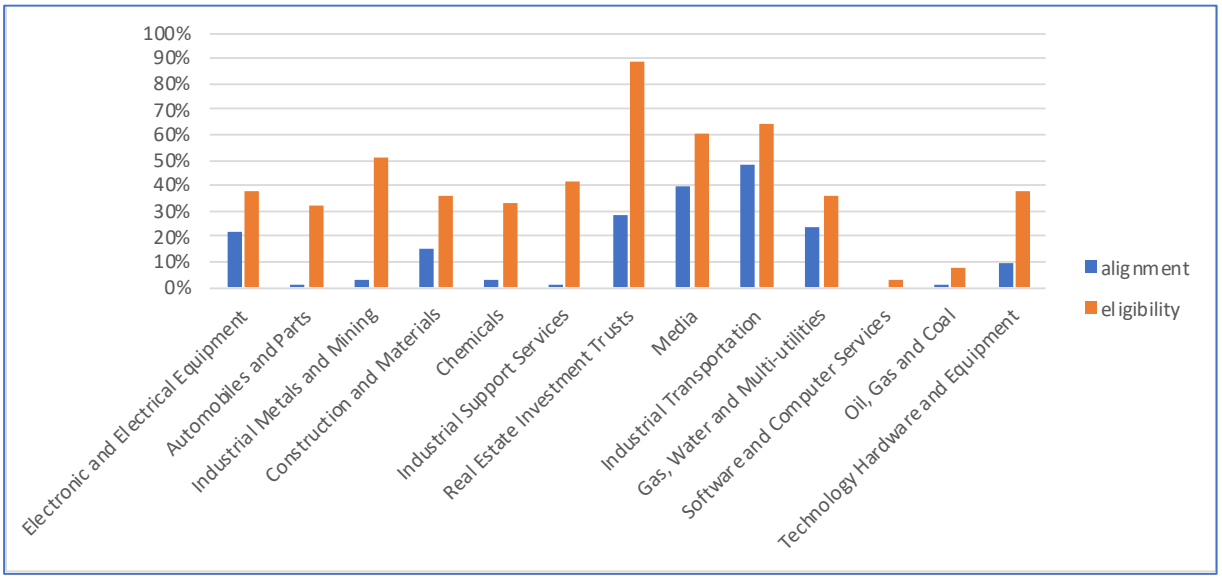
The Alignment/Eligibility Ratio for the Turnover is on average 37%. This suggests that an eligible company can on average disclose slightly more than a third of its eligible Turnover as aligned. The proportion of eligible Turnover of the sampled companies ranges from 0.1% to 100%. It is on average 42.4%. In other words, a company from the sample has **on average 42.4% of its Turnover potentially contributing** to either climate change mitigation or adaptation. However, the median is lower, and stands at 36%, which means that half of the sampled firms disclosed eligible turnovers lower than 36%. This is quite a narrow difference which shows that Turnover eligibility is pretty evenly distributed throughout the sample.

Nonetheless, the firms with the highest proportion of eligible Turnover are not the same as those who, in absolute values, account for the highest eligible Turnover. Indeed, only 5 of the top-10 companies in terms of eligible Turnover in percentage are equally in the top-10 of eligible Turnover in absolute values. Thus, a 99% eligibility can signify a highly eligible Turnover for a firm, which has a very low impact on the total eligible Turnover of a group of companies in comparison. For instance, in the sample, two firms have each 94% and 99% of Turnover eligibility. However, the first disclosed 75 billion euros of eligible Turnover, and the second only disclosed 1.5 billion euros of eligible Turnover.

It is therefore recommended to compare for each metric (Turnover, CapEx, OpEx) the percentage and absolute value together, to better grasp where the firm stands.

Sectorial Analysis

Graph 5: Average Turnover alignment and eligibility, by sector



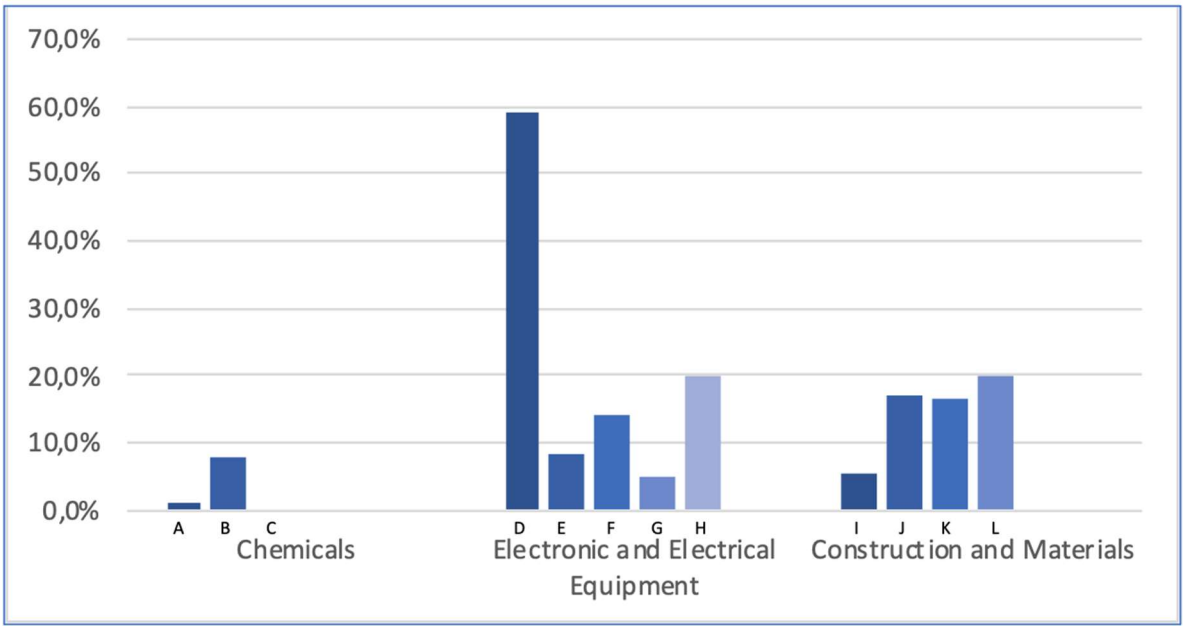
Source: Afep

As shown above, in Graph 5, the average eligibility and alignment varies notably from area to area. The companies with **highest average levels of alignment are found in Industrial Transportation (48%), Media (39%), Real Estate Investment Trusts (28%)**. The most eligible companies are also in Real Estate Investment Trusts (REITs), Industrial Transportation and Media with respectively 88%, 64%, and 60% of average eligible Turnover.

Firms with high eligible Turnover however can have a null or close to null alignment KPI. Indeed, in areas such as Automobiles and Parts, the average eligible Turnover ranges around 32%, but alignment only averages at 1%. Similarly, although Industrial Metals and Mining is the fourth most eligible area, with an average eligible Turnover of 50.6%, its alignment dwindles to an average of 3%.

An interesting point to stress is that even within the different sectors of activity, there are very high discrepancies between companies in terms of alignment, as showed below in Graph 5. for Chemicals, Electronic and Electrical Equipment and Construction and Materials. Although it can be interesting to look at these sectorial differences in terms of eligibility and alignment in the years to come, the reasons for these differences are more linked, to this date, to incomplete data collection or to cautious interpretation of the Regulation, as mentioned above, than to non-compliance with the technical screening criteria.

Graph 6: Alignment for firms of three sectors



Source: Afep

Textual analysis

Throughout sampled firms' Taxonomy reporting, various difficulties were brought up. However, the **Turnover analysis seems to be the less problematic of all**. Concerning this indicator, **most firms explicitly mentioned that the Turnover used for calculations was reported alongside the consolidated financial statements, but 16% did not**. This information is required by the Taxonomy as complementary to the KPIs and must be explicitly mentioned.
The issues regarding the analysis of the Turnover were mostly **related to the restrictive size of the list of eligible activities** defined at this stage, making the 2023 key performance indicators incomplete, given furthermore that only the reporting for the two climate goals is required for now.

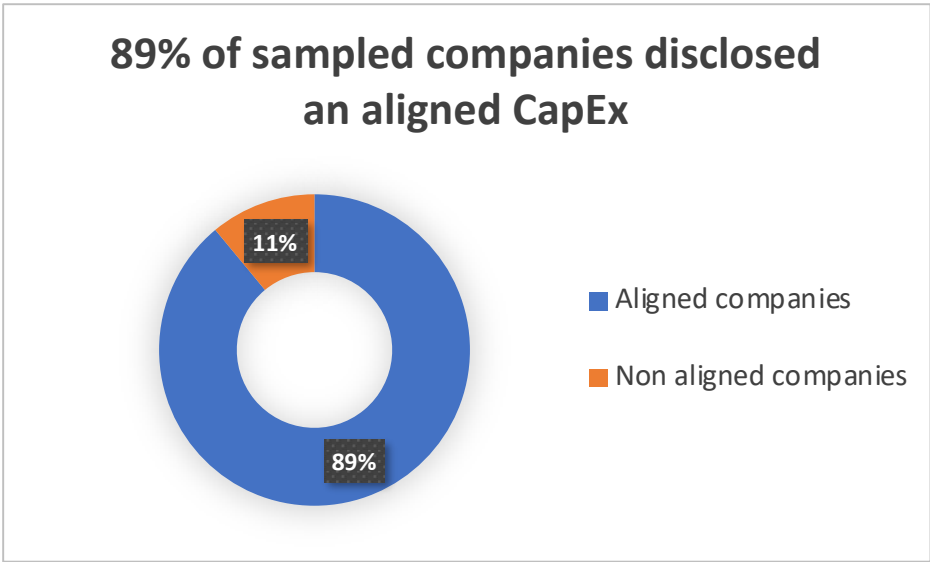
It has been brought up that the necessary workload to comply with the requirements of the EU Taxonomy is as heavy as for consolidated financial statements, if not more, involving training of the companies' teams and thorough cross-consistency checks. However, due to the narrow list of activities accepted, this deep analysis often leads to disappointing results for some companies who ended up with low eligibility and alignment levels, despite having multiple activities which could substantially contribute to the climate change objectives. Most firms thereby disclose that the **KPIs published in 2023 must not be taken at face value but rather as a transitionary and obligatory step towards more complete and accurate results** based on all six climate objectives, which will be published in 2024.

3.2 CapEx

CapEx is on average the highest metric regarding both alignment and eligibility. 89% of sampled companies declared an aligned CapEx, which are on average 20% aligned and 50.5% eligible.
This high level is explained by the large scope of the definition of CapEx given by the Regulation, which allows companies to analyse CapEx linked to eligible activities, individual measures, and CapEx Plans. However, the complementary information regarding eligible CapEx could be improved for the Taxonomy reporting to be seen and used as a tool. The leading companies in terms of alignment are found in the same sectors as for Turnover alignment (Industrial Transportation, Media and Real Estate Investment Trusts).

General Analysis

Graph 7: Companies disclosing aligned CapEx



Source: Afep

In terms of alignment, **89% of the sampled companies identified EU Taxonomy-aligned CapEx**, and conversely, only 11% disclosed a null KPI. The companies who did not identify aligned CapEx were from Industrial Metals and Mining, Industrial Support Services and Automobiles and Parts.

The explanations given by the firms in these sectors, were either:
- **Not having the means to quantify the share of CapEx aligned**, thus considering them not aligned;
- **Not complying with the DNSH criteria**;
- **Disclosing null alignment, in the waiting for future clarifications or amendments regarding certain criteria** (mostly for pollution and the issue of essential use).

The aligned CapEx declared by the companies from the sample are on average 20%. Hence, for 100€ of CapEx from a firm of our sample, on average 20€ are considered sustainable according to the Taxonomy.

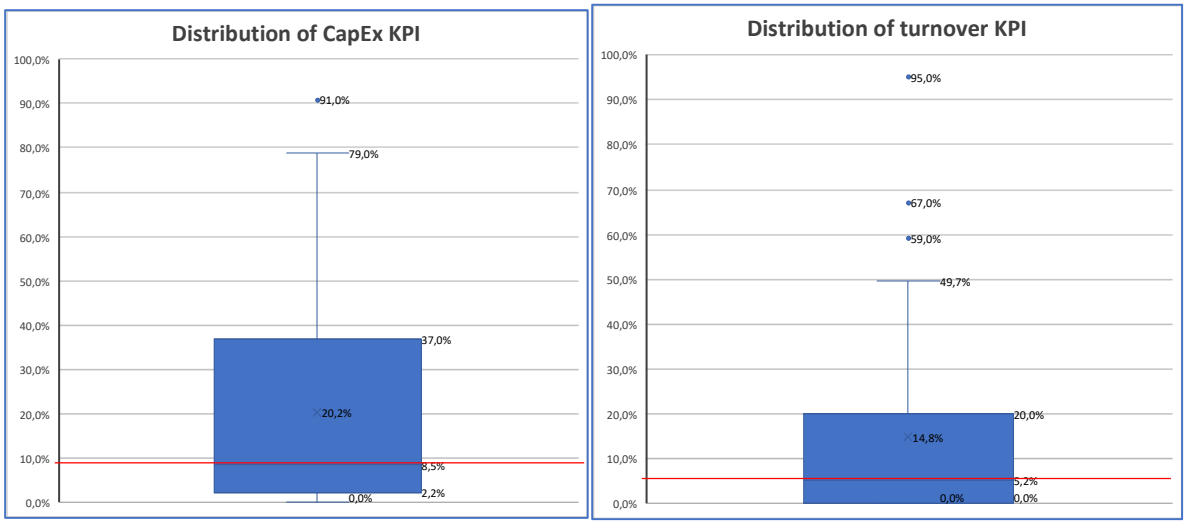
This is the **highest proportion of alignment out of the three metrics**. This is mainly due to the **large definition given by the Taxonomy** for aligned CapEx. According to the Commission, Capex is defined as additions to tangible and intangible assets during the reported financial year, including those resulting from business combinations. This definition can be broken down into three categories of assets or processes:

- Related to Taxonomy-aligned economic activities;
- Part of a credible plan to expand Taxonomy-aligned activities or to enable activities to become Taxonomy-aligned (24% of the sample);
- Related to the purchase of output from Taxonomy-aligned economic activities and individual measures, implemented and operational within 18 months, enabling the target activities to become low-carbon or to lead to greenhouse gas reductions (43% of the sample).

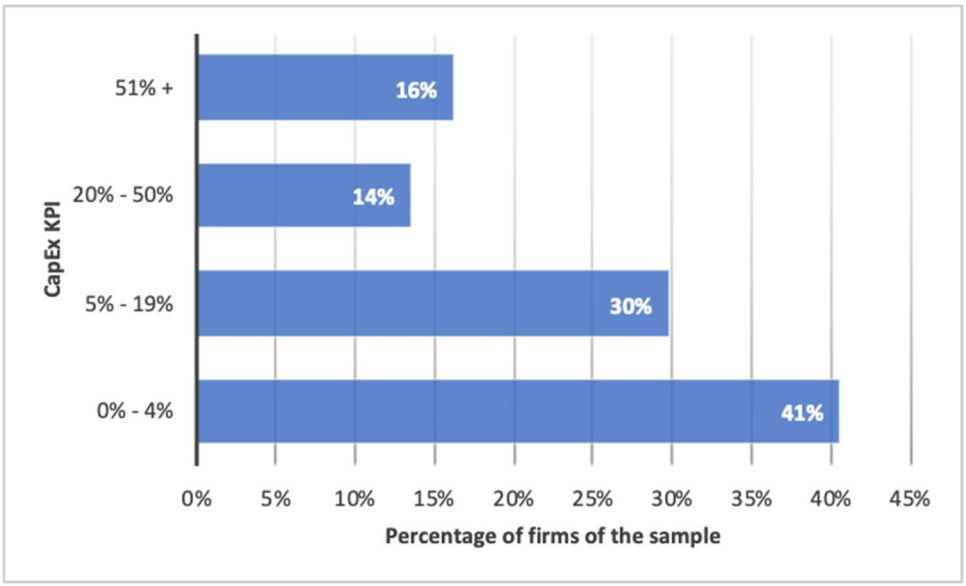
The two last points encompass many opportunities for companies to declare eligible CapEx: even firms who carry out non-aligned activities are able to declare a positive KPI thank to so called “individual measures” or “CapEx plans”.

When looking at the distribution, **CapEx KPIs are more evenly distributed than Turnover KPIs**. Indeed, the first quartile is 2.2%, the third is 37%, and as we can see below, the distribution is larger for CapEx, than for Turnover. There are nearly twice as many CapEx KPI below the 75% threshold, in comparison with the Turnover KPI. Finally, even with a maximum value of alignment of 91%, 4 points lower than the maximum KPI of Turnover, the average is 5 points higher.

Graph 8: Comparison of the distribution of CapEx and Turnover KPIs



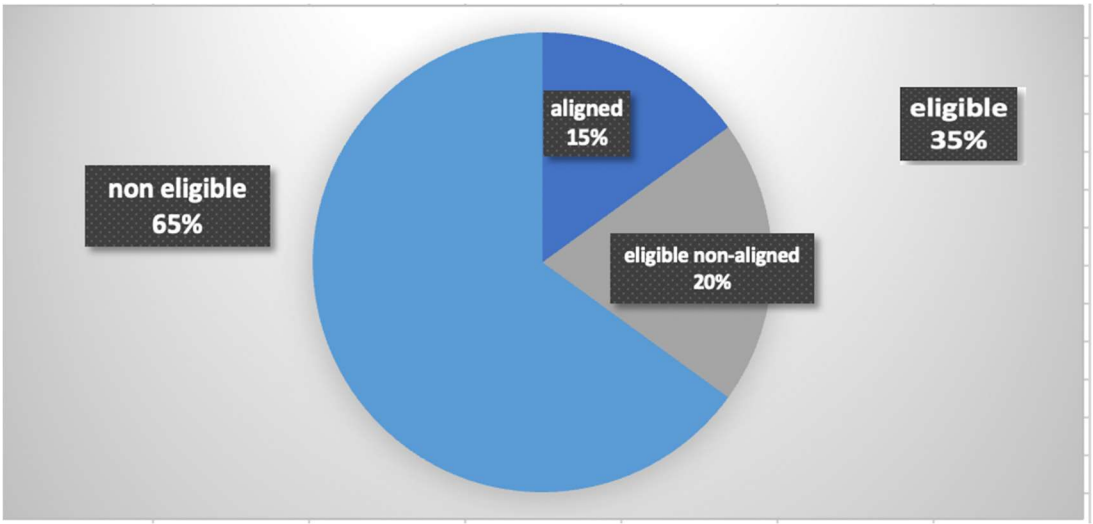
Graph 8a: Distribution of CapEx KPI



Source: Afep

On the whole sample, **107.7 billion euros were dedicated to capital expenditures**. Of these 107.7 billion euros, **15%, representing 15.9 billion, were declared as aligned**.

Graph 9: CapEx in absolute values



Source: Afep

Furthermore, while 30% of the firms disclosed a 0% alignment of their Turnover, only 11% did so for CapEx, more than half less.

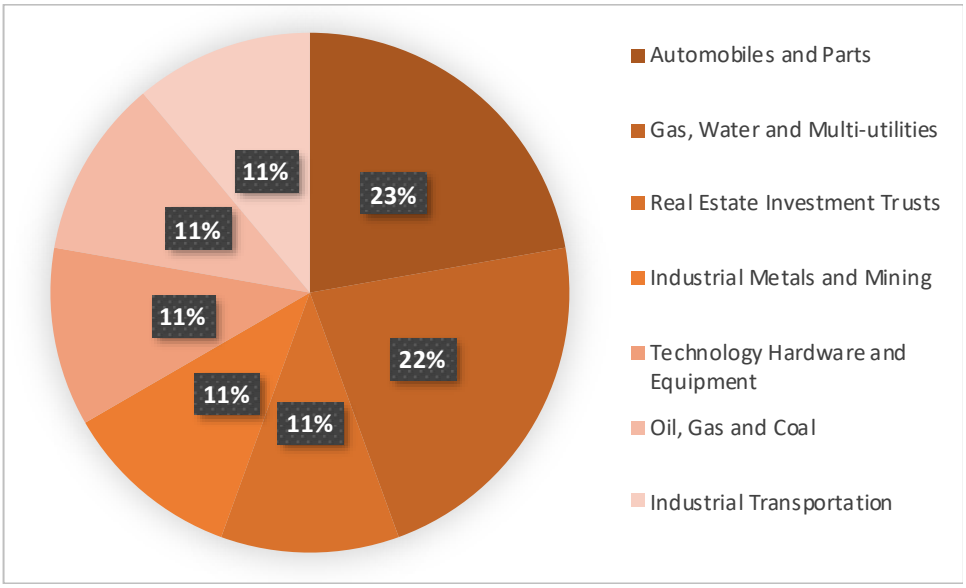
The average **Alignment/Eligibility Ratio is 40%,** meaning that for a total eligible CapEx of 100€, a firm of the sample will have on average 40€ aligned CapEx. As for the alignment, Capex eligibility is the highest metric, reaching 50,5% on average, and ranging from 2,8% to 100%.

It is all the more interesting when looking at a larger sample of all listed non-financial Afep members who disclosed either eligible Turnover, CapEx or OpEx. In this larger sample, only 2% of the firms published a 0% eligibility of their CapEx, compared to 38% for the Turnover and 53% for the OpEx.

Coming back to the definition of what can be considered as eligible CapEx, the Taxonomy authorizes assets related to "Capex Plans" to be included in the eligible numerator. These Capex Plans must meet several conditions (c.f. "Textual Analysis"). These conditions are (Regulation (EU) 2021/2178 of 6 July 2021):
« (a) the plan aims either to expand the undertaking's Taxonomy-aligned economic activities or to upgrade Taxonomy- eligible economic activities to render them Taxonomy-aligned within a period of five years;
(b) the plan shall be disclosed at economic activity aggregated level and be approved by the management body of non- financial undertakings either directly or by delegation. »

In our sample, 24% of the firms made an explicit mention of assets going towards CapEx Plans. It has been found that the **companies disclosing the regulatory information concerning the CapEx plans do not go in further detail** regarding the nature of these plans, despite it being a potential competitive advantage to attract investments. Doing so would enable further investments towards the companies.

Graph 10 – Breakdown of the sectors of the firms disclosing a Capex Plan

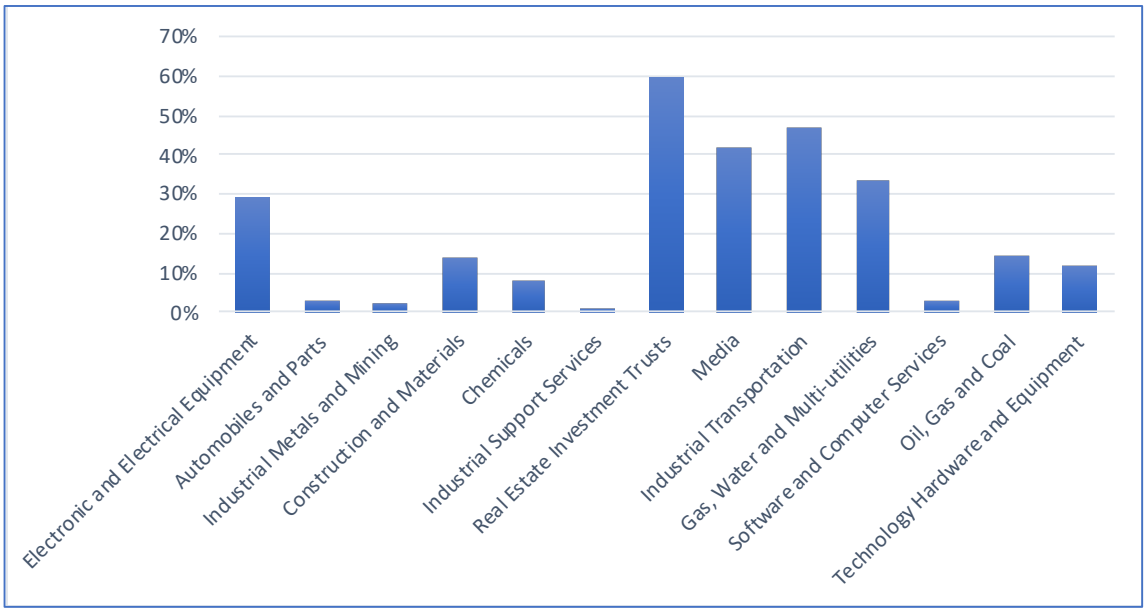


Source: Afep

Sectorial Analysis

The alignment of the CapEx of the sampled firms varies depending on the area of activity.

Graph 11: Average CapEx alignment, by sector

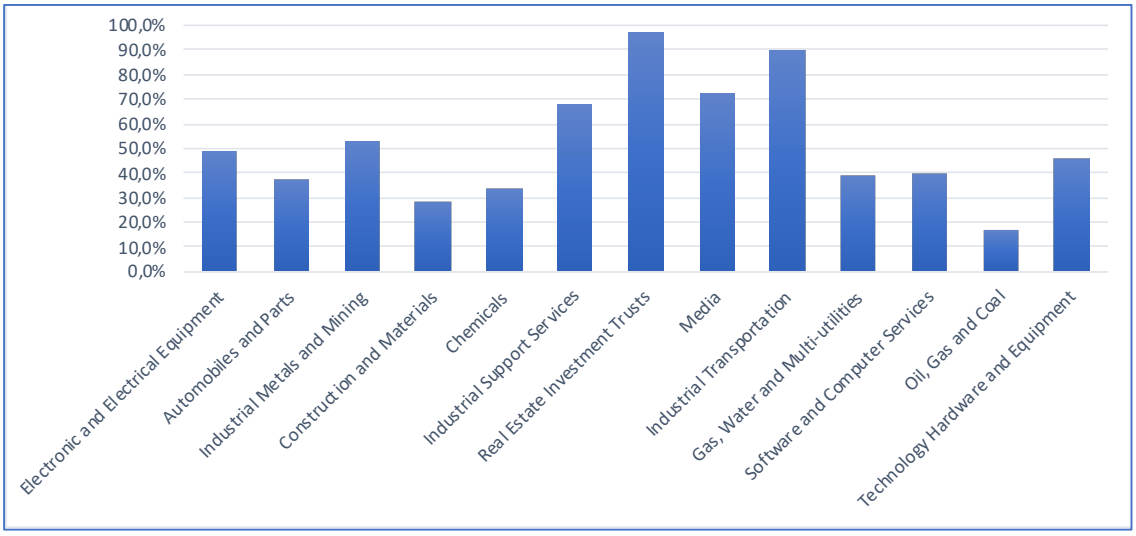


Source: Afep

As seen on the chart above, average CapEx KPI by sector vary from 2% up to 60%. **The leading companies in terms of alignment are found in the same sectors as for Turnover alignment**, being Industrial Transportation, Real Estate Investment Trusts, and Media.

Although most of the areas with highest levels of alignment are also the most eligible, this does not apply to all. Indeed, for Industrial Metals and Mining, or Software and Computer Services for example, even though they respectively have 52,7% and 40% CapEx eligibility, their alignment only goes up to 3%, in both cases.

Graph 12: Average CapEx eligibility, by sector

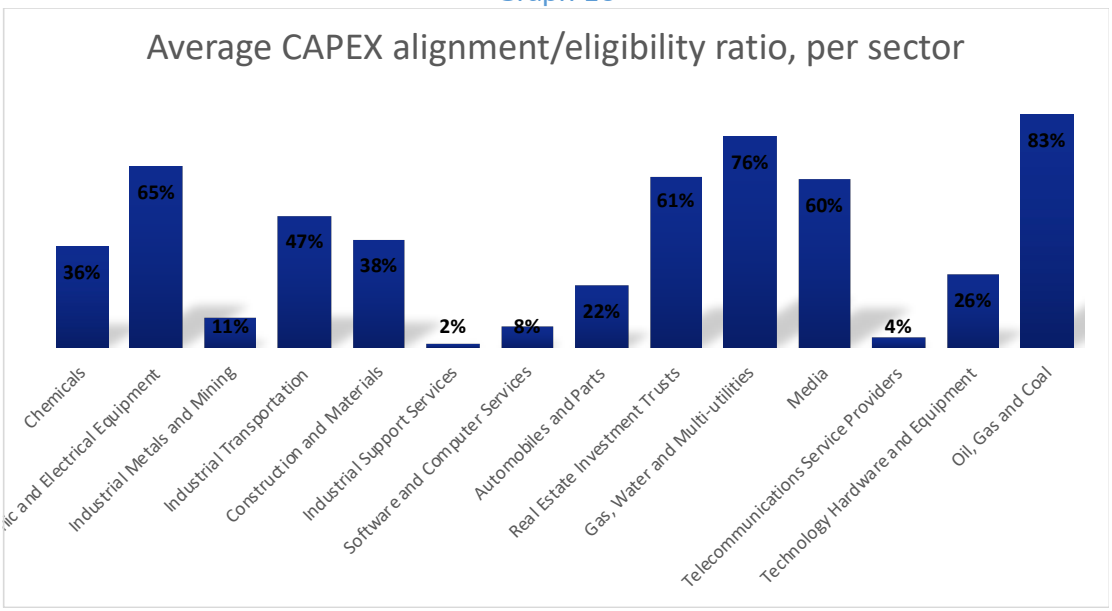


Source: Afep

The lowest eligible sectors are Oil, Gas and Coal, Construction and Material" and Chemicals. However, Oil Gas and Coal is the sector with the smallest difference between average eligibility and average alignment (2.4%). Indeed, even though it has a low average eligible CapEx of 17.4%, its CapEx KPI remains at 15%.

Coming back to CapEx Plans, undertakings from **Automobile and Parts** and **Gas, Water and Multi-Utilities** make up for most of the CapEx Plans disclosed, **contributing each for 22% of the total CapEx Plans disclosed**.
Nonetheless, this does not involve similar levels of either alignment or eligibility for these sectors, on the contrary. Indeed, Automobile and Parts has 3% of average CapEx alignment, when Gas, Water and Multi-Utilities reaches 33%. Thence, the level of sustainable contribution is not correlated to higher or lower levels of CapEx Plans.

Graph 13



Source: Afep

Textual analysis

- **Definition**

Of the 37 sampled firms, 31 have a taxonomic definition of the "CapEx" indicator. However, only 11 firms **explicitly** wrote that they were consistent with the Regulation's definition[8].

[8] *The definition of the denominator of Capex by the Taxonomy:*
« The denominator shall cover additions to tangible and intangible assets during the financial year considered before depreciation, amortisation and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations.
For non-financial undertakings applying international financial reporting standards (IFRS) as adopted by Regulation (EC) 1126/2008, CapEx shall cover costs that are accounted based on:
(a)IAS 16 Property, Plant and Equipment, paragraphs 73, (e), point (i) and point (iii);
(b)IAS 38 Intangible Assets, paragraph 118, (e), point (i);
(c)IAS 40 Investment Property, paragraphs 76, points (a) and (b) (for the fair value model);
(d)IAS 40 Investment Property, paragraph 79(d), points (i) and (ii) (for the cost model);

Example of a taxonomic definition, mentioned explicitly:

> The denominators of the KPI were defined in accordance with the definition of the delegated act of July 6, 2021, and its appendices supplementing the Taxonomy Regulation.

Forvia's URD 2022

- **Data collection will be improved in the years to come**

Similarly to the analysis of the Turnover, some companies stated that there is substantial space for headway when it comes to isolating and identifying the data to assess CapEx alignment. This may contribute to higher levels of CapEx KPI for some firms, which can be analysed starting from next year.

Overall, CapEx seems to be the most useful and elaborate indicator.

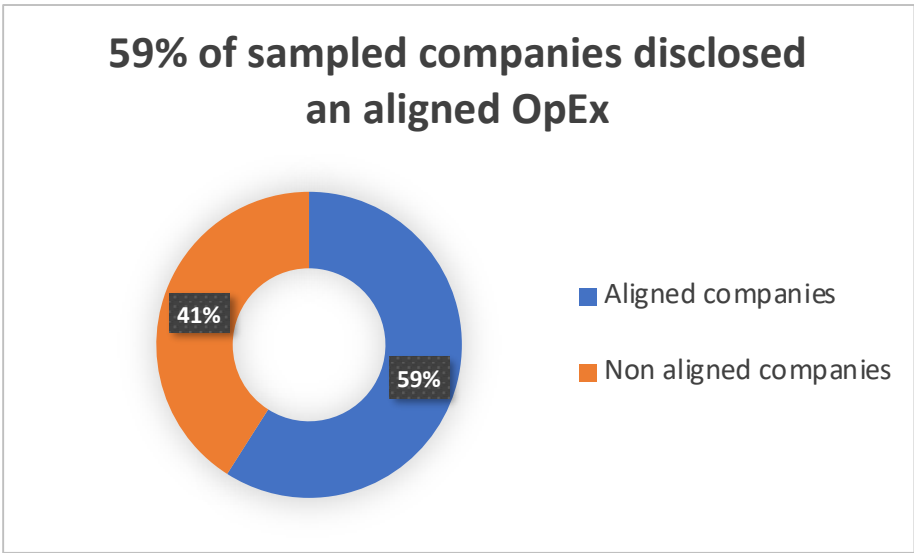
(e)IAS 41 Agriculture, paragraph 50, points (b) and (e);
(f)IFRS 16 Leases, paragraph 53, point (h). »

3.3 OpEx

OpEx KPI is the most problematic KPI of the three. 59% of sampled companies declared an aligned OpEx, its average alignment is of 12% and its average eligibility is of 29.7%. As for the CapEx KPI, the OpEx KPI alignment and eligibility levels can mostly be explained by the definition of OpEx by the Regulation. However, conversely to the CapEx, the definition of the OpEx is narrow, leading many firms to use the materiality exemption.
The top-3 aligned sectors are Media, Gas, Water and Multi-utilities, and Electronic and Electrical Equipment.

General Analysis

Graph 14: Companies disclosing aligned OpEx



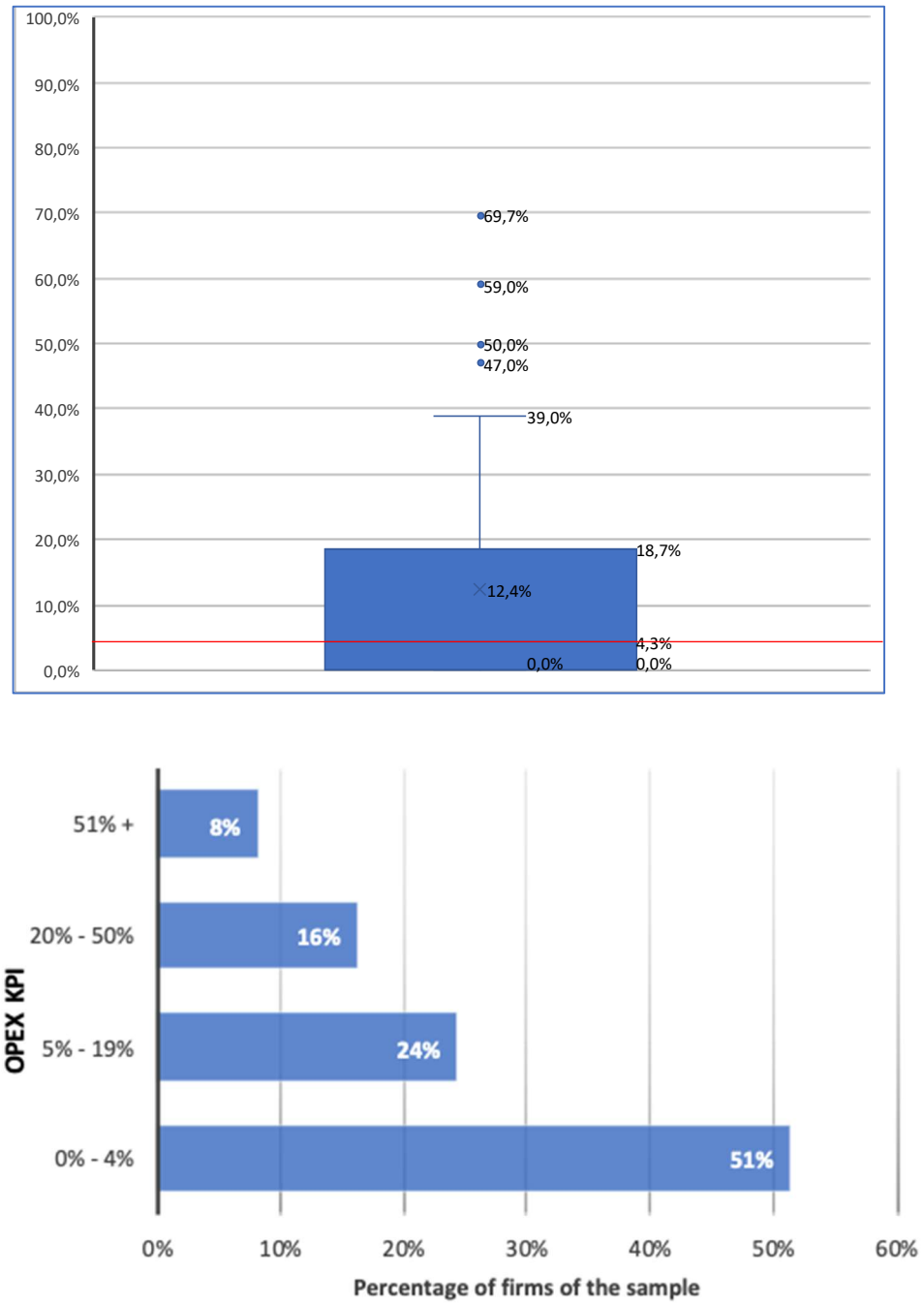
Source: Afep

Far from the 70% of Turnover and even further from the 89% of Capex, only **59% of the 37 non-financial undertakings of our sample disclosed EU Taxonomy-aligned OpEx**.

The smallest positive OpEx alignment KPI declared is 0.2% and the maximum reaches 70%, the smallest maximum alignment KPI of all three indicators. **As for the average OpEx Key Performance Indicator, it is only 12%**, the smallest of the three. The total Operational Expenditures accumulated in the sample **reach 61.5 bn €, of which 15.7% are aligned (as for CapEx), representing thus 9.7 bn €** in absolute values.

The **alignment KPIs for OpEx are closely distributed** with a standard deviation standing at 18%. As depicted below in Graph 15, **the median is very low**, at 4.3%, meaning that half of the firms found at most 4.3% of aligned Operation Expenditures.

Graph 15: Distribution of OpEx alignment KPI



Source: Afep

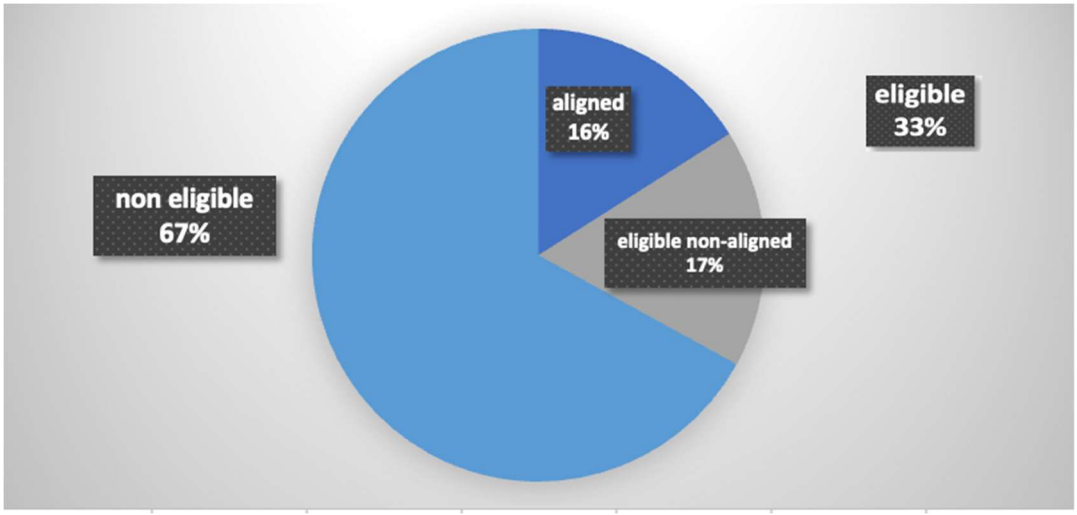
Out of the second half above the 4.3% median, one out of two is below 17% and three quarters are below 33%. **The low level of this KPI is mainly due to the materiality issue when trying to identify the aligned OpEx**. Numbers show how much this issue weighs in the statistics. Indeed, the OpEx indicator ranks first in the number of firms disclosing a 0% alignment : 41%, compared to 11% for CapEx and 30% for turnover.

Amongst the 41% firms who declared a 0% alignment, **73% used the materiality exemption**, representing 30% of the sample. For further interest, this materiality issue is discussed below in "Textual Analysis". The firms accounting for significant levels of alignment are Alstom (47%), Schneider Electric (50%), Technicolor (59%) and JCDecaux (69,7%).

The average **Alignment/Eligibility Ratio is quite high: 47%.** For every 100€ of OpEx declared eligible, nearly half of it is aligned.

As regards amounts in absolute terms, the OpEx that were declared eligible accumulate to 20.2 bn€, representing one third of the total 61.5bn€ of the sample, as seen on Graph 16.

Graph 16: OpEx in absolute values + % eligible



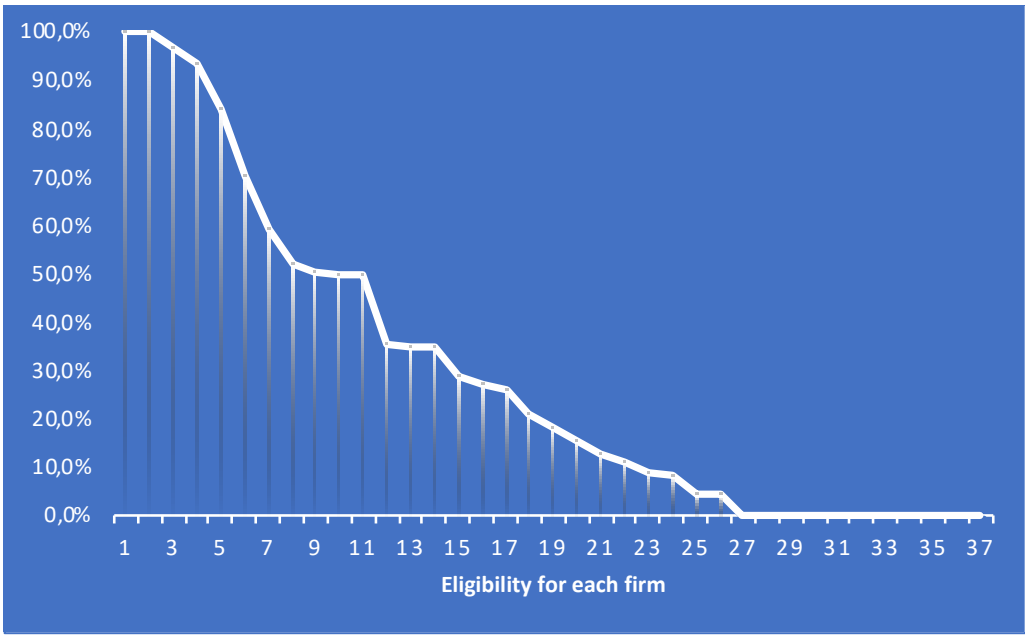
Source: Afep

Surprisingly, OpEx is the highest metric in absolute values. This can be explained by the fact that one of the firms (Veolia) has very high OpEx when compared to the sample, accounting on its own for 34% of the total OpEx of the sample.

Having showed the large amount of materiality exemption, it is not surprising that the **eligible Operational Expenditures disclosed by the firms only average at 29.7%**, although ranging from 4% to 100%.

When looking at the graph below, it clearly shows that there are as many firms above the 50% threshold representing the third quartile, than there are disclosing 0% eligibility, representing the first quartile. Therefore, 75% of the firms have at most 50% of their OpEx declared eligible, so at most half of their operational expenditures (abiding by the definition of the Taxonomy) are related to economic activities listed in the Delegated Acts.

Graph 17: OpEx eligibility from largest to smallest for each firm of the sample (the vertical axis gives the level of eligibility, and on the horizontal axis are the firms of the sample)



Source: Afep

Generally, **a firm has an aligned OpEx closer to its aligned Turnover, than its aligned CapEx**. Indeed, the average difference in absolute values between Turnover KPI and OpEx KPI is 9 points of percentage, while the difference between CapEx KPI and OpEx KPI is 12%. This comes from the fact that Operational Expenditures are more closely related to the daily operations of a firm, rather than its investment projects. But that does not mean they are easier to assess when it comes to calculating the KPI. More details in "Textual analysis".

Sectorial analysis

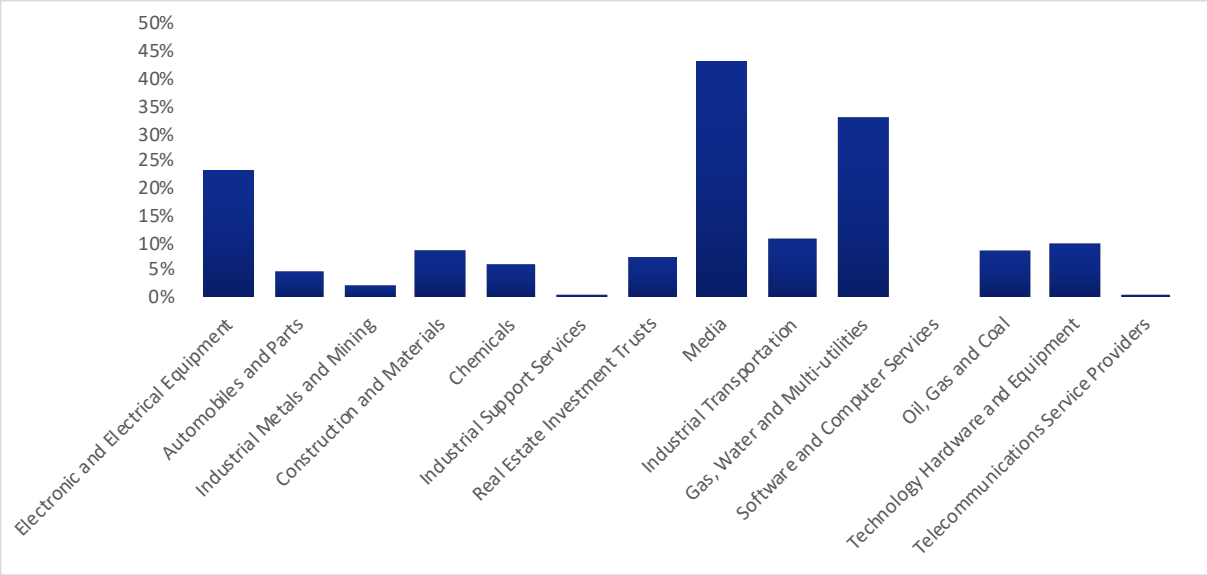
Unsurprisingly, alignment varies from sector to sector, and **the top-3 aligned sectors are Media (43%), Gas, Water and Multi-utilities (33%) and Electronic and Electrical Equipment (23%).**

The sectors with null alignment or with the lowest levels of alignment are Software and Computer Services (0%), Industrial Support Services (0%) and Industrial Metals and Mining (2%).

The main reasons brought up were:

- The **restricted definition of the denominator of OpEx** by the Taxonomy led to unrepresentative data.
- **Most of their activities are not covered** by the Delegated Acts,
- **They did not meet the technical screening criteria**, either because the assessment didn't say so, or because the assessment was not possible due to the lack of measuring tools developed at this day.

Graph 18: Average OpEx alignment, by sector

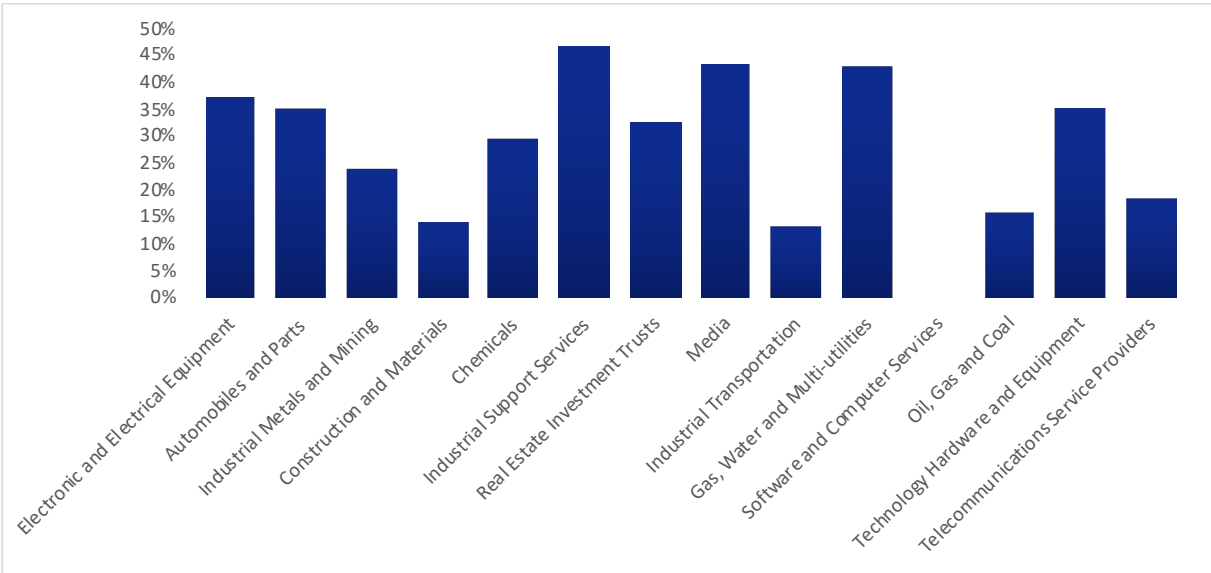


Source: Afep

Average eligibility between sectors ranges from 0% to 47%, but the most eligible firms are found on average in the following sectors:

- Industrial Support Services;
- Media;
- Gas, Water and Multi-Utilities.

Graph 19: Average OpEx eligibility, by sector

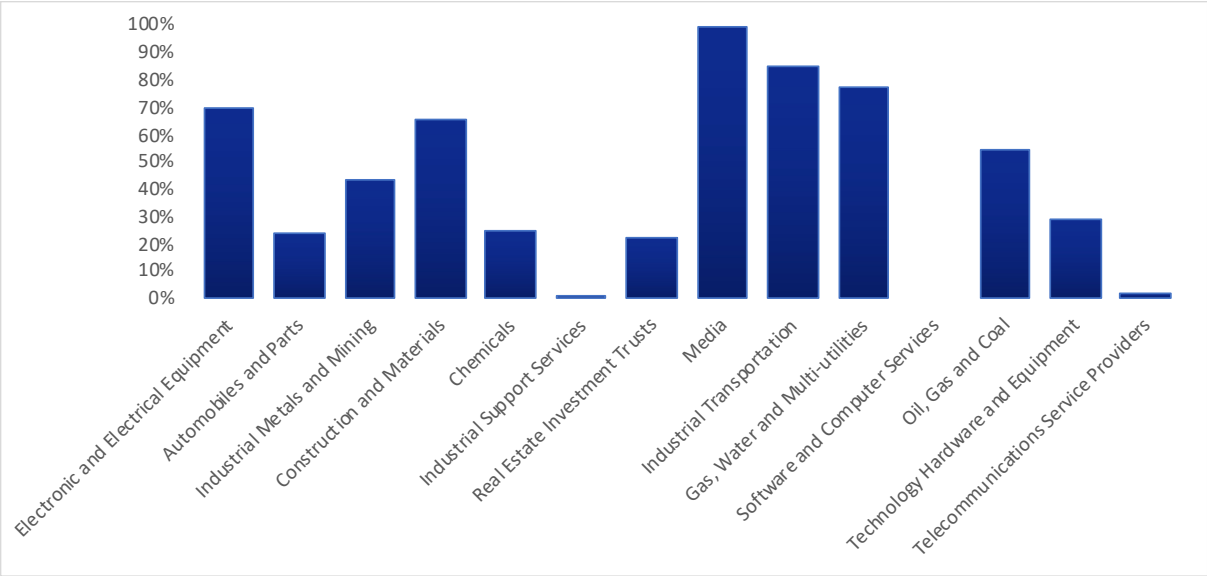


Source: Afep

As seen above, two of the most eligible sectors are also the most aligned, (Gas, Water and Multi-Utilities and Media), however, Industrial Support Services has an alignment KPI of 0%... stressing the differences of reporting between firms, and between sectors. Therefore, although for some sectors, high eligibility is accompanied with similar levels of alignment, others must still make much headway in order to reach comparable levels. We have not found sufficient

explanatory information throughout the firms, and across the sectors, in order to explain the differences of alignment and eligibility between the latter. The only explanation disclosed by at least one firm in each sector is the nature of expenses covered by the definition of OpEx in the Taxonomy, either leading them to using the materiality exemption or allocation rules related to their revenue.

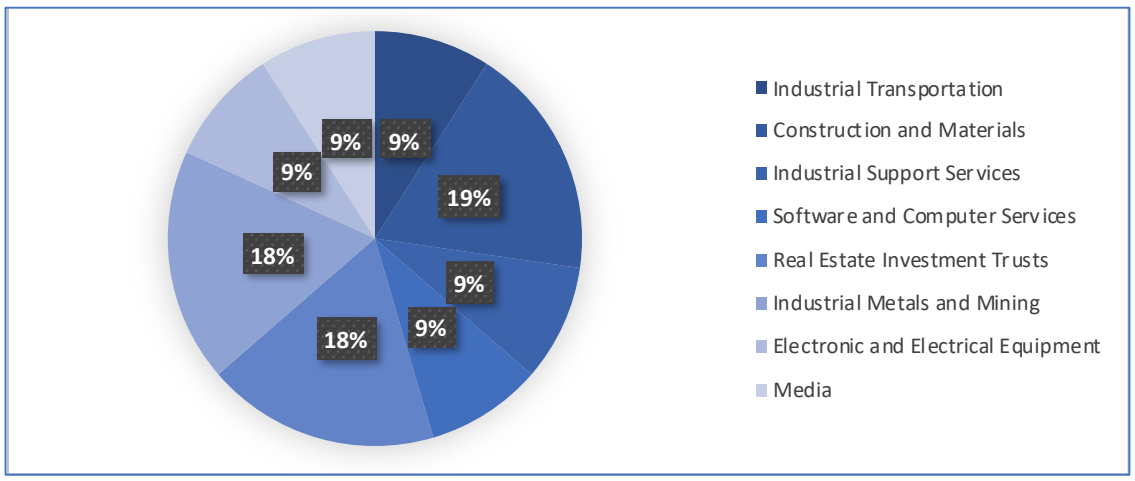
Graph 20: Average OPEX Alignment/Eligibility ratio, per sector



Source: Afep

As mentioned previously, **many firms (30% of the sample) chose to use the materiality exemption**. These firms were found in the following sectors:

Graph 21: Use of materiality exemption, by sector



Source: Afep

Textual analysis

The main textual analysis of OpEx was based on information related to the definition and to the materiality exemption.

- **When looking at the definition of OpEx, two methodology issues arise:**

– As for the CapEx, **it is not always explicit whether or not the definition followed is the Taxonomy's one or not**.
– **The narrow aspect of the definition is the main reason for which firms have a low /not significant level of aligned CapEx** and use the materiality exemption.

First of all, we have found that 78% of the sampled firms either explicitly disclosed that they were following the Taxonomy Definition or gave a very close definition. Nonetheless, it is rarely clear when these companies draw a list of the components of the OpEx, it is not the complete list of the Taxonomy regulation. Indeed, it is not clear why some components of the OpEx definition are left out by the companies: is it because they are not material, because identifying them is too difficult or for other reasons ? For example, if a company defines the base of the OpEx as: "R&D expenses, and direct expenditures related to maintenance and repair", were the other elements left out as they are null or are they material but hard to assess ? This is the first difficulty found when dealing with the interpretation of the OpEx definition.
Secondly, the scope of components that define OpEx according to the Taxonomy seems to be one of the reasons why so many firms used the materiality exemption. Indeed, as mentioned below, in "Materiality exemption", some disclosed that the OpEx were not material since the nominator (part of eligible OpEx) was not material, but others found that the denominator (total OpEx for Taxonomy calculations) was not material, when compared to the Total OpEx of the Group. The total OpEx to analyse when identifying eligible OpEx is not the same as the total OpEx found in the consolidated accounts, and in some cases, it even accounts for less than 2% of the consolidated OpEx. This makes the possibility of identifying eligible OpEx much smaller leading companies to use the materiality exemption.

- **Materiality exemption**

In order to properly use the materiality exemption, in compliance with the Taxonomy, a firm must:
"(b) disclose the total value of the OpEx denominator calculated in accordance with point 1.1.3.1.
(c) explain the absence of materiality of operational expenditure in their business model."

Concerning the use of the materiality exemption, the two given reasons are related to the scope of the Regulation or its definition of OpEx:
– Eligible OpEx are non-significant when compared to the total consolidated OpEx (9% of the firms using the materiality exemption).
– Total OpEx, as defined by Taxonomy, are non-significant when compared to total consolidated OpEx of the firm (91% of the firms using the materiality exemption).

In the first case, this means that the firms' OpEx were mainly related to activities not listed in the Taxonomy. In the second case, as explained hereabove, the total OpEx serving as a denominator, as defined by the Taxonomy, did not encompass a significant amount of the consolidated OpEx disclosed by companies inevitably leading to low levels of eligibility and alignment.

For the firms justifying the use of the materiality exemption by having an insignificant level of total Taxonomic OpEx:

- **27% used a 10% threshold,**
- **27% used a 5% threshold,**
- **36% simply disclosed the percentage of the taxonomic total**, on the group total, without mentioning the threshold used. 3 of these firms disclosed a percentage below 5%, and one above 5%.

Examples of disclosures found in Universal Registration Documents

Eligible Opex

The total Taxonomy Opex consists of non-capitalized costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment.

Our assessment of the proportion of Opex along this definition leads to the conclusion that these expenditures are not material in view of the overall consolidated Opex of Capgemini and considering our business model. In fact, as a services company, 75% of the Capgemini Operating Expenditures are "personnel expenses" and 17% are "purchases and sub-contracting expenses", most of it being sub-contracting on client projects (see Note 7 to the consolidated financial statements disclosed in the Section 5.2. of this document).

Actually the total amount of Opex according to the Taxonomy definition amounts to €19 million, representing 1,7% of Capgemini consolidated Opex. Consequently, we have used the exemption option permitted by the Art.8 delegated act and not calculated the shares of eligible or aligned Opex, which are therefore considered as being zero.

Source : Capgemini's URD 2022

Operating expenditure (opex)

The current definition of opex in the delegated act of the EU Taxonomy Regulation is very narrow. Icade's preliminary assessment has led to the conclusion that the proportion of opex that falls within the scope of the Taxonomy was immaterial (less than 5%) for the financial year 2022. As a result, the Group will not report an eligibility or alignment indicator for opex for the financial year 2022.

Icade will continue its assessment in 2023 and monitor changes in the materiality of opex falling within the scope of the Taxonomy.

Source : Icade's URD 2022

As we can see hereabove, Capgemini discloses the taxonomic denominator (19m€) and the reason explaining a low significance compared to the Group OpEx ("*75% of the Capgemini Operating Expenditures are "personnel expenses" and 17% are "purchases and sub-contracting expenses"*"), as required by the Taxonomy. The company does not give a specific threshold, but simply mentions that their Taxonomic OpEx represent 1.7% of the total consolidated OpEx. Conversely, Icade does not mention either the taxonomic denominator or the reason for its insignificance in the complimentary information, but it does specify using a 5% threshold. The Taxonomic OpEx can nevertheless be found in its tables published further in the URD.

3.4 Voluntary indicators

A few firms (27% of the sample) disclose on a voluntary basis additional information to address the Taxonomy reporting. Three categories of voluntary indications were found:

– **Disclosing alignment for 2021.**
– **Providing additional voluntary information regarding the scope of activities.**
– **Anticipating full reporting.**

▪ **Disclosing alignment for 2021**

– Some companies have published 2021 historical information regarding the alignment of the KPIs, when firms only had to calculate eligibility. These 2021 voluntary indicators are quite close to the 2022 KPIs. Differences between indicators disclosed in 2021 and those disclosed in 2022 can for example be due to:
  - a change of assessment methodology;
  - access to a larger scope of data;
  - clarifications in FAQs, ….

These data have been assessed on the basis of year 2021 with a reminder of the estimate for year 2020.

	Eligible activities		Aligned activities	
Controlled scope - 2021	Turnover	CapEx	Turnover	CapEx
Renewables and electricity	2.4%	8.9%	1.3%	8,0%
*including Electricity generation from natural gas**	*1.1%*	*0.9%*	*0.0%*	*0.0%*
Refining and chemicals	7.4%	2.7%	0.1%	0.3%
Other eligible activities	0.1%	1.8%	0.1%	1.8%
TOTAL 2021	**9.9%**	**13.4%**	**1.5%**	**10.1%**
TOTAL 2020	***9.4%***	***13.1%***	***2.1%***	***5.1%***

* as per the draft delegated regulation (applicable from 1 January 2023).

Source : TotalEnergies' URD 2021

▪ **Providing additional voluntary information regarding the scope of activities**

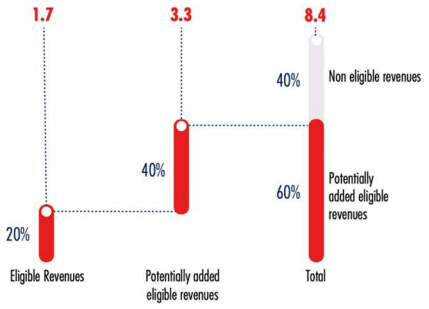
Two voluntary approaches **providing information about this year's reporting** were found:

– The first approach is a double reporting. Indeed, the company that used this approach practises part of an activity that isn't included in the taxonomy, but **decided to show its eligibility and alignment nonetheless, as if it were included**.

The Group assessed what Taxonomy eligibility would be if production and use activities were treated the same way. For 2022, turnover would come to an estimated 60%, 20% eligible according to the current rules and 40% from sales of cables and other electrical equipment to operator and distributor customers. Turnover from telecom cables, the oil & gas sector, and automotive harnesses are not considered as eligible in this simulation.

The chart below illustrates this estimation.

POTENTIALLY ELIGIBLE REVENUE (€ BN): 2022



Source : Nexans' URD 2022

– The second approach goes further and corresponds to the ratio between aligned turnover as numerator and eligible turnover as denominator, **based on a larger realm of activities** for the eligible activities than those listed by the Taxonomy.

The share of revenue generated with sustainable solutions is 73.9% in 2022 in line with the target of 75% by 2025. Saint-Gobain's sustainable solutions revenue includes activities not assessed in the context of compliance with the European regulation 2020/852 Taxonomy regulation (see section 9.3.5, p. 389) such as distribution activities, impacts and benefits not yet integrated into the regulation such as resources and the circular economy or finally benefits related to health, safety and comfort that will potentially be eligible for the social taxonomy.

Compagnie de Saint Gobain's URD 2022

- **Anticipating full reporting**

Prospective voluntary information concerns firms who decided to anticipate on the complete disclosure requirements of the Regulation, when all 6 environmental objectives will be included. In order to do so, some firms calculated estimations of the KPIs, which will be interesting to compare with next years' official KPIs.

Activities eligible or qualifying account for 77% of the Mersen group's 2022 sales:

As a % of total sales	2022	2021
Eligible sales	29%	30%
Qualifying sales (see definition in section 7.2.2)	48%	12%
Voluntary eligible sales (see definition in section 7.2.2)	N/A	24%
	77%	66%

7.2.2. Indicators subject to voluntary reporting by Mersen

An economic activity has been defined as qualifying for the European Taxonomy (latest report from the Platform on Sustainable Finance) if, according to Mersen, it contributes to the environmental objectives as described in Articles 10-15 of Regulation (EU) 2020/852 of June 18, 2020. Pending the publication of the Delegated Acts in 2023, Mersen has referred to the list of activities proposed by the Technical Working Group in the March 2022 Platform on Sustainable Finance report, in connection with the following objectives:

3. the sustainable use and protection of water and marine resources;
4. the transition to a circular economy;
5. pollution prevention and control;
6. the protection and restoration of biodiversity and ecosystems.

Activities not defined in the European Taxonomy analysis framework or in the report of the Taxonomy Working Group (Platform on Sustainable Finance) are therefore excluded from that framework. This scope includes Mersen's activities whose correspondence with or contribution to the objectives of the Taxonomy could not be identified by the Group on the basis of the regulatory information as published at the date of consolidation of the 2022 financial statements.

In 2021, Mersen has determined that an economic activity may be considered eligible by virtue of voluntary reporting if, without being eligible or qualifying in the strict sense, it supplies an eligible market as defi ned in Annexes I and II of the Taxonomy Regulation Delegated Act of June 4, 2021.

Source : Mersen's URD 2022

4 Analysis of the reporting methodology

Most of the aligned activities are enabling activities, and most are disclosed as contributing to climate change mitigation. A few firms chose to disclose voluntary indicators to give context to their reporting and sometimes explain why their eligibility and alignment levels could be higher.
Overall, there are, at this date, significant differences between companies regarding the precision and quantity of information in their reporting. These differences are most of the time explained by difficulties encountered throughout their analysis (short time frame companies must abide by, large quantity of new data they must analyse, interpretation of the legislation passed).

Regarding eligibility and alignment, all the companies of the sample were able to disclose the key performance indicators requested by the EU Taxonomy. However, the complementary but compulsory information was much less consistent.

4.1 Information related to eligibility

- **Coherence**

24% of the companies of the sample did not mention how they proceeded in order to evaluate the eligibility of their activities to the Taxonomy. The ones who did were more or less thorough and used various methodologies. Indeed, while some resorted to pre-existing processes and reporting systems, others innovated by proceeding with a "double approach" or even a "triple approach".

Schneider Electric describes how it assessed the eligibility of its activities, with an offer-based approach, and an end-segment approach:

> This calculation is using two combined approaches, including an offer-based approach (i.e. by nature of technology), whereby each line of business' products are reviewed against the definition of economic activities as defined in the EU Climate Delegated Acts, and an end-segment approach, whereby the amount of revenues generated from offers fitting with the economic activities description sold to Taxonomy-eligible end-segments (Green Transport and Renewables mainly) is reviewed. Double-counting

Source : Schneider Electric's URD 2022

On the other hand, STMicroelectronics describes its eligibility assessment by dividing its products in four categories:

> **Our EU Taxonomy-eligibility assessment**
>
> In our Taxonomy-eligibility assessment we identified all our products, which aim at contributing substantially to climate change mitigation. These products are divided into the following four product categories: (i) products that have a low carbon manufacturing footprint compared to similar products of a previous generation, (ii) products that have low power consumption or low power loss characteristics compared to similar products manufactured by us or others, (iii) products that bring an advantage to run a low greenhouse gas emission end application or (iv) products that bring an advantage to improve efficiency of high greenhouse gas emitting end applications.

Source : STMicroelectronics' URD 2022

Overall, **22% of the sampled firms mentioned that various Departments came together in order to deliver this analysis**, including financial, operational, CSR, and R&D departments, as shows the following example:

> To meet this new reporting obligation, the Bolloré Group's CSR and Finance Departments organized meetings on taxonomy reporting in the second half of 2021, in association with the CSR and Finance Departments of each of the divisions and with the support of a specialized firm. The objectives of these

Source : Bollore's URD 2022

- **Double counting**

The risk of double counting can exist in three scenarios:

– A firm analyses its Turnover, CapEx or OpEx with different methodologies (with a Group level approach and a sectorial approach for example), finds and counts the same activity twice with both approaches;
– Counting twice an activity which is at the same time enabling and transitional;
– If one of the activities is eligible for both climate objectives.

The Regulation therefore explicitly requires reporting entities to explain how they avoided double counting at the numerator for all KPIs. Nonetheless, **more than half of the sampled companies (62%) did not disclose this information**. A various panel of techniques were shared by those who did disclose the information. Overall, in order to avoid double counting occurring while analysing the group's data, companies deleted activities counted twice by **proof reading**.

> Where some Group activities, for example polymer membranes in batteries, are eligible as both transitional and enabling activities, the total eligible activities have been restated to avoid counting an eligible activity twice.

Source : Arkema's URD 2022

Otherwise, if an activity was counted twice as eligible because it contributes to two environmental objectives, companies simply gave an **order of priority between the objectives**, and mechanically deleted double counting.

> change adaptation objectives. However, to avoid double counting within an indicator, we assessed substantial contribution only under the climate change mitigation objective.

Source : Arcelormittal's URD 2022

4.2 Information related to alignment

- **Substantial contribution**

Reporting about the assessment of substantial contribution criteria is heterogeneous across the sampled firms. Although **21.6% didn't disclose the methodology used**, a various panel of techniques were specified by those who did:

– **Most common approach: detail activity by activity of the alignment to the criteria, either in text or in a table**. The use of a table was particularly clear to read.
– Some firms were unable to conduct an assessment in detail, so they **relied on samples at different scales**:
  - samples of standard similar products or solutions of the market;
  - samples of countries, for international groups.

- **DNSH**

For DNSH assessment, companies resorted to **either internal or external services**, at group or chain-value level, and sometimes, at both:

– **19% of the sample resorted to an external consultant** for the assessment of the DNSH criteria. 71% of these did so for the "adaptation" objective, one firm did so for the "biodiversity and ecosystems" objective, and another for "water and marine resources".
– Again, **19% of the sample used an ISO certification**, one firm did so for "adaptation", another for "water and marine resources", two firms used it for "circular economy", and another two firms for "biodiversity and ecosystems".

- For the DNSH criteria of "adaptation", **13.5% of the sample did an analysis using the IPCC scenarios**. Two firms mentioned using the SSP2-4.5 and SSP5-8.5 scenarios, and one mentioned using the RCP8.5 and RCP2.6 scenarios.
- **The EMAS certification was employed by two companies**. EMAS (Eco-Management and Audit Scheme) is a voluntary environmental management instrument implemented by the European Commission. It provides information on both the environmental performance of a company, and the guidelines to improve it.
- Finally, other external tools mentioned by singular companies were: an assessment by Optim'O project for "water and marine resources"; the International Material Data System for "circular economy"; the Integrated Biodiversity Assessment Tool (IBAT) for "biodiversity and ecosystems"; ….

On top of using different tools to assess their compliance with DNSH criteria, companies disclosed this information in various ways: the examples below show that these methodologies range from complete tables, to lists, either lists of eligible activities detailing the methodology used for each criterion or lists of criteria detailing the methodology used for each activity.

DNSH REQUIREMENTS

DNSH	Sub DNSH	Requirements	Approach
Climate Change Adaptation		Climate risk and vulnedrability assessment	Alignment of sites for which Climate stress assessements have been pursued
Water & Marine Resources		Identification of environmental degradation risks to preserving water quality and avoiding water stress	Non-alignment of sites where a risk on water pollution has been identified and no action taken
Circular Economy	Reuse and use	Reuse and use of secondary raw materials and re-used components in products manufactured	Global alignment: • Use recycled copper • Growing use of recycled plastics • Continuous R&D efforts
	High Durability	Design for high durability, recyclability, easy disassembly and adaptability of products manufactured	Global alignment: • Numerous R&D projects, including specific PhD on durability • Standards include durability requirements
	Waste management	Waste management that prioritizes recycling over disposal, in the manufacturing process	Global alignment: • Systematic Reporting • Anti-waste policy • Meticulous verification process
	Substances	Information on and traceability of substances of concern throughout the lifecycle of the products	Pollution DNSH criteria to be used
Pollution		No use of specific substances	Alignment of sites not manufacturing products with SVHC of concentration >0.1%
Biodiversity & Ecosystem		Environmental Impact Assessment or screening completed	Alignment of sites neither in a bio-diversity sensitive area nor treating Rubber

Source : Nexans' URD 2022

The **third stage** related to compliance with technical review criteria ensuring no prejudice to the other environmental objectives (Does Not Significantly Harm - DNSH). Risk management relating to climate change, water resources, the circular economy, the erosion of biodiversity and air pollution is covered by a specific section of our environmental policy. The compliance assessment was carried out by environmental coordinators based on the following main elements:

- the analysis of risks relating to climate change (physical risks), water stress, pollution (NO_x, SO_x, PM), the protection of protected zones which is updated each year as part of environmental reporting on sites in operation;
- the preparation of an environmental management plan as part of the Group's voluntary CSR objectives;
- EMAS and ISO 14001 certification for facilities with the highest environmental impact such as hydropower production sites.

Source : Engie's URD 2022

B. "Do No Significant Harm" (DNSH)

For the sites in the United States that meet the criterion of substantial contribution to climate change mitigation, the findings on the five other criteria are as follows:

a) Climate change adaptation

In 2019, the Group commissioned an external firm to conduct a study of the risks related to the consequences of climate change in the regions where it operates, including production sites related to the aligned activities. The assumptions are based on eight climate risks considered liable to impact the Group's activities among those listed in Appendix A of Delegated Regulation (EU) 2021/2139, namely a review of the activity to identify physical climate risks; an assessment of risk and vulnerability and an assessment of adaptation options to reduce the risk(s). The conclusions of this study are detailed in section 4.2.2.1 "Inherent climate-change risks" of this Universal Registration Document.

b) Sustainable use and protection of water and marine resources

The Group performed its analysis based on ISO 14001 certifications of the steel and seamless tube production sites in the United States which met the technical alignment criteria for climate change mitigation. With these audits, carried out by third-party bodies, the Group can implement best practices, and measure and limit its environmental impact.

c) Transition to a circular economy

According to the Delegated Regulation, the activity "3.9 Manufacture of iron and steel" does not do any significant harm to the achievement of this environmental objective as steel is highly recyclable.

In 2022, the electric process (Youngstown and Jeceaba steel mills) accounted for 78.6% of Vallourec's internal steel production, compared with 75% in 2021. The increase in scrap metal recycling contributes to reducing the use of natural raw materials.

Vallourec's URD 2022

30% of the firms took a careful and conservative approach and declared activities as not aligned when in doubt. Furthermore, **22% of the sampled firms brought up having issues concerning the comprehension and interpretation of the notion of "essential usage"**. The latter concerns the DNSH criteria for "Pollution prevention and control regarding use and presence of chemicals". Indeed, for activities using "Substances Of Concern", the Regulation authorizes

alignment only when « *use has been proven to be essential for the society* ». According to 22% of the firms in the sample, this definition was however not sufficient and lacks clarity when it comes to "essential for the society". All the companies who mentioned this difficulty in understanding the Regulation decided to **report non-alignment for the relevant activities**.

- **Minimum safeguards**

For a company to disclose its economic activities as aligned, it must ensure that it complies with minimum safeguards defined in Article 18 of the Regulation regarding:
- The OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines)
- The UN Guiding Principles on Business and Human Rights (UNGPs)
- The Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work
- The International Bill of Human Rights.

The standards listed hereabove cover the four following topics: Human rights, including workers' rights; Corruption; Taxation; Fair competition.

78% of the undertakings of the sample mentioned the four topics to comply with the Minimum Safeguards. Those who didn't mention the 4 either didn't mention any (14%) or mentioned less than four topics, from one to three.

When tackling the internal mechanisms enforced by companies to ensure the compliance with the Minimum Safeguards, the following measures were indicated: risk mapping, prevention measures through a continuous control of risks and the enforcement of appropriate sanctions, alert mechanisms, Program for duty of Vigilance, internal audit, ...Several companies reported that their compliance to these Minimum Safeguards is further justified by their compliance with other regulations covering the same topics, such as: Sapin II Law and Duty of care.

4.3 Reporting about mitigation and adaptation objectives

As required by the Regulation, companies included in their reporting whether their aligned activities were contributing to climate change adaptation or climate change mitigation. However, **the methodology used to disclose this information was different across the firms**, making it quite difficult to conduct an overall analysis.
Firstly, **some companies chose to report the same percentage of KPI in the mitigation or adaptation column**. For example, if a company's aligned turnover is 16% and contributes to mitigation, this company would disclose 16% in the mitigation objective column of the tabloid (see below).
On the other hand, **some companies chose to quantify their contribution from 0% to 100%, whatever the KPI may be**. Let's take the same firm of our example, with a 16% Turnover KPI contributing to climate change mitigation. In this case, the firm would disclose 100% in the mitigation objective column of the template (see below: Arkema). From here, either the activity only contributes to one objective and the company writes 0% for the other objective. Or the

activity contributes to both, resulting in the company writing 100% for the mitigation and adaptation objectives.

A final example of how companies chose to disclose this information would be those who write either "Yes" or "No" for each activity, indicating if they contribute (Yes) or not (No) to the environmental objective (see below).

Activités économiques	Codes	Chiffre d'affaires absolu	Part du chiffre d'affaires	Critère de: Atténuation du changement climatique	Critère de: Adaptation au changement climatique	Critère de: Ressc aqua et m
		EUR	%	%	%	
A. Activités éligibles à la taxonomie						
A.1. Activités durables sur le plan environnemental (alignées sur la taxonomie)						
7.1 Construction de bâtiments neufs	L68	350 000 €	0,0%	0,0%		
7.7 Acquisition et détention de bâtiments	F41.1, F41.2, F43	258 106 554 €	21,6%	21,6%		
4.1 Production d'énergie solaire	D35.11, F42.22	308 000 €	0,0%	0,0%		
Chiffre d'affaires des activités durables sur le plan environnemental (alignées sur la taxonomie) (A.1)		**258 764 554 €**	**21,7%**	21,7%	0	

Source : Covivio's URD 2022

Taxonomie Part du Chiffre d'affaires (CA) issue de produits ou de service associés à des activités économiques alignées sur la taxonomie - 2022				Critères de contribution substantielle	
Activité économique	Code(s)	CA absolu *en M€*	Part du CA *en %*	Atténuation du changement climatique *en %*	Adaptation au changement climatique *en %*
A. ACTIVITÉS ÉLIGIBLES À LA TAXONOMIE					
A.1 ACTIVITÉS DURABLES SUR LE PLAN ENVIRONNEMENTAL (ALIGNÉES SUR LA TAXONOMIE)					
Fabrication de matières plastiques de base	C.20.16	494	4 %	100 %	0 %
Fabrication de batteries Fabrication d'équipements à bon rendement énergétique pour la construction de bâtiments Fabrication de technologies liées aux énergies renouvelables		480	4 %	100 %	0 %
Chiffres d'affaires des activités durables sur le plan environnemental (alignées sur la taxonomie) (A.1)		**974**	**8 %**	**100 %**	**0 %**

Source : Arkema's URD 2022

Activités économiques	Code(s) NACE	Chiffre d'affaires *(en millions d'euros)*	Part du chiffre d'affaires *(en %)*	Critères de contribution substantielle: Atténuation du changement climatique (oui/non)	Critères de contribution substantielle: Adaptation au changement climatique (oui/non)
A. TAXINOMIE – ACTIVITÉS ÉLIGIBLES		**5 237,7**	**17,5 %**		
A.1. Activités durables écologiquement (Alignées avec la taxinomie)		**346,2**	**1,2 %**		
Activité C : Industrie manufacturière		**299,8**	**1,0 %**		
3.10 Fabrication d'hydrogène	C20.11	148,6	0,5 %	oui	non
3.2 Fabrication d'équipements pour la production et l'utilisation de l'hydrogène	C25, C27, C28	86,3	0,3 %	oui	non
3.6 Fabrication d'autres technologies à faible intensité de carbone	C22, C25, C26, C27, C28	36,4	0,1 %	oui	non
3.3 Fabrication de technologies à faible intensité de carbone pour le transport	C29.1, C30.1, C30.2, C30.9, C33.15, C33.17	28,5	0,1 %	oui	non
Activité E : Production et distribution d'eau, assainissement, gestion des déchets et dépollution		**43,0**	**0,2 %**		
5.7 Digestion anaérobie de biodéchets	E38.21, F42.99	26,0	0,1 %	oui	non
5.10 Captage et utilisation de gaz de décharge	E38.21	17,0	0,1 %	oui	non
Activité H : Transports		**3,4**	**0,0 %**		
6.15 Infrastructures favorables aux transports routiers et aux transports publics à faible intensité de carbone	F42.11, F42.13, F71.1, F71.20	3,4	0,0 %	oui	non

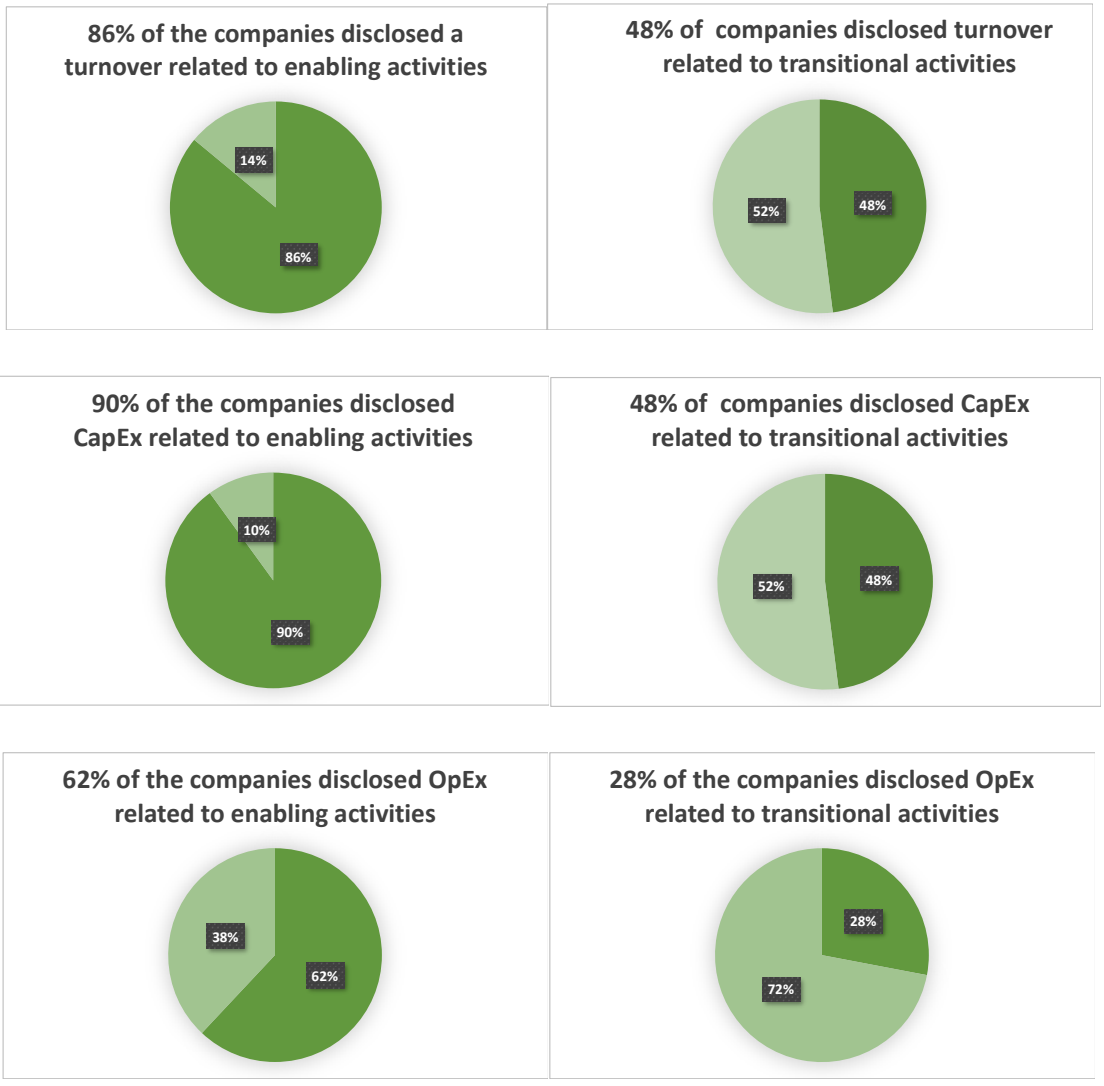
Source : Airliquide's URD 2022

As stated above, **the different methodologies adopted by the various firms of the sample make it difficult to analyse** the contribution of the aligned activities to the climate objectives. However, it can clearly be noted that there is a large majority of aligned activities that were disclosed as contributing to climate mitigation.

4.4 Reporting about enabling or transitional activities

According to Article 10(2) of the Regulation, transitional activities are activities "*for which there is no technologically and economically feasible low-carbon alternative*" that can "*qualify as contributing substantially to climate change mitigation*". Enabling activities, as defined by Article 16, do not substantially contribute to either mitigation or adaptation, but enable" other activities to do so.

With the Taxonomy Regulation, companies are required to disclose whether or not an activity is transitional or enabling. Within the sample, 29 companies disclosed either transitional or enabling activities. This number serves as denominator for the following numbers and charts:



Source: Afep

Most enabling activities are found in Electronic and Electrical Equipment, in Construction and Materials, in Automobile and Parts and in Media. Most transitional activities are in Industrial Metals and Mining, in Construction and Materials, and in Real Estate Investment Trusts.

4.5 Proofreading

A quarter of the firms of our sample explicitly mentioned that their taxonomy reporting was proofread by an internal body or external party. The cited entities were:

- **Risk committee.**
- **Dedicated groups made of staff from the company**.

4.6 Comparison to the European Commission's publication

The European Commission published on 13 June 2023 a Staff Working Document to give guidance to the stakeholders and to deliver their first observations on indicators reported by the companies, based on various analysis (Bloomberg, GS SUSTAIN Goldman Sachs Global Investment Research). The data chosen by the European Commission to illustrate the "potential of the taxonomy", as said in the document, is the following: **for companies of the STOXX Europe 600** who disclosed their eligibility and alignment, the taxonomy alignment is on average,

- **around 17% for revenue,**
- **23% for CapEx and**
- **24% for OpEx.**

These numbers are higher than those disclosed in this study, (15% for turnover, 20% for CapEx and 12% for OpEx), for one reason: **the European Commission chose to report numbers based on non 0 values, which increases the overall results**. When taking the same hypothesis, and thus, when looking at only positively aligned firms, our sample has the following averages: 21,1% for turnover, 25% for CapEx, and 20,9% for OpEx.

In both cases, average CapEx alignment is higher than for Turnover, but surprisingly enough, their average OpEx KPI is the highest indicator, while it is the lowest of our sample. Nonetheless, the interesting aspect of OpEx remains how many firms choose the materiality exemption, leading to 0% alignment, which is not reflected in these numbers.

Furthermore, the European Commission disclosed information concerning the eligible firms who were also aligned: "*Reporting figures also suggest that nearly two in three companies that disclosed CapEx eligibility reported a non-zero alignment figure and one in two companies that disclosed revenue eligibility reported a non-zero degree of aligned revenue.*". In our case, 89% of companies with eligible CapEx reported a positive KPI, and 70% of companies who reported an eligible turnover were also aligned to the Taxonomy.

APPENDIX

I - Companies included in the sample

Firms	Sector
AIR LIQUIDE	Chemicals
ALSTOM	Electronic and Electrical Equipment
ARCELORMITTAL France	Industrial Metals and Mining
ARKEMA	Chemicals
BOLLORE	Industrial Transportation
BOUYGUES	Construction and Materials
BUREAU VERITAS	Industrial Support Services
CAPGEMINI	Software and Computer Services
COMPAGNIE DE SAINT-GOBAIN	Construction and Materials
COMPAGNIE PLASTIC OMNIUM	Automobiles and Parts
COVIVIO	Real Estate Investment Trusts
EIFFAGE	Construction and Materials
ENGIE	Gas, Water and Multi-utilities
ERAMET	Industrial Metals and Mining
FORVIA	Automobiles and Parts
GETLINK	Industrial Transportation
ICADE	Real Estate Investment Trusts
IMERYS	Industrial Metals and Mining
JCDECAUX	Media
LEGRAND SA	Electronic and Electrical Equipment
MERSEN	Electronic and Electrical Equipment
MICHELIN	Automobiles and Parts
NEXANS	Electronic and Electrical Equipment
ORANGE	Telecommunications Service Providers
RENAULT	Automobiles and Parts
SCHNEIDER ELECTRIC SA	Electronic and Electrical Equipment
SOLVAY	Chemicals
STMICROELECTRONICS NV	Technology Hardware and Equipment
TECHNICOLOR	Media
TOTALENERGIES	Oil, Gas and Coal
UNIBAIL-RODAMCO-WESTFIELD	Real Estate Investment Trusts
VALEO	Automobiles and Parts
VALLOUREC	Industrial Metals and Mining
VEOLIA	Gas, Water and Multi-utilities
VINCI	Construction and Materials
VIVENDI	Media
WORLDLINE	Industrial Support Services

Companies of the sample that are included in the CAC40 are indicated in bold.

II - Categories of activities in Annex I and II of the Climate Delegated Act

Annex I of Regulation: climate change mitigation activities
1. Forestry
2. Environmental protection and restoration activities
3. Manufacturing
4. Energy
5. Water supply, sewerage, waste management and remediation activities
6. Transport
7. Construction and real estate
8. Information and communication
9. Professional, scientific and technical activities

Annex II of Regulation: climate change adaptation activities
1. Forestry
2. Environmental protection and restoration activities
3. Manufacturing
4. Energy
5. Water supply, sewerage, waste management and remediation activities
6. Transport
7. Construction and real estate
8. Information and communication
9. Professional, scientific and technical activities
10. Financial and insurance activities
11. Education
12. Human health and social work activities
13. Arts, entertainment and recreation