



EU sustainable finance taxonomy case study

Application, experience and recommendations



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About this report

As part of its climate policy positioning, the European Commission presented the European Green Deal in December 2019 following the Paris Agreement in 2015. With the Green Deal, the European Commission's declared aim is to reduce net greenhouse gas emissions to zero by 2050 and thus become climate-neutral. The idea is to redirect capital flows into environmentally sustainable activities to support the objectives and financing of the Green Deal. To this end, the EU sustainable finance taxonomy (hereinafter: EU taxonomy) has been developed, a classification system used to clearly define "environmentally sustainable" business activities.

The new reporting requirements associated with the EU taxonomy are likely to significantly increase the informative value of non-financial reporting by establishing a link between financial and non-financial matters for the first time. They will be relevant to the capital market for meeting its own reporting requirements and call for careful examination at an early stage within the companies that are subject to reporting requirements. The first reporting requirement comes into effect on 1 January 2022, relatively soon after the Taxonomy Regulation was passed in June 2020. Some of the required criteria need further explanation, others have not yet been finalized.

This publication is designed to classify the requirements of the EU taxonomy in the context of further developing financial and sustainability reporting from the perspective of a reporting company. The focus is on the early application of the EU taxonomy requirements and their interpretation to produce information on environmentally sustainable revenue, capex and opex based on the Taxonomy Regulation of 18 June 2020 and the technical screening criteria in the draft delegated act concerning the Taxonomy Regulation dated 20 November 2020 (see EnBW's Integrated Annual Report 2020, p. 79 ff.) The perspective of a company operating in the real economy (the report author's view) is adopted for the purposes of presenting and interpreting the requirements relating to the implementation of the EU taxonomy. Furthermore, the document is aimed at all stakeholders in the sustainable finance community (besides report authors, also standard setters, investors, policymakers, civil society, etc.) It will be shown under which conditions the implementation of the EU Taxonomy Regulation is both sensible and possible, but also requires sufficient lead time and the involvement of internal

experts (beyond the Sustainability department). In addition, presentation options for reporting in line with taxonomy guidelines are analyzed together with matters relating to the generation of the information. The document will also examine how the EU taxonomy should be developed further in terms of content and methodology against the backdrop of the objectives pursued with it by the EU.

By presenting the results of the taxonomy implementation project, EnBW and Deloitte wish to contribute to an informative finalization and interpretation of taxonomy-related reporting requirements. In the summer of 2020, work began on examining the required information on the basis of the above-mentioned Regulation and the delegated act. In addition, data on environmentally sustainable adjusted EBITDA was ascertained. The corresponding information was included in the management report in the EnBW Integrated Annual Report 2020. The management report was audited as part of the statutory audit with reasonable assurance by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft.

The recording of relevant taxonomy-compliant EnBW business activities is taking place in two phases. For the first phase, which provides the basis for this report and the taxonomy reporting in EnBW's 2020 Integrated Annual Report, EnBW business activities in the Renewable Energies and Grids segments were analyzed. In the second stage, information on the taxonomy compliance of other Group activities will be gathered in 2021.

The introduction of the EU taxonomy should make an important contribution to transparency in relation to the capital allocation envisaged by the EU in order to achieve a climate-neutral economy, provided that future delegated acts contain clear and ambitious criteria that not only reflect the objective of a climate-neutral economy in 2050, but, above all, set out a path towards achieving this overriding objective and provide incentives for pursuing it.

Dear Madam or Sir,

The European Commission set a clear target following the announcement of the Green Deal: Europe should become the first climate-neutral continent by 2050. This represents a central pillar in terms of the implementation of the Paris Agreement. The achievement of climate neutrality and the path towards it is one of the most important economic policy issues that companies currently need to respond to.

As an important tool, the EU Action Plan on Financing Sustainable Growth calls for the creation of a classification system for sustainable economic activities – the EU taxonomy. That is because clear standards and tools are needed, especially among investors on the financial markets, in order to enable the assessment of sustainability based on objective criteria. In line with the taxonomy guidelines, performance indicators linking the financial and non-financial aspects of business reporting are now set to be published for the first time. As a member of the TEG, we have actively supported the development of the EU taxonomy.

In our view, it is essential for the successful implementation of the taxonomy that attention is paid to what is technically possible and economically feasible at the present time when establishing the specific criteria and threshold values. Maximum requirements as currently being discussed are not helpful to the transformation process.

As a company, we have adopted a clear position: We want to be climate-neutral by the end of 2035. On our way to achieving this aim, we will measure every investment against sustainability criteria, thereby inextricably linking our future growth to it. We took the step to firmly root sustainability in our DNA at an early stage. We are among the pioneers of integrated business reporting and have been committed to national and international initiatives on climate risk reporting and sustainable financing for a number of years.

In line with our sustainable corporate strategy, we have taken a decision to expand our integrated busi-



ness reporting activities this year – before the official reporting requirement date – to include parts of the future mandatory taxonomy information. We had originally assumed that the major criteria would be in place by the time this report was finalized. This is not yet the case. As a first step, we have therefore restricted ourselves to activities that are highly likely to be classified as “environmentally sustainable”. These cover electricity generation from wind, PV and hydropower as well as the electricity grids.

With this report, we wish to contribute to the further practical structuring of the EU taxonomy. We firmly believe that this tool will make an important contribution to the successful implementation of the EU Green Deal.

Best regards,

A handwritten signature in black ink, appearing to read 'T. Kusterer', with a stylized flourish at the end.

Thomas Kusterer
EnBW Chief Financial Officer

Dear Madam or Sir,

Sustainability means future viability: Changing stakeholder expectations relating to the role played by companies in society mean that sustainable companies can achieve competitive advantages in the sales and human resources markets as well as through innovations to seize new market opportunities and cut costs over entire life cycles. On the procurement market, companies are increasingly expected to take responsibility for environmental protection, occupational health and safety and human rights in the supply chain. Regulatory measures aimed at mitigating climate change and facilitating the transition to a circular economy, for example, will have a significant impact on the business models of many companies. Companies that fail to keep abreast of this profound change run the risk of being overtaken and left behind by their competitors.

Against this backdrop, it is clear why sustainability is now also emphatically demanded by the capital market. Sustainability is relevant to value and has a direct impact on cash flows, useful lives and capital costs. Management boards and investors require reliable information as a basis for investment decisions. It is important to be able to reliably identify informative, strategically relevant indicators and show their impact on the economic situation. Risk management, reporting and controlling systems must be enhanced accordingly.

These developments are also reflected in the guidelines for external reporting. Significant developments to date have been the International Integrated Reporting Framework, the TCFD recommendations and the development of industry-related SASB standards. The new taxonomy reporting requirements on “environmentally sustainable” revenue, capex and opex are likely to increase the informative value and comparability of reporting by mandatorily linking sustainability and financial reporting for the first time. They will be relevant to the capital market, as a basis for investment decisions, but also for meeting investors' own reporting obligations.

The proper implementation of these requirements calls for a careful examination process within the



companies concerned: Besides sustainability experts, the departments responsible for the reporting systems (particularly Accounting, Risk Management and Controlling) must be involved at an early stage.

This case study shares initial valuable practical experience with you to enable an informative yet realistic implementation of the new requirements as well as recommendations for their finalization.

Best regards,

A handwritten signature in black ink, which appears to read "Beine".

Prof. Frank Beine
Managing Partner Deloitte | Audit & Assurance

Management summary

- Companies that are required to publish a non-financial report (§§ 289b ff., 315b f. German Commercial Code (HGB)) must provide information on “environmentally sustainable” revenues, investments (capex) and operating expenses (opex) for the first time in 2021 in accordance with the EU Taxonomy Regulation.
- The new reporting requirements associated with the EU taxonomy are likely to significantly increase the informative value and comparability of non-financial reporting. As a result of this reporting requirement, financial and non-financial information is being mandatorily linked for the first time.
- Companies should allow sufficient time to implement taxonomy reporting requirements. Particularly, the initial work associated with determining taxonomy-compliant activities and deriving the taxonomy performance indicators subject to reporting requirements (revenue, capex and opex) for the 2021 reporting year will represent a considerable challenge for companies.
- The taxonomy implementation project comprises a specialist and system-side component:
 - (1) Assessing the environmental sustainability of activities, including identifying relevant activities, evaluating their compliance with the taxonomy, gathering evidence, etc.
 - (2) Translating the sustainability assessment into financial performance indicators, including taking stock of systems and processes for the respective internal data acquisition of taxonomy-compliant performance indicators for each business activity.
- The required taxonomy performance indicators for the wind, solar/PV, hydropower and electricity grid economic activities were ascertained for the 2020 reporting year. In addition, the adjusted EBITDA performance indicator, which is relevant to EnBW, was determined.
- Taxonomy-compliant revenue gives an indication of how “environmentally sustainable” a company is

today. Taxonomy-compliant capex gives an indication of how a company is adapting to a decarbonized economy in 2050. An examination of capex, in particular, could thus be paramount for evaluating the future viability of a company.

- The need to include reporting requirements for environmentally sustainable opex should be justified or, alternatively, deleted, because the added value in content terms is not clear to the majority of sectors up to now.
- To enable companies to realistically implement the taxonomy requirements, standard reference values for life cycle emissions should be established as far as possible, rather than requiring them to analyze individual plants.
- Taxonomy compliance demands, among other things, that no significant harm (rather than harm of any kind) is done to other EU environmental objectives. It has been possible to make reference to compliance with demanding national and European legislation within the project, because high environmental protection standards apply to the energy sector. We assume that compliance with these standards will generally exclude the possibility of any significant harm being done to the environmental objectives.
- Environmental impact assessment (EIA) requirements should be adapted because it is conceivable that there are cases where no EIA has (permissibly) been conducted, but it can nonetheless be proven that there is no risk of significant harm to EU environmental objectives.
- The current threshold value of 100 g CO₂e/kWh could act as a disincentive, hampering investment in activities (such as gas power plants) that are essential for the transition to a decarbonized economy.
- The inclusion of transitional activities with ambitious but realistic threshold values would help to significantly accelerate progress along this necessary decarbonization path in the short and medium term.
- For a final assessment of the practical reporting, auditing and utilization of taxonomy-related information, the announced delegated act specifying the reporting requirements is crucial. The current considerations propose an unjustified granularity of the information by requiring that information is provided for each activity, environmental objective and many other criteria.
- If the taxonomy is to be successfully implemented, it is essential that attention is paid to what is technically possible and economically feasible at the present time when establishing the screening criteria and threshold values.

Environmentally sustainable revenue, opex, capex and adjusted EBITDA of the EnBW Group for the 2020 financial year

	2020	2019
Revenue	18%	15%
Opex	26%	24%
Capex	60%	66%
Adjusted EBITDA	65%	59%



1. An overview of the development of (sustainability) reporting

- 1.1 Important developments relating to the requirements for (sustainability) reporting
- 1.2 The development of EnBW reporting

1.1. Important developments relating to the requirements for (sustainability) reporting

Since its launch at the turn of the millennium, the Global Reporting Initiative (GRI) has become an increasingly recognized standard for the (voluntary) reporting of the environmental, social and economic impact of a company's business activities. The development of the GRI standards put the highly regarded yet still very general reporting principles of the United Nations Global Compact into concrete terms. By the time the GRI G3 reporting guidelines had been published in 2006, the GRI standards had been adopted by major international companies in particular. Since the 2005 financial year, non-financial performance indicators, such as information on environmental and employee-related matters, must be included in this context (§§ 289(3)(315)(1)(4), German Commercial Code [Handelsgesetzbuch or HGB]).

The founding of the International Integrated Reporting Council (IIRC) for the purposes of developing integrated reporting (IR) was a key driver in the development and consolidation of financial and non-financial reporting. This includes integrated corporate governance and the preparation of an integrated report. From the very start, the focus has been on the companies' overall value added. Accordingly, beyond the economic situation, a more broadly defined meaning of the term capital has been assumed, one that not only examines financial capital, but also production-based, intellectual, human, social, network-based and natural capital – particularly the interaction between them.

The overwhelming emphasis on the past in conventional financial reporting should be replaced by a short-, medium- and long-term examination of value added so that the report conveys the company management's strategic focus. The integrated reporting should be market-driven, in contrast to a legally regulated report. Furthermore, no specific performance indicators should be required. Instead, in line with the strategic focus, companies should state the areas they consider to be essential to the value added and how they will quantify and report on them.

The framework concept of IR has played a key role in shaping the development of companies' reporting activities, especially the most important frameworks currently used, which are the EU CSR Directive (officially known as the Non-Financial Reporting Directive, or NFRD, primarily implemented in Germany through sections 289b ff., 315b f. HGB), the recommendations of the Task Force on Climate-related

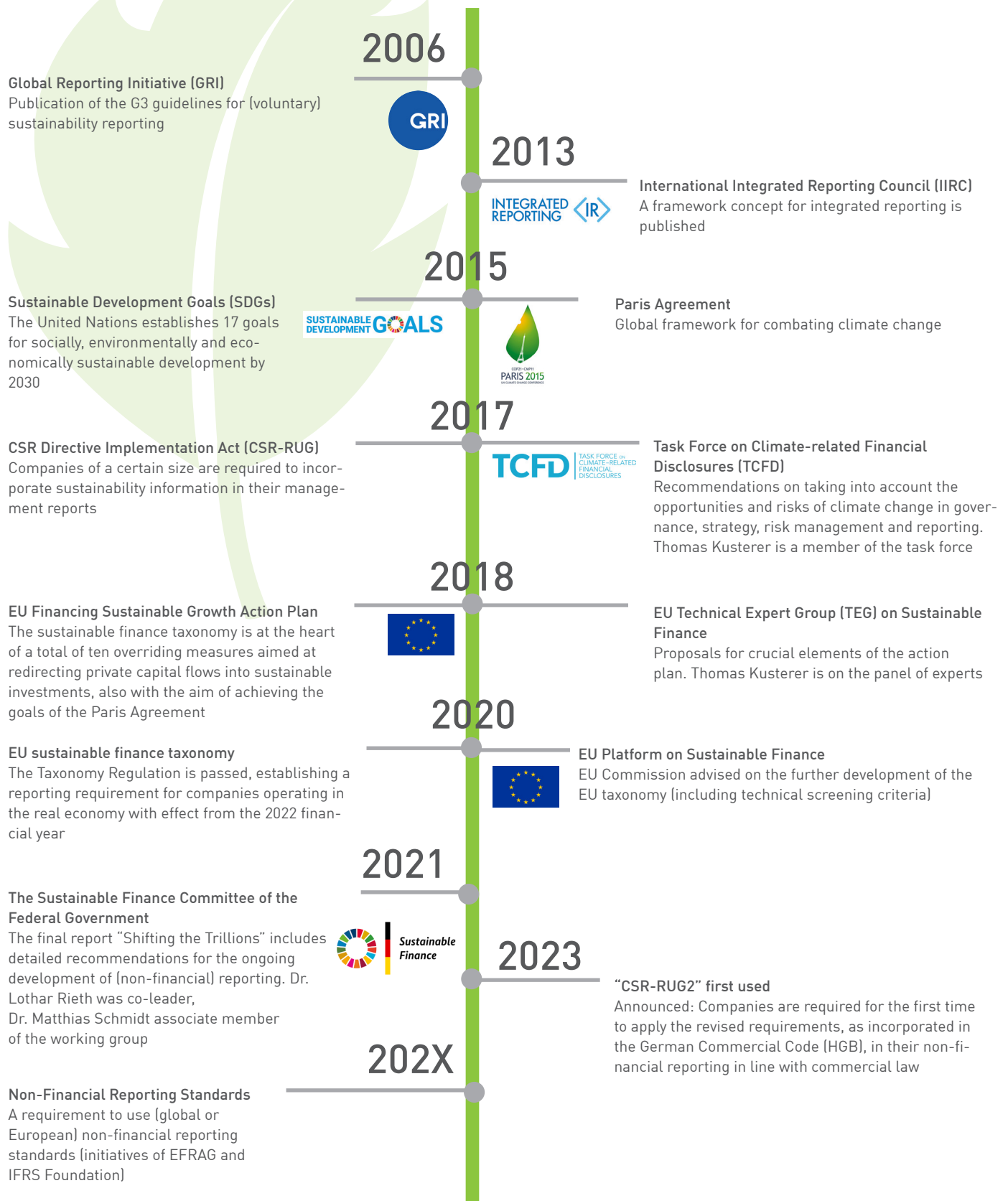
Financial Disclosures (TCFD), the information to be integrated in the financial reporting on the opportunities and risks of climate change for a company, with a clearer emphasis on integrated corporate governance than in the other important reporting standards) and the SASB standards (industry-specific sustainability information for integration in the financial reporting). Other initiatives for enabling the impact to be measured and monetized build on these.

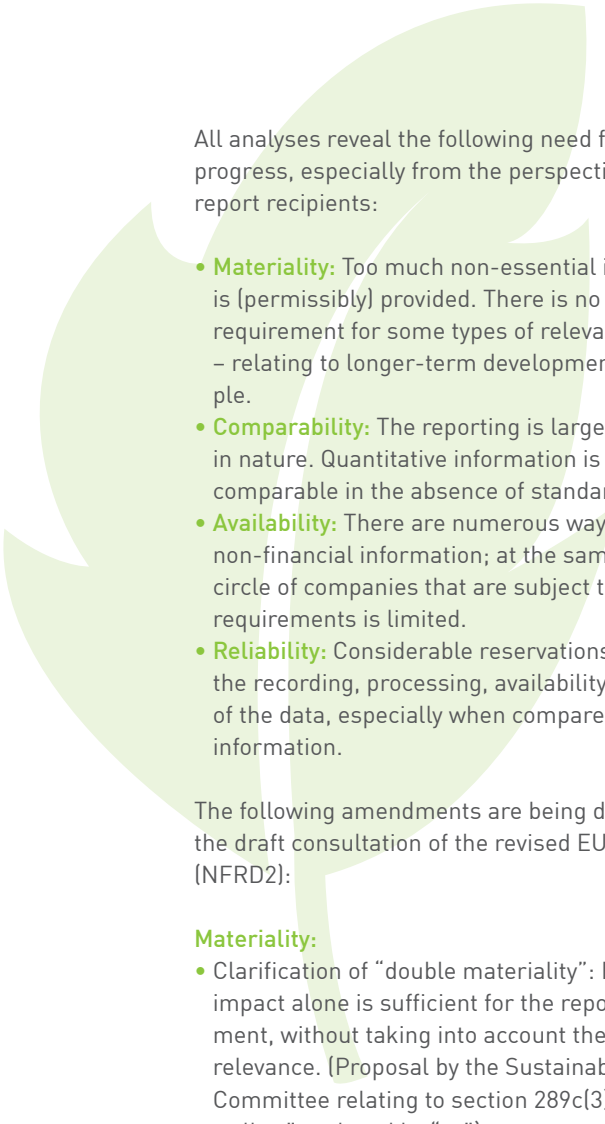
Due to the passing of the NFRD (2014/95/EU) and its adoption in national law (particularly in sections 289b ff., 315b f. HGB through the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz or CSR-RUG)), sustainability aspects have become more comprehensive. There is an explicit requirement to include them in the management report (the information can also be published outside the management report in a separate non-financial report). Since the 2017 financial year, capital market-oriented companies with more than 500 employees are thus required to add a non-financial statement to their (consolidated) management reports. This must include information on environmental, social and employee-related matters and details relating to respect for human rights and measures to combat corruption and bribery if such information is needed to understand the business performance, business results and situation as well as the impact.

The new taxonomy reporting requirement ties in with this reporting requirement. Accordingly, companies that operate in the real economy and are required to publish non-financial reports in line with commercial law must include information on "environmentally sustainable" revenue, capex and opex in financial years for which a report is prepared on or after 1 January 2022 in compliance with the EU Taxonomy Regulation. As a result of this reporting requirement, financial and non-financial information is being mandatorily linked for the first time. The information provides the basis for meeting the reporting requirements of financial institutions (pursuant to the EU Disclosure Regulation 2019/2088) and therefore one of the reasons why it is highly relevant for investors.

When the EU NFRD was passed back in 2014, an announcement was already made that a revision of the Directive should be expected based on analyses of the practical implementation of reporting requirements against the backdrop of the objectives pursued by the EU. Following extensive consultations, this revision has been announced for the year 2021. In Germany, the Sustainable Finance Committee of the Federal Government, the ASCG and the German Environment Agency, among others, have conducted relevant analyses.

Initiatives / milestones





All analyses reveal the following need for further progress, especially from the perspective of the report recipients:

- **Materiality:** Too much non-essential information is (permissibly) provided. There is no reporting requirement for some types of relevant information – relating to longer-term development, for example.
- **Comparability:** The reporting is largely qualitative in nature. Quantitative information is often not comparable in the absence of standardization.
- **Availability:** There are numerous ways of disclosing non-financial information; at the same time, the circle of companies that are subject to reporting requirements is limited.
- **Reliability:** Considerable reservations concerning the recording, processing, availability and quality of the data, especially when compared to financial information.

The following amendments are being discussed for the draft consultation of the revised EU CSR Directive (NFRD2):

Materiality:

- Clarification of “double materiality”: Relevant impact alone is sufficient for the reporting requirement, without taking into account the economic relevance. (Proposal by the Sustainable Finance Committee relating to section 289c(3)(1) HGB: “as well as” replaced by “or”).
- Barriers lowered for risks for which there is a reporting requirement and the forecasting horizon extended (DRS 20 (Group Management Report): generally one year); potentially mandatory scenario analyses in keeping with the recommendations of the Index for the Task Force on Climate-related Financial Disclosures (TCFD).

Comparability:

- Development of non-financial reporting standards: Disclosure of specific and, if necessary, sector-specific performance indicators (particularly initiatives by EFRAG and the IFRS Foundation).

Availability:

- Increase in the number of companies that are subject to reporting requirements
- Integrated reporting (in the management report)
- Virtual raw database for the public disclosure of non-financial performance indicators that are subject to reporting requirements

Reliability:

- Requirement to audit content
- Clarification of governance requirements, especially requirements for management boards and supervisory boards vis-à-vis reporting systems and internal control systems for non-financial reporting along the lines of financial reporting. But also taking into consideration sustainability aspects in compliance and risk management systems.

After finalizing the Directive at EU level and enacting it in national law (in accordance with predefined approaches, including draft consultations), it is expected that the revised requirements will have to be applied for the first time for the 2023 financial year. By widening the circle of companies that are subject to reporting requirements, more companies would be required to publish information on taxonomy-compliant revenues, capital expenditures (capex) and operational expenditures (opex).

It is becoming apparent that investors and regulators expect non-financial reporting quality to be brought closer to that of financial reporting in a timely manner, e.g. in terms of the clarity and unambiguity of reporting requirements, but also in terms of what is required from the management boards to guarantee full and accurate reporting as well as in terms of content-based auditing. Due to their level of ambition, the taxonomy reporting requirements are being carefully discussed, particularly among those companies that are subject to reporting requirements – but they tend to provide an indication of the direction in which non-financial reporting will develop in the future.

Development of taxonomy guidelines and effects on EnBW reporting



Passing of the EU Taxonomy Regulation:

18.06.2020

The Taxonomy Regulation requires companies that must prepare a non-financial statement to provide information on “environmentally sustainable” revenue, capex and opex in the future. “Environmentally sustainable” activities are those that make a substantial contribution to one of the six EU environmental objectives.

The reporting requirement is immediately effective; there is no need to enact it in German law.

Requirement: Identify “environmentally sustainable” business activities.

Corresponding data acquisition to ensure proper reporting.

Delegated act with technical screening criteria for the EU environmental objectives:

Approval of the delegated act on the structure of the Taxonomy Regulation:

1. Climate change mitigation
2. Climate change adaptation

Announced: 31.12.2020

Expected: Q2/2021

Required reporting elements for the 2021 financial year:

Revenue, capex and opex connected to activities that make a substantial contribution to the achievement of objectives 1 and 2 and do no significant harm to the achievement of further environmental and social objectives.

Analyze related project activities initially based on the draft consultation for the criteria.

Delegated act to establish the new reporting requirements:

Announced: 01.06.2021

(Art. 8(4) Taxonomy Regulation)

Establishing the reporting requirements:

Determining revenues, capex and opex, among other things, together with their presentation in tabular form and other required explanations.

Guidance is taken from the ESMA draft consultation from Q4/2020 and the final report from Q1/2021 in this regard.

Delegated act with technical screening criteria for the EU environmental objectives:

Formulation of EU environmental objectives 3–6.

3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

Announced: 31.12.2021

Required reporting elements for the 2022 financial year:

Revenue, capex and opex connected to activities that make a substantial contribution to the achievement of objectives 1 to 6 and do no significant harm to the achievement of further environmental and social objectives.

Further analysis of business activities vis-à-vis taxonomy compliance for environmental objectives 3 to 6.

1.2 The continuous development of EnBW annual reporting

Integrated reporting, which takes into consideration the environmental and social aspects as well as the economic aspect, has played an important role at EnBW for a number of years. With a separate sustainability report having been published up until 2011, the changing information needs of the stakeholders led to the classic, two-part financial and sustainability reporting at EnBW being gradually replaced by integrated reporting in recent years. Starting in 2012, the company initially published a combined report, which then became an Integrated Annual Report (IAR) in 2014 and has since been continuously developed and enhanced by adding both voluntary and binding reporting elements. Within the Integrated Annual Report, the management report shows all the essential information that is critical to the analysis of EnBW's business performance, business result and situation over the past financial year. The management report in the EnBW Integrated Annual Report is audited with reasonable assurance.





2. Objectives, background and elements of the EU taxonomy reporting requirements

- 2.1 EU taxonomy objectives and background
- 2.2 Taxonomy-related reporting requirements for companies operating in the real economy
- 2.3 Definition of the terms revenue, capex and opex

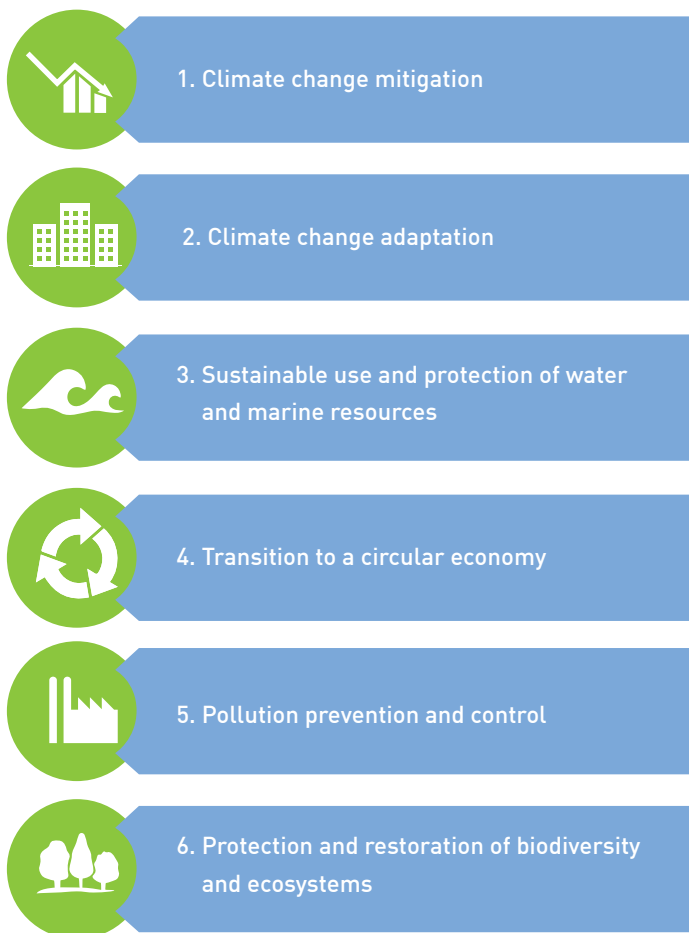
2. Objectives, background and elements of the EU taxonomy reporting requirements

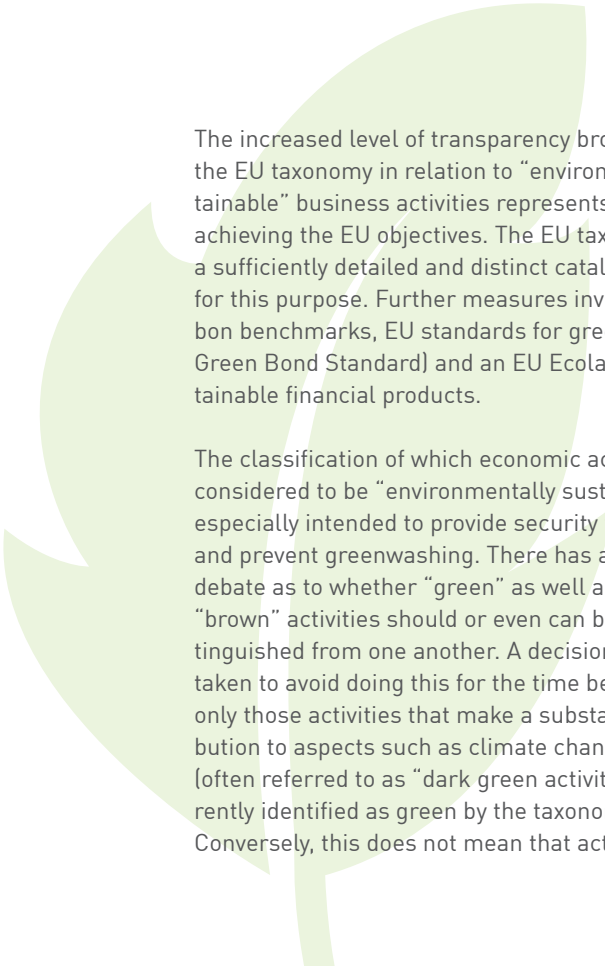
2.1 EU taxonomy objectives and background

Having signed up to the Paris Agreement in 2015, the international community is committed to limiting global warming in the 21st century to well below 2°C – preferably to 1.5°C. To this end, there is a drive to cut global CO₂ emissions by 80–95 percent by 2050, resulting in extensive decarbonization of the global economy.

The achievement of these climate objectives (in addition to other sustainability targets) is being closely monitored at EU level through the European Green Deal and the EU Financing Sustainable Growth Action Plan: Europe is set to be climate-neutral by 2050. Greenhouse gas emissions must be 55 percent lower by 2030 than they were in 1990 (subject to final agreement between the European Parliament and

the EU Commission). The trade in emission allowances could also be extended to other sectors. Other measures – in relation to emission threshold values, the circular economy and environmental standards, among other things – concern i.a. the mobility, food production and chemical industries. To finance the measures, 30 percent of a package worth 1.8 trillion euros from the EU budget (2021–2027) and the EU stimulus package (“NextGenerationEU”), will go towards mitigating climate change. With funding of 672.5 billion euros, the biggest program among the EU stimulus package must reserve 37 percent of this amount for climate projects. In addition, private capital flows of between 180 and 290 billion euros per year are set to be redirected towards sustainable investments and projects. The following six environmental objectives are pursued in the Taxonomy Regulation.





The increased level of transparency brought about by the EU taxonomy in relation to “environmentally sustainable” business activities represents a key tool for achieving the EU objectives. The EU taxonomy forms a sufficiently detailed and distinct catalog of criteria for this purpose. Further measures involve low-carbon benchmarks, EU standards for green bonds (EU Green Bond Standard) and an EU Ecolabel for sustainable financial products.

The classification of which economic activities are considered to be “environmentally sustainable” is especially intended to provide security for investors and prevent greenwashing. There has also been a debate as to whether “green” as well as “grey” and “brown” activities should or even can be clearly distinguished from one another. A decision has been taken to avoid doing this for the time being. As such, only those activities that make a substantial contribution to aspects such as climate change mitigation (often referred to as “dark green activities”) are currently identified as green by the taxonomy criteria. Conversely, this does not mean that activities that are

not “environmentally sustainable” as understood by the EU taxonomy because e.g. a) they do not meet the criteria or b) there are currently no criteria available at all, are “not sustainable” or even “not viable for the future”.

In June 2018, a Technical Expert Group on Sustainable Finance (TEG) was appointed to draw up specific recommendations. Among other things, its task was to develop a concept for a sustainable finance taxonomy, incl. proposals for taxonomy criteria. The focus of the TEG was on the development of criteria for environmental objectives 1 and 2 – climate change mitigation and climate change adaptation. Once the TEG had fulfilled its brief in the fall of 2020, it was replaced by the Platform on Sustainable Finance in October 2020. Building on the work of the TEG, its task, among other things, is to help the European Commission to devise the taxonomy criteria for the remaining four environmental objectives and expand the scope of the taxonomy to include social objectives.

EU Technical Expert Group on Sustainable Finances (TEG):

The TEG’s task was to help the European Commission to devise the following elements:

- An EU classification system (EU taxonomy) to determine whether an economic activity is “environmentally sustainable”;
- An EU Green Bond Standard;
- Methods for EU climate benchmarks and disclosure measures for benchmarks; and
- Guidelines to improve the way in which companies disclose climate-related information.

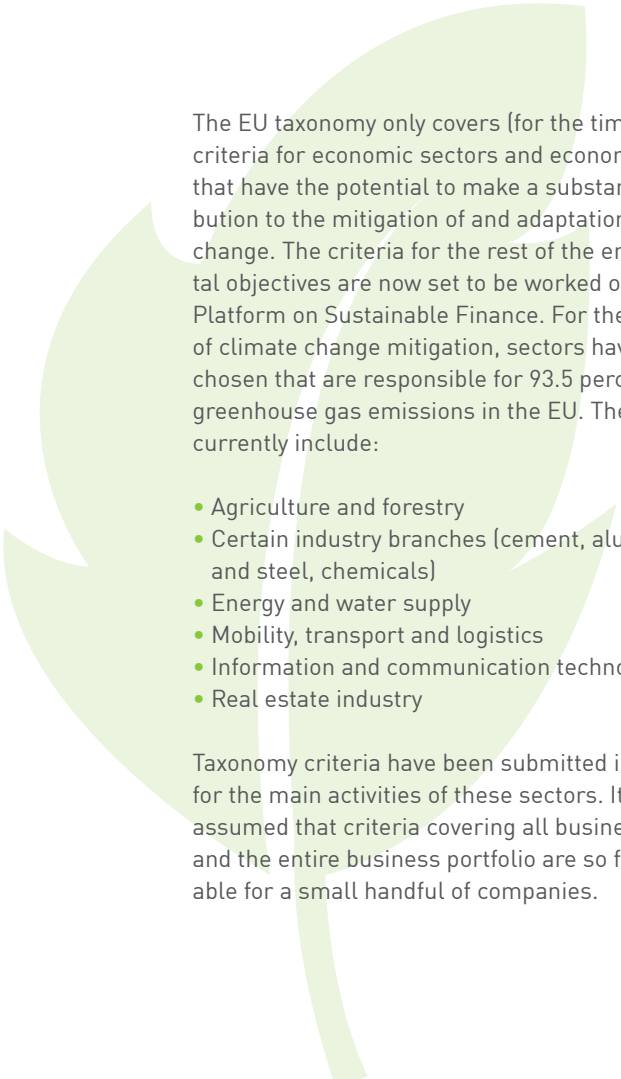
July 2018–September 2020

Platform on Sustainable Finance:

This has replaced the Technical Expert Group on Sustainable Finance and has an advisory role relating to the following aspects:

1. The taxonomy, including the four environmental areas in addition to climate change mitigation and climate change adaptation,
2. The expansion of the taxonomy to include other sustainability objectives, such as social and non-sustainable activities and
3. A sustainable financial policy in the broader sense.

Since October 2020



The EU taxonomy only covers (for the time being) criteria for economic sectors and economic activities that have the potential to make a substantial contribution to the mitigation of and adaptation to climate change. The criteria for the rest of the environmental objectives are now set to be worked out by the Platform on Sustainable Finance. For the objective of climate change mitigation, sectors have been chosen that are responsible for 93.5 percent of direct greenhouse gas emissions in the EU. These sectors currently include:

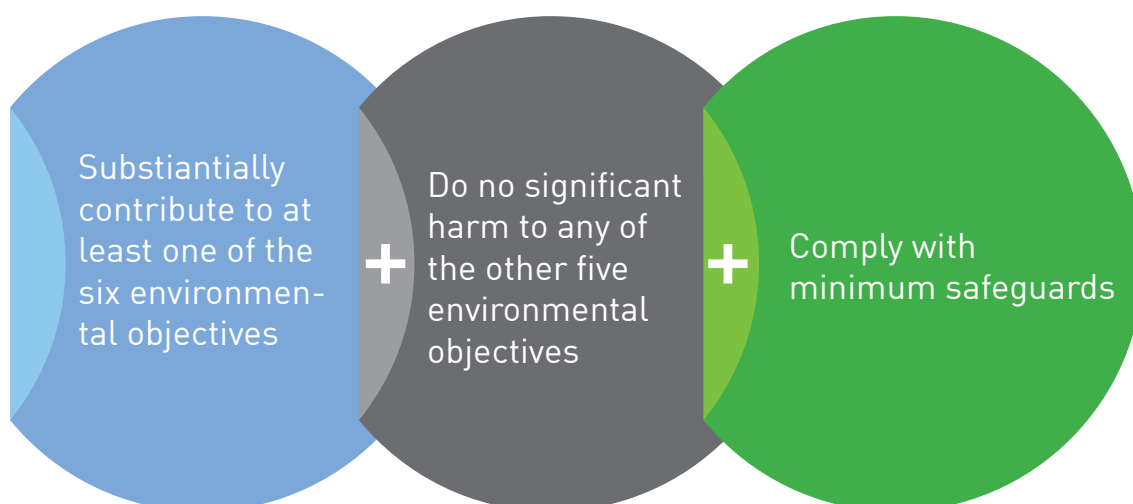
- Agriculture and forestry
- Certain industry branches (cement, aluminum, iron and steel, chemicals)
- Energy and water supply
- Mobility, transport and logistics
- Information and communication technology
- Real estate industry

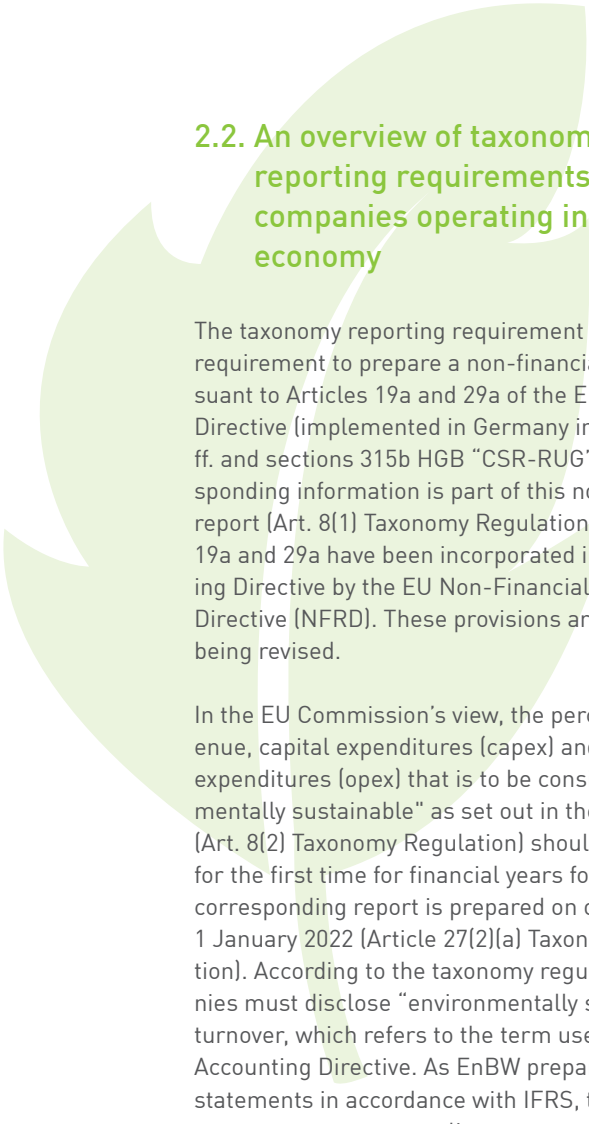
Taxonomy criteria have been submitted in draft form for the main activities of these sectors. It should be assumed that criteria covering all business activities and the entire business portfolio are so far only available for a small handful of companies.

Business activities are “environmentally sustainable” within the meaning of the Taxonomy Regulation if they:

- (1) make a **substantial contribution** to the mitigation or adaptation of climate change, evidenced by compliance with certain criteria (**technical screening criteria**) that are not part of the EU Taxonomy Regulation, but feature in subordinate delegated acts,
- (2) **do no significant harm (DNSH)** to the achievement of the four other EU environmental objectives (equally described in the delegated acts) and
- (3) comply with **minimum safeguards** for occupational safety and human rights.

Activities that cumulatively fulfill these criteria are “environmentally sustainable” in the sense of the Taxonomy Regulation. As a result, the revenue, capex and opex associated with these activities must be determined and reported.





2.2. An overview of taxonomy-related reporting requirements for companies operating in the real economy

The taxonomy reporting requirement is linked to the requirement to prepare a non-financial report pursuant to Articles 19a and 29a of the EU Accounting Directive (implemented in Germany in sections 289b ff. and sections 315b HGB “CSR-RUG”); the corresponding information is part of this non-financial report (Art. 8(1) Taxonomy Regulation). These articles 19a and 29a have been incorporated in the Accounting Directive by the EU Non-Financial Reporting Directive (NFRD). These provisions are currently being revised.

In the EU Commission’s view, the percentage of revenue, capital expenditures (capex) and operational expenditures (opex) that is to be considered “environmentally sustainable” as set out in the EU taxonomy (Art. 8(2) Taxonomy Regulation) should be stated for the first time for financial years for which the corresponding report is prepared on or after 1 January 2022 (Article 27(2)(a) Taxonomy Regulation). According to the taxonomy regulation, companies must disclose “environmentally sustainable” turnover, which refers to the term used in the EU Accounting Directive. As EnBW prepares financial statements in accordance with IFRS, the company reports taxonomy-compliant revenues, which is the equivalent IFRS term.

The information must be audited by the Supervisory Board as part of the non-financial reporting in line with commercial law and pursuant to section 171 of the German Stock Corporation Act (Aktiengesetz or AktG). There is no requirement for an auditor to check the content in the course of performing the statutory audit. Such assurance engagements of non-financial reports according to sections 289b ff., 315b f. HGB can be reasonable or limited assurance engagements or - as in the case of EnBW reporting as an extension of the statutory audit (with reasonable assurance).

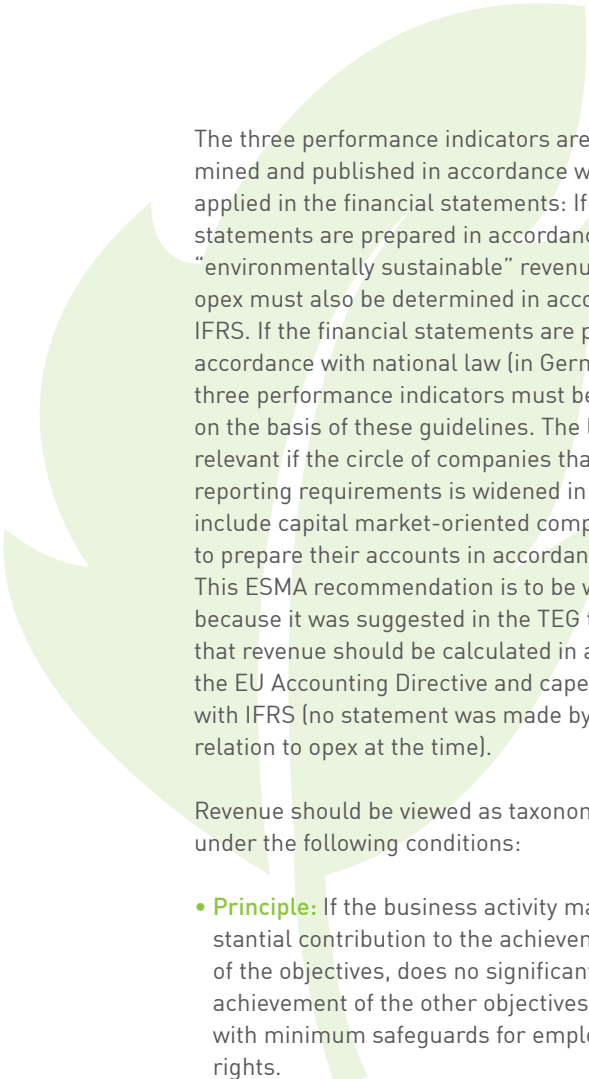
The authoritative legal source is the Taxonomy Regulation, which lays down the criteria for “environmentally sustainable” business activities and the reporting requirements for the percentage of these activities attributable to revenue, capex and opex. The Regulation applies directly. Unlike a Directive (such as the EU NFRD), it must not firstly be enacted in national law (in the HGB, for example).

Discussions and empirical findings to date suggest that many companies may currently only achieve single-digit or at most low double-digit figures when stating their “environmentally sustainable” revenue, despite demonstrating a long-standing and serious commitment to sustainability. Even very good results in the sustainability ratings and rankings do not necessarily go hand in hand with an above-average level of “environmentally sustainable” revenues and opex. The question here for companies is whether they voluntarily give their investors additional information, when similarly applying the taxonomy logic, on the future viability of non-taxonomy-compliant activities. There are known cases, for example, where companies that are only able to rate a very low percentage of their revenue as taxonomy-compliant intend to supplement their non-financial reporting by providing additional information on CO₂ savings that can be achieved with their products or on approaches to decarbonizing production processes.

It should be noted that the EU NFRD is currently being revised and a widening of the circle of companies that are subject to reporting requirements is expected. Pursuant to the Taxonomy Regulation, these companies will then have to publish the information in the future (most likely from the 2023 financial year onwards).

2.3 Definitions of the terms revenue, capex and opex

The terms revenue, capex and opex and their derivation are not defined in the Taxonomy Regulation. It has been announced that a delegated act for the specific reporting requirements in the Taxonomy Regulation will be adopted by 1 June 2021. The European Commission had asked the ESMA to come up with recommendations. The ESMA presented a corresponding draft consultation in November 2020 (particularly for the reporting obligations of companies operating in the real economy). In March 2021, the main findings from the consultation were published, including recommendations for the EU Commission to draw up the delegated act. The recommendations provide an initial point of reference for the delegated act to put into concrete terms the reporting requirements that will be developed on this basis. The ESMA recommendations presented to the EU Commission are detailed below and, in some cases, critically ranked. The ESMA consultation paper from November 2020 has been taken into account in EnBW’s reporting, although the reporting does not fully conform to these proposals.



The three performance indicators are to be determined and published in accordance with the rules applied in the financial statements: If the financial statements are prepared in accordance with IFRS, “environmentally sustainable” revenue, capex and opex must also be determined in accordance with IFRS. If the financial statements are prepared in accordance with national law (in Germany: HGB), the three performance indicators must be determined on the basis of these guidelines. The latter may be relevant if the circle of companies that are subject to reporting requirements is widened in the future to include capital market-oriented companies (required to prepare their accounts in accordance with IFRS). This ESMA recommendation is to be welcomed, because it was suggested in the TEG taxonomy report that revenue should be calculated in accordance with the EU Accounting Directive and capex in accordance with IFRS (no statement was made by the TEG in relation to opex at the time).

Revenue should be viewed as taxonomy-compliant under the following conditions:

- **Principle:** If the business activity makes a substantial contribution to the achievement of one of the objectives, does no significant harm to the achievement of the other objectives and complies with minimum safeguards for employee and human rights.
- **Only in relation to EU environmental objective 2 (climate change adaptation):** If the business activity enables the customer to adapt to climate change.

According to the ESMA recommendations, capex should be calculated on a gross basis, i.e., without taking into account revaluations, scheduled depreciation or impairment losses. Capex should include investments in long-term tangible and intangible assets (non-current assets). It should also include goods that have been acquired as part of asset deals (capex immediately discernible) or share deals (capex calculated as part of the purchase price allocation).

For capex to be deemed “environmentally sustainable”, the expenses should further be incurred as part of a plan that leads to a taxonomy-compliant business activity within five years. The plan should be formally passed by the company management or agents acting on their behalf.

According to the ESMA recommendations, “environmentally sustainable” opex should include individually attributable, non-capitalized expenses for research and development, building renovations, short-term leasing, maintenance and repairs, and other operating expenses necessary for maintaining “environmentally sustainable” business activities. Depreciation of long-term assets (non-current assets) required for this purpose are not mentioned in the ESMA recommendations.

The information on environmentally sustainable revenues, capex and opex should be presented in standard table form together with supplementary explanations. This should ensure that the basic approach used to calculate the performance indicators, including any necessary assumptions, is explained. The ESMA recommendations state that for every business activity relevant to the company that is subject to reporting requirements the identification of the substantial contribution to one (or more) of the EU environmental objectives, the assessment of the DNSH criteria and the compliance with minimum safeguards. If an activity makes a substantial contribution to the achievement of several EU environmental objectives, it should be stated how double counting has been avoided, e.g. by providing breakdowns, including any underlying assumptions. For the three performance indicators, the key drivers of change in the reporting periods should be stated in each case. The qualitative information should be located close to the three performance indicators. By way of exception, however, references are also permissible within the report. Figures for the previous year must be stated from the second reporting year onwards. Information on targets or forecasts is not explicitly required. Such requirements may arise for German companies, however, if the performance indicators have to be viewed as relevant to the ongoing management of the company within the meaning of DRS 20.106.

The current status of the discussion and an initial evaluation

Following an initial review, the ESMA recommendations to the EU Commission generally appear to be clear and comprehensible. The ESMA recommendations are not directly aimed at companies that are (in future) subject to reporting requirement, although EnBW has in principle been guided by them. However, a critical view must be taken of recommendations concerning the fact that the three performance indicators must not only be stated at Group level – as required by Art. 8 (2) of the Taxonomy Regulation – but also

- (1) for every single taxonomy-compliant activity of a company,
- (2) broken down into transitional or enabling activities and
- (3) individually for each of the six EU environmental objectives.

The taxonomy guidelines, for example, detail 25 taxonomy-classified business activities for energy generation alone. If energy generation companies have to state the three performance indicators for all six environmental objectives for these activities, including an aggregated Group view, that would result in $26 \times 3 \times 6 = 468$ individual pieces of information, each needing to be supplemented by qualitative information. The value added provided by this level of detail is not discernible for the user of the data. If aggregated reporting at Group level is considered to be insufficiently detailed, reporting at business segment level within the meaning of IFRS 8 (business segments) would be a practicable middle way in order to guarantee consistency between the financial and non-financial reporting.

It must be assumed that the required information is not currently available as standard in companies. In the case of corresponding profit center costings, the information can be determined in EnBW's experience in accordance with cost-benefit considerations based

on the interpretation of the terms, although company reporting systems should be examined at an early stage to determine whether they can present the information required by the EU taxonomy. Adjustments to the reporting systems may be necessary to guarantee that the information is both complete and accurate. Here it appears advisable to make a start on the systems used until now for recording revenue, capex and opex rather than upgrading the existing data acquisition software for sustainability data, unless they have been directly linked to the financial reporting.

The relevance and informative value of environmentally sustainable opex is debatable for internal and external stakeholders. The need to include reporting requirements for environmentally sustainable opex should be justified or alternatively deleted, because the added value in content terms is not clear.



3. Practical implementation of the EU taxonomy at EnBW

- 3.1 Project plan and project organization
- 3.2 Defining the taxonomy-compliant activities
- 3.3 Establishing environmentally sustainable revenues, capex and opex
- 3.4 Findings from the first-time reporting of the EU taxonomy

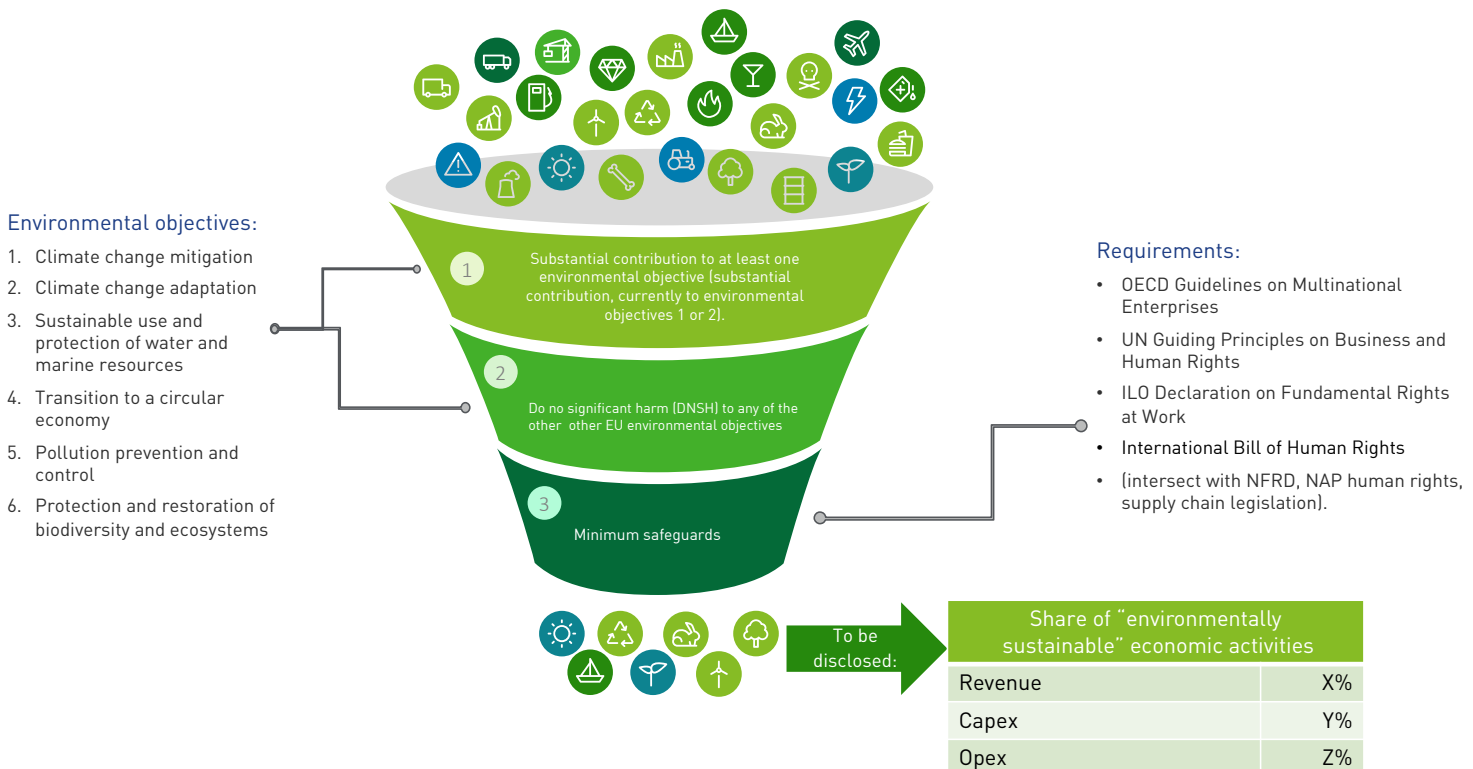
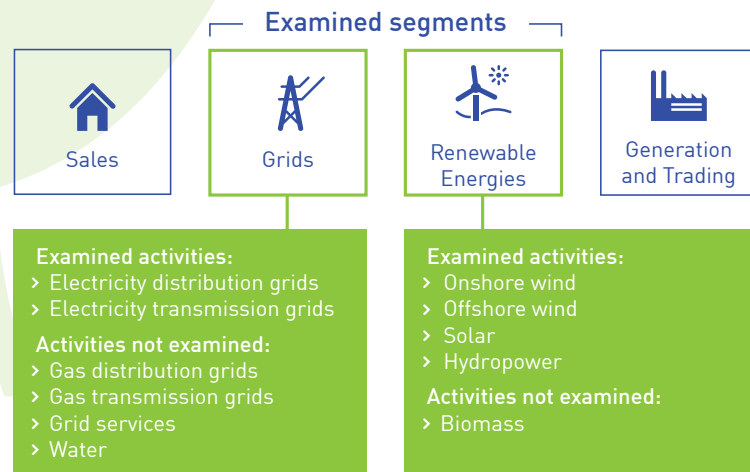
3.1 Project plan and project organization

EnBW opted to incorporate key parts of the future binding provisions from the Taxonomy Regulation in its integrated reporting before the EU taxonomy reporting requirements come into force. The results were first published in the 2020 Integrated Annual Report, which EnBW unveiled at the end of March 2021 at the press conference on annual results. The publication of the data and the experience gained from the associated implementation project with Deloitte should contribute to the sustainable finance

debate and deliver added value for internal and external stakeholders.

The reporting was based on the Taxonomy Regulation from 18 June 2020 and the technical screening criteria set out in the draft delegated act on the Taxonomy Regulation dated 20 November 2020, also taking into account the ESMA consultation paper on reporting pursuant to Article 8(2) of the Taxonomy Regulation dated 5 November 2020. In March 2021, the main findings from the consultation were published, including recommendations for the EU Commission to draw up the delegated act.

Activities examined for the EU Taxonomy Regulation



1. Project setup

- Board member as “project mentor”
- Steering committee: Controlling, Sustainability, Accounting (, Production)
- Project plan and project organization
- Shared understanding of the taxonomy criteria and reporting requirements
- Involvement of internal stakeholders

2. Analysis of business activities

- Identify taxonomy-related activities
- Evaluate taxonomy conformity and gather evidence
- Produce a list of requirements for the system-side provision of information

3. Analysis of systems and processes

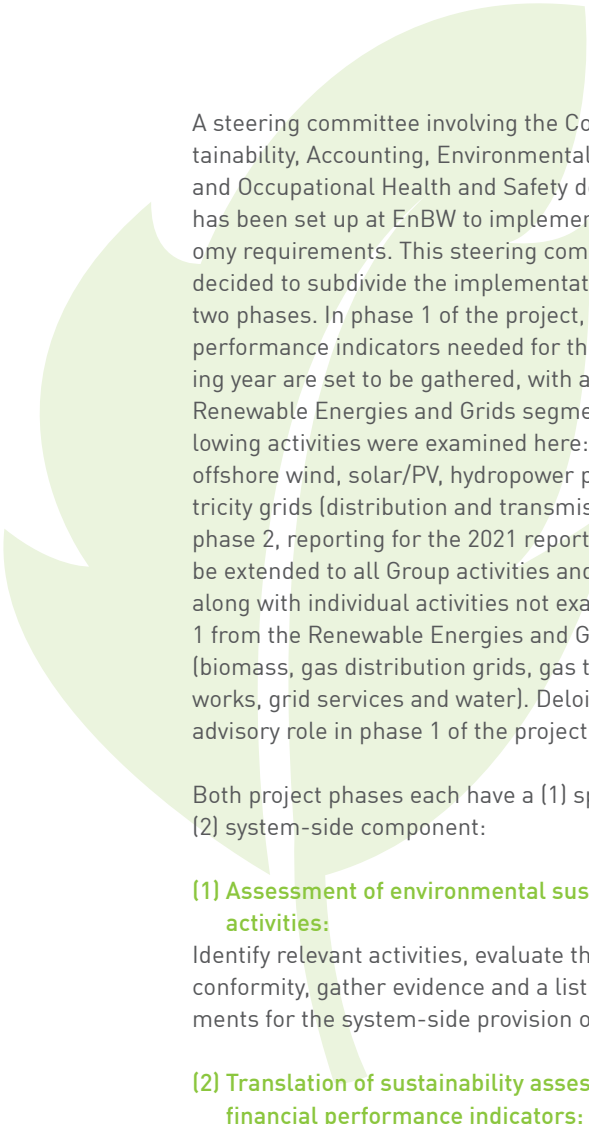
- Create an inventory of systems and processes for data collection
- Analyze the necessary changes (gap analysis)

4. Implementation and finalization

- Draw up and implement the adjustments to the systems and processes
- Testing and trial phase
- Specialist concept for auditors
- Summary of assumptions, proof and evidence

Approach to the analysis of EnBW's business activities:

1. Consideration of German activities, then consideration of foreign locations (mainly in the EU) in the second stage. Gather information using prepared templates for interviews with the relevant departments (e.g. Project Development/Operation, Environmental Protection, Occupational Health and Safety, Procurement, etc.)
 - 1.1. Analyze the substantial contribution to climate change mitigation, aggregated to the greatest possible extent (overall generation method with risk-oriented plausibility check, if necessary: individual power plants)
 - 1.2. Assess “no significant harm”: Basic compliance with legal requirements, aggregated to the greatest possible extent (overall generation method as a rule, with risk-oriented plausibility check)
 - 1.3. Minimum safeguards: consideration at Group level
2. Compare the German results with the foreign locations to gather information on taxonomy-compliant activities abroad (mainly within the EU)
3. Analyze the results from the generation methods under examination. Derive the revenue, capex and opex for the “environmentally sustainable” activities



A steering committee involving the Controlling, Sustainability, Accounting, Environmental Protection and Occupational Health and Safety departments has been set up at EnBW to implement the taxonomy requirements. This steering committee has decided to subdivide the implementation project into two phases. In phase 1 of the project, the taxonomy performance indicators needed for the 2020 reporting year are set to be gathered, with a focus on the Renewable Energies and Grids segments. The following activities were examined here: onshore wind, offshore wind, solar/PV, hydropower plants and electricity grids (distribution and transmission grids). In phase 2, reporting for the 2021 reporting year should be extended to all Group activities and segments along with individual activities not examined in phase 1 from the Renewable Energies and Grids segments (biomass, gas distribution grids, gas transport networks, grid services and water). Deloitte played an advisory role in phase 1 of the project.

Both project phases each have a (1) specialist and a (2) system-side component:

(1) Assessment of environmental sustainability of activities:

Identify relevant activities, evaluate their taxonomy conformity, gather evidence and a list of requirements for the system-side provision of information

(2) Translation of sustainability assessment into financial performance indicators:

Create an inventory of systems and processes for the respective internal data collection process involving taxonomy-compliant revenue, capex and opex for each business activity.

3.2 Defining the taxonomy-compliant activities

a) Approach

At the start of the project, the relevant taxonomy criteria were identified for the business activities under consideration and initially discussed with internal experts from the respective departments of German EnBW Group companies, particularly experts from the Project Development, Project Operation, Environmental Protection, Occupational Health and Safety, Technical Management and Procurement departments, among others. To this end, the objectives and the approach to the project were first presented and fundamental questions were established. This introduction to the taxonomy was a key prerequisite

for subsequently being able to work on the taxonomy requirements together. The contact persons were then regularly given one to two weeks to present their assessment of how the criteria are fulfilled and supply supporting evidence. Where necessary, further experts were consulted or clarity on particular matters was sought with members of the EU TEG or other (external) experts. The assessments of the internal experts were discussed and finalized in joint follow-up meetings. As soon as solid results had been produced, the criteria and assessments were shared with the foreign EnBW companies and associated companies (in France, Austria, Sweden, Switzerland and the Czech Republic) and discussions were held with them to establish whether a comparable situation existed in each of the countries. This was essentially the case because the taxonomy criteria largely reference the EU standards that equally had to be implemented in France, Austria, Sweden and the Czech Republic at least. The requirements for the hydroelectric power plants operated in the Switzerland were similar, if not even stricter.

The process for assessing the fulfillment of the criteria for making a substantial contribution to climate protection, doing no significant harm to the five other EU environmental objectives and complying with the minimum safeguards for occupational health and safety and human rights is presented below.

b) Substantial contribution to climate change mitigation

Energy generation is generally deemed to make a substantial contribution to the mitigation of climate change if the generation threshold is kept below 100 g CO₂e/kWh, calculated on the basis of recognized standards using a life cycle analysis. The draft consultations of the delegated act for the technical screening criteria state that the results of the life cycle analysis must be subjected to external verification by an independent third party.

For the business activities under consideration in phase 1, no technical screening criteria have to be assessed for wind (on- and offshore) and solar, because the substantial contribution to mitigating climate change is currently assumed in the taxonomy criteria due to the comparatively low life cycle emissions for these activities.

This is not the case for hydropower plants and electricity grids. However, the taxonomy criteria make provision for the following forms of relief, allowing the substantial contribution to be ascertained at activity level rather than project level.

In the case of hydroelectric power plants, a life cycle analysis must be conducted to determine whether the greenhouse gas intensity of the energy generation lies under the permissible threshold of 100 g CO₂e/kWh. By nature, no CO₂ emissions are produced (run-of-river) or hardly any are produced (pumped storage with natural flow of water) in the generation of energy in hydroelectric power plants. CO₂ will primarily be generated during construction and, at most, in the event of any theoretical dismantling. However, these emissions are then spread over a very long life cycle: The oldest hydroelectric power plants in the EnBW Group are more than 120 years old and there are currently no plans to decommission even these plants. Accordingly, the figure for the substantial contribution made by hydroelectric power plants has been taken from a trustworthy source in the form of the emission factors of the German Environment Agency (UBA): The calculated values (incl. upstream) for run-of-river (2.702 g CO₂e/kWh) and for pumped storage with natural flow of water (25.064 g CO₂e/kWh) are significantly below the limit of 100 g CO₂e/kWh.

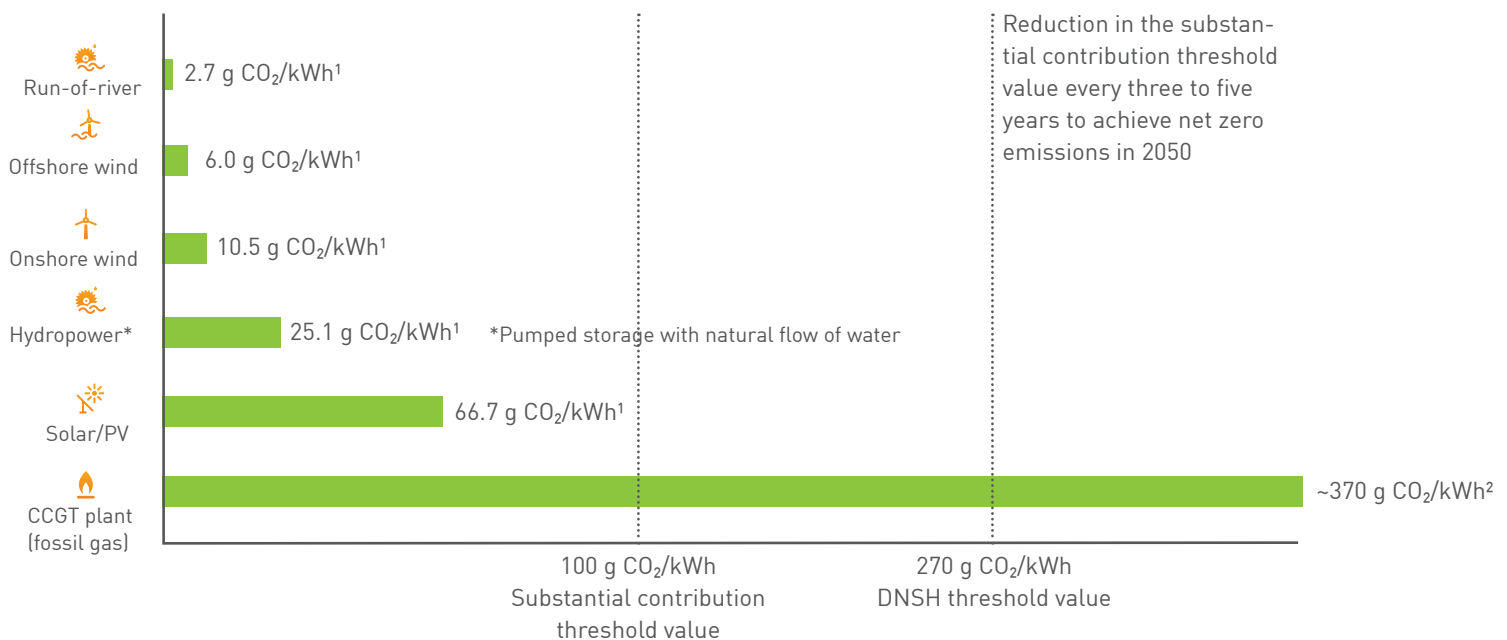
The taxonomy sets out various alternative criteria in relation to electricity grids. If one of these alternative criteria is met, it can be assumed that a system of electricity grids and associated equipment makes a substantial contribution to climate change mitigation.

The electricity distribution grids in the EnBW Group meet the following taxonomy criterion: More than 67 percent of the newly connected generation capacity in the system is below the generation threshold of 100 g CO₂e/kWh, measured on the basis of the product carbon footprint over a rolling five-year period.

The electricity transmission grids in the EnBW Group meet the following taxonomy criterion: Connection to the synchronous grid of Continental Europe. The grid has cross-border interconnectors with the EU countries France, Austria and Switzerland.

It has thus far not been necessary to examine objective 2 of the EU taxonomy "climate change adaptation" and it was therefore not addressed, because substantial contributions to climate protection were identified for each of the activities under consideration. The "climate change adaptation" criteria are primarily principle-based and not always distinct from objective 1. By way of example, hydroelectric power plants may be affected by weather extremes as a result of climate change and an early warning

Life cycle emissions by generation method



¹ Life cycle emissions according to the German Environment Agency.

² Life cycle emissions based on a life cycle analysis by EnBW and the Research Center for Energy Economics (FfE).

system may then have to be installed. The associated costs would contribute to objective 2 and may accordingly be accounted for as environmentally sustainable capex. However, it may also be plausible for the capex to be accounted for as contributing to the achievement of objective 1.

c) No significant harm to other EU objectives (DNSH)

In the first stage, the project examined EnBW's business activities to establish whether they make a substantial contribution to the mitigation of climate change (environmental objective 1). In the second stage, the activities classified as mitigating climate change had to be examined to make sure that they did no significant harm to the achievement of the further environmental objectives:

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

DNSH criteria covering all five environmental objectives are not available for most of the business activities examined in phase 1.

In terms of recording taxonomy-relevant information, it has been assumed that there would have to be a **significant** negative impact on the achievement of the objectives by the business activities under examination in order to be in breach of the "do no significant harm" criterion. "Significance" is dependent on the seriousness and likelihood of occurrence, but also dependent on whether significantly better alternatives are available on the market. A merely slight negative impact should not necessarily lead to business activities that make a substantial contribution to climate protection in the first stage nonetheless being classified as not environmentally sustainable.

Many of the DNSH criteria relevant to EnBW in the energy industry relate to compliance with legal requirements. In this regard, the TEG states that these requirements can be generally assumed to be met, unless there is reason to assume otherwise. Consequently, the meeting of the criteria does not have to be ascertained at the level of the individual projects (e.g. individual hydroelectric power plants), but instead can be ascertained at the overriding level of business activity (= e.g. hydropower). However, some criteria in the draft of the delegated act go beyond current EU law, although the DNSH criteria are not intended to cover every level of harm, but only a significant level of harm.

As part of the DNSH examination process, there is a corresponding need to question whether an activity in the field of climate protection does any harm to "climate change adaption" (objective 2). We have not encountered any cases of this kind in the course of the project.

Information relating to "the sustainable use and protection of water and marine resources" (objective 3) is only requested for hydroelectric power plants and offshore wind. The TEG criteria reference, unlike the draft delegated act, legal requirements, compliance with which constitutes a prerequisite for the construction and operating approval process. The requirements are also regularly taken into consideration in environmental impact assessments.

Less specific requirements (such as high durability, easy dismantling and repairability) exist for objective 4 "the transition to a circular economy". The vast majority of the components are designed to have a very long service life while retaining a monetary value (steel, aluminum, copper) at the end of their useful life; there are internal or external customers for the corresponding parts. In the case of solar power plants, the modular design particularly aids simple dismantling and repair.

For objective 5, "pollution prevention and control", there are no criteria for the business activities examined from phase 1.

In the field of energy generation and grids, the examination of objective 6 – "the protection and restoration of biodiversity and ecosystems" – mainly relates to compliance with legal requirements. A plant cannot be built or operated in Germany without first conducting an environmental impact assessment. This looks carefully at the impact of the plant on ecosystems and biodiversity. Corresponding assessments are conducted in line with the German Environmental Impact Assessment Act (UVPg), the Federal Building Code (BauGB) and the Renewable Energy Sources Act (EEG), for example, or, in the case of the granting of water rights, in an ongoing official monitoring process or as and when the need arises. The official assessments underline the fact that there is no threat of any significant harm: It should be assumed that any such harm would have come to light in the course of the extensive assessments. The same also applies in France, Austria, Sweden and the Czech Republic, and the situation is similar in Switzerland.

d) Minimum safeguards

In the third stage, minimum safeguards for workers and human rights must be examined. In accordance with Article 3(18) of the Taxonomy Regulation, a process must be established to ensure compliance with the following guidelines and standards:

- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- ILO Declaration on Fundamental Principles and Rights at Work
- International Bill of Human Rights

The above rules and standards relate to the minimum social safeguards covered by corporate governance. However, the implementation of the requirements does not have to exclude any breach, but must expose significant breaches (the principle of “prevention of significant harm.” Here, the “do no significant harm” approach applies here as well, as per Article 2(17) of the Disclosure Regulation).

When implementing the requirements, the TEG recommends that companies particularly focus on human rights, employee rights and the prevention of corruption and bribery. In terms of content, these issues significantly overlap with the issues already subject to reporting requirements under § 289c, 315c HGB (or the EU NFRD), covering social and employee-related matters, respect for human rights and measures to fight against bribery and corruption, information that EnBW has gathered and reported in the past.

The process of complying with minimum safeguards takes a risk-based approach, since some form of breach can by no means be ruled out – the system should particularly focus on the aspects of the business activity where there is a greater risk of breaches. If not all conceivable negative social effects can be directly mitigated or rectified, these effects should be prioritized based on the severity and likelihood of occurrence and then addressed in order of priority.

Sustainable and responsible procurement begins at EnBW with careful selection of suppliers. Central to this is the standardized screening process, in which potential new suppliers must answer questions about their commitment and respect for international

human rights. In addition, the EnBW Group’s general conditions of purchase request suppliers to comply with occupational health and safety regulations, pay a minimum wage and comply with the regulations as prescribed by German occupational health and safety laws.

In selected product groups where EnBW sees an increased social risk within the supply chain, further measures are taken in addition to the standard processes to ensure compliance with human rights and occupational health and safety standards. With major wind turbine projects, for example, extensive questionnaires are sent to suppliers for self-assessment or, in the case of PV projects, on-site audits are also carried out by EnBW.

3.3 Establishing environmentally sustainable revenues, capex and opex

The following shares were derived for the Grids segment: *

"Environmentally sustainable" revenue, opex, capex and adjusted EBITDA from business activities in the Grids segment

in € million	2020	2019
Revenue		
Grids segment	3,658	3,460
of which "environmentally sustainable" in € million / in %	2,506/69	2,376/69
Opex		
Grids segment	1,122	1,039
of which "environmentally sustainable" in € million / in %	692/62	623/60
Capex		
Grids segment	1,407	1,231
of which "environmentally sustainable" in € million / in %	975/69	778/63
Adjusted EBITDA		
Grids segment	1,347	1,355
of which "environmentally sustainable" in € million / in %	987/73	960/71

* The gas distribution grids, gas transmission grids, grid services and water activities from the Grids segment were not examined in phase 1 of the project.

The following shares were derived for the Renewable Energies segment: *

"Environmentally sustainable" revenue, opex, capex and adjusted EBITDA from business activities in the Renewable Energies segment

in € million	2020	2019
Revenue		
Renewable Energies segment	1,044	653
of which "environmentally sustainable" in € million / in %	1,007/96	631/97
Opex		
Renewable Energies segment	193	172
of which "environmentally sustainable" in € million / in %	181/94	165/96
Capex		
Renewable Energies segment	597	1,406
of which "environmentally sustainable" in € million / in %	547/92	1,315/94
Adjusted EBITDA		
Renewable Energies segment	836	499
of which "environmentally sustainable" in € million / in %	824/99	476/95

* The biomass activity from the Renewable Energies segment was not examined in phase 1 of the project.

In phase 1 of the project, the taxonomy performance indicators needed for the 2020 reporting year were gathered, with a focus on the Renewable Energies and Grids segments.

From these segments, the following activities were examined: onshore wind, offshore wind, solar/PV, hydropower and electricity grids (distribution and transmission grids).

Beyond the disclosure of environmentally sustainable revenues, capex and opex as required by Article 8 of the Taxonomy Regulation, the adjusted EBITDA figure relevant to the ongoing management of EnBW was calculated. As increasing the adjusted EBITDA is a key goal of the EnBW 2025 strategy, this performance indicator is another important addition to the prescribed taxonomy-related information. The adjusted EBITDA at EnBW comprises the earnings before the investment and financial results, income taxes and amortization and adjusted for non-operating effects.

In addition, figures for the previous year of 2019 were determined voluntarily to make it easier to interpret this performance indicator.

Revenue for the respective activities corresponds to the external revenue stated in the segment reporting from the perspective of the relevant segment and the Group. The capex and adjusted EBITDA comprise the capex values reported for the segments, excluding the activities that have not yet been examined. The opex figures were determined based on the recommendations of the ESMA.

The previous-year figures (for the 2019 reporting year) were similarly ascertained. As is to be expected, the revenue, opex and adjusted EBITDA are virtually constant in the Grids segment. The capex rises due to further investment in the grid infrastructure. In the Renewable Energies segment, the revenues, capex, opex and adjusted EBITDA for the activities examined are almost entirely "environmentally sustainable"; the delta results from the activities for biogas which have not yet been taken into account.

The performance indicators that need to be stated for the onshore wind, offshore wind, solar/PV and hydropower plants (run-of-river, pumped storage with natural flow of water) activities in the Renewable Energies segment as well as the electricity distribution and electricity transmission activities in the Grids segment examined in phase 1 can be clearly derived and understood from EnBW's internal reporting systems.

The stated figures could be used to verify the fact that EnBW is currently transforming itself into a sustainable company through its chosen EnBW 2025 strategy.

Information provided in taxonomy-compliant revenue gives an indication of how "environmentally sustainable" a company is today. In addition, taxonomy-compliant capex gives an indication of how a company is developing or adapting to a decarbonized economy in 2050.

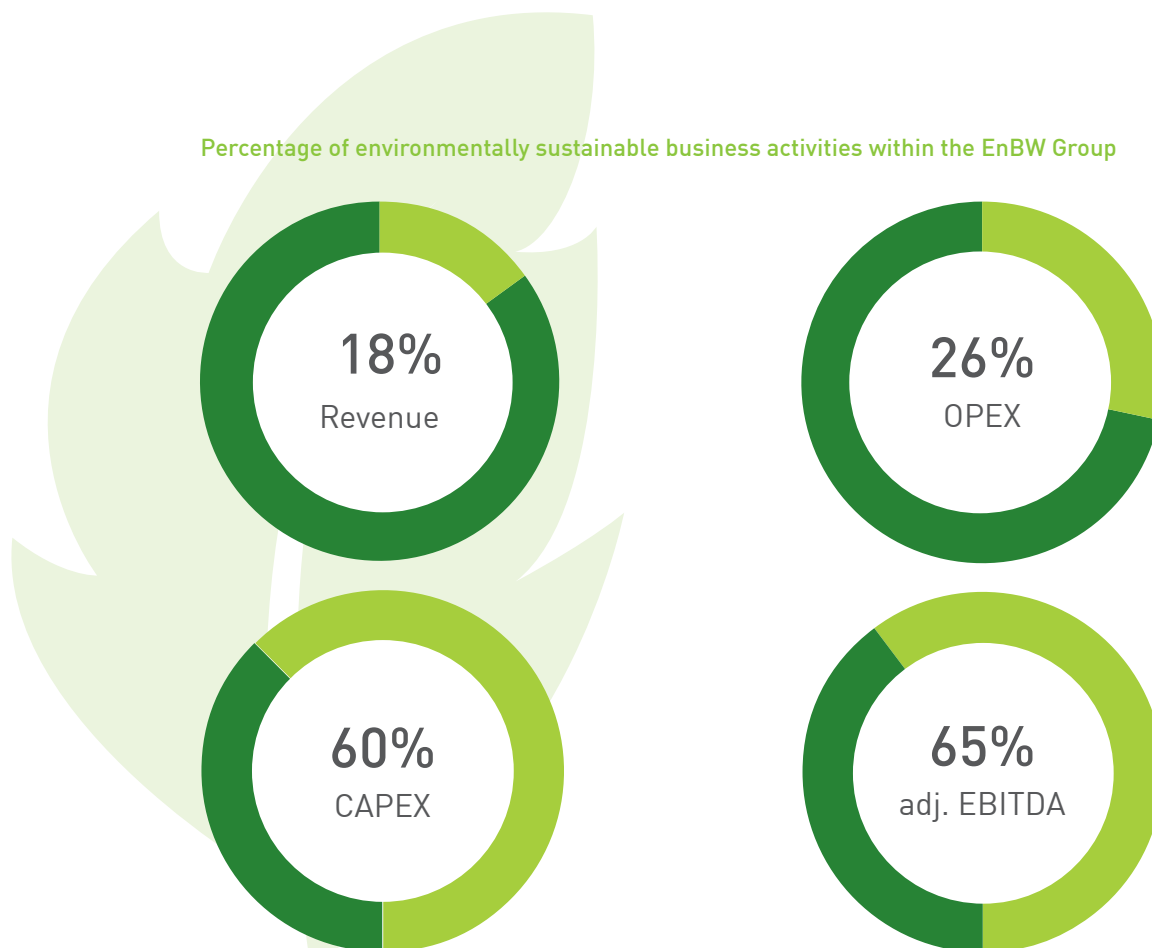
The stated figures for opex are only significant to a limited extent for the company EnBW. In the absence of a clear target definition for opex in the future, the purpose of mandatory opex data gathering and presentation based on the analysis presented does not receive further support.

For activities across the whole Group, the following shares were derived for the areas considered in the reporting year:

"Environmentally sustainable" revenue, opex, capex and adjusted EBITDA of the EnBW Group

in € million	2020	2019
Revenue		
Group	19,694	19,436
of which "environmentally sustainable" in € million / in %	3.513/18	3.007/15
Opex		
Group	3,417	3,234
of which "environmentally sustainable" in € million / in %	874/26	788/24
Capex		
Group	2,526	3,168
of which "environmentally sustainable" in € million / in %	1.521/60	2.093/66
Adjusted EBITDA		
Group	2,781	2,433
of which "environmentally sustainable" in € million / in %	1.811/65	1.436/59

Percentage of environmentally sustainable business activities within the EnBW Group



3.4 Findings from the first-time reporting of the EU taxonomy

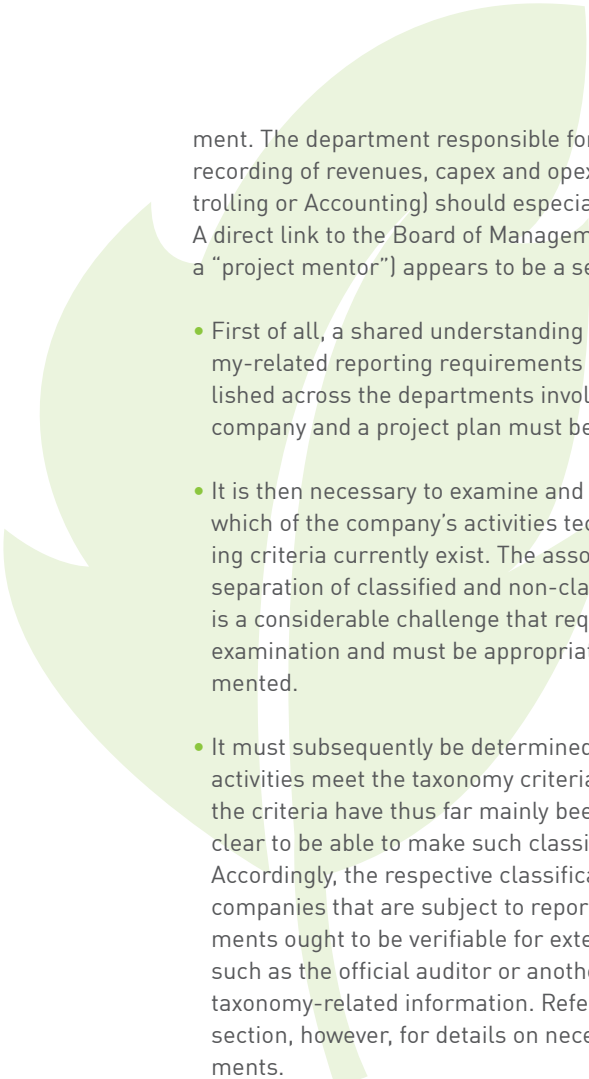
As part of a presentation and discussion of its first results in February 2021, the Platform on Sustainable Finance has stressed the need to use pilot projects to analyze whether the EU taxonomy in its current form is suitable for achieving the pursued objectives, particularly taking into account the feasibility aspect for the companies concerned.

It must be assumed that the link between non-financial and financial information achieved with the new reporting requirement represents an important development in the financial reporting activities of companies and is likely to be highly relevant to the people who use the reports. Until now, non-financial reporting (in line with commercial law) has often stood alongside financial reporting (in the management report and financial statements), even though growing standardization is increasingly being pursued by many companies for the purposes of integrated reporting. The taxonomy reporting requirements make the linking with the financial statements imperative: The seriousness of the sustainable commitment is primarily shown to the outside users of the report (particularly investors, but other users too) through the information on the percentage of revenue and capex attributable to “environmentally sustainable” activities. The reported performance indicators are thus comparable over the course of time and

comparative analyses can also be performed between companies across different sectors. The delegated act to specify the performance indicators in more detail aims to increase intercompany comparability even further. However, the fact that criteria for the majority of activities are not yet available for all sectors is a challenge in business practice. Furthermore, criteria to be developed in the future, e.g., for the four other EU environmental objectives, such as the circular economy and biodiversity will also be highly pertinent for many sectors.

Above all else, the Taxonomy Regulation imposes a direct reporting requirement. First and foremost, the EU taxonomy is thus a transparency tool. Challenges when introducing taxonomy reporting requirements are to be expected for the companies subject to them, both when gathering data on revenue, capex and opex, and when documenting compliance with the criteria. On this basis, companies will weigh up how they take the requirements into account internally in their strategy and capital allocation. This would probably correspond to a change in behavior, which the EU Commission is probably pursuing with the EU taxonomy in the form of transparency requirements.

Such a comparable, explicit linking of financial and non-financial information has thus far not been required in the accounting rules. Proper implementation requires sufficient time and the involvement of in-house experts beyond the Sustainability depart-



ment. The department responsible for the internal recording of revenues, capex and opex (usually Controlling or Accounting) should especially be involved. A direct link to the Board of Management (in terms of a “project mentor”) appears to be a sensible idea.

- First of all, a shared understanding of the taxonomy-related reporting requirements must be established across the departments involved within the company and a project plan must be drawn up.
- It is then necessary to examine and record for which of the company’s activities technical screening criteria currently exist. The associated clear separation of classified and non-classified activities is a considerable challenge that requires detailed examination and must be appropriately documented.
- It must subsequently be determined which of the activities meet the taxonomy criteria. On the whole, the criteria have thus far mainly been sufficiently clear to be able to make such classifications. Accordingly, the respective classification by the companies that are subject to reporting requirements ought to be verifiable for external entities, such as the official auditor or another auditor of taxonomy-related information. Refer to the next section, however, for details on necessary adjustments.
- The associated revenues, capex and opex must be stated for the activities identified as environmentally sustainable. These three performance indicators are the key aspect of the new reporting requirements. The appropriate criteria required to prepare and audit the reports are not yet available – the relevant delegated act has been announced for 1 June 2021. Companies should examine whether they should publish further financial performance indicators that increase the informative value of taxonomy reporting. This may be, for example, a performance indicator relevant to the ongoing management of the company in question, as in the case of adjusted EBITDA at EnBW.

Taxonomy-compliant revenue is designed to show how environmentally sustainable a company already is today. Taxonomy-compliant capex is designed to show how environmentally sustainable a company will be in the future: Sustainable investments made today will lead to sustainable revenues in the future. The relevance and informative value of environmentally sustainable opex is highly debatable for internal and external stakeholders, because opex is not entirely non-cash-relevant and generally not relevant to the ongoing management of the company. At the same time, the corresponding operating expenses

for many companies will not be clear and can only be calculated by providing breakdowns, because at present this information is often not stored in the internal reporting systems at the requisite level of granularity for taxonomy reporting purposes.

For the foreseeable future, most companies will not have technical screening criteria for 100% of their revenue. Many companies will not make a substantial contribution to climate change mitigation or adaptation through their business activities, but may contribute to the four other environmental objectives. For these companies, the technical screening criteria announced for 31 December 2021 for the four other EU environmental objectives may be more relevant than those already available.

All companies will firstly have to declare the classified revenue, capex and opex relating to the first two environmental objectives for the 2021 financial year. The corresponding figures for all six environmental targets must be stated for the 2022 financial year. Thus, an assessment of the corresponding criteria fulfillment is again required in 2022.

Even companies for which no criteria at all are available will have to analyze and document this in an appropriate process. Such companies are not exempt from the reporting requirement pursuant to Article 8 of the Taxonomy Regulation – they will have to enter a zero figure until criteria are available from the Platform on Sustainable Finance. The same naturally applies to companies that do not fully meet the existing set of criteria.

Companies should allow sufficient time to implement taxonomy reporting requirements. In particular, the initial work associated with the EU taxonomy for the 2021 reporting year represents a considerable challenge for companies. Although the final technical screening criteria are not yet available, it is recommended that work starts on the implementation process. Particularly if the aim is to perform a test run by the Q3 reporting date of the first reporting year. Such a test run appears advisable.



4. Recommendations for finalizing the EU taxonomy

Recommendations for finalizing the criteria

Careful examination of the taxonomy criteria in project phase 1 has produced the following recommendations for finalizing the taxonomy criteria. They primarily address the necessary adjustments. Some also relate to activities that have not yet found their way into the external EnBW reporting as part of phase 1, but have nonetheless already been carefully examined.

Substantial contribution to climate change mitigation:

- The reference value for the calculation of the life cycle analyses should be clarified to determine whether the threshold values apply over the lifetime of the plant or the life cycle on a certain date.
- As far as possible, standard reference values should be required for life cycle emissions, instead of a requirement to analyze each individual plant. This was particularly evident from the example of hydropower: The life cycle emissions based on recognized values were so clearly below the threshold value of 100 g CO₂e/kWh that a requirement to analyze the individual life cycle of the plant resulted in the costs outweighing the benefits with regard to the reporting. The same also applies to plants whose life cycle emissions are well above the stated threshold value – it should not take complex life cycle analyses to show the obvious non-compliance with the EU taxonomy criteria. If standard reference values are available, no additional external review of life cycle analyses should be required.
- Plants that met the relevant technical screening criteria when the company was required for the first time or when the plants were commissioned should still be regarded as “environmentally sustainable” even if the threshold values are tightened in a three-to-five-year cycle and the plants potentially no longer comply with the threshold value. Corresponding legal certainty should be established here by specifying explicit requirements, otherwise investment decisions could be negatively affected.
- For hydropower, the criterion of power density > 5 W/m², which is not that commonly used in practice among experts, has been introduced. The link to climate protection is not identifiable here. At best, it appears to be an applicable criterion for EU environmental objective 6 “the protection and res-

toration of biodiversity and ecosystems” and should therefore be deleted at this point.

- In effect, the currently envisaged threshold values of 100 g CO₂e/kWh lead to the exclusion of gas power plants, unless large quantities of renewable or decarbonized gases are available. In some EU member states, however, including Germany, these power plants are needed to enable a rapid phase-out of coal and, to a certain extent, they are needed permanently to secure the generation of electricity, which is essentially generated by volatile renewable energies. The same applies to the gas grid infrastructure initially using natural gas or temporary blending of renewable or decarbonised gases. It thus represents an important transition activity until it is possible to operate the plants using renewable and climate-neutral gases. Such an inclusion with ambitious but realistic threshold values would help to significantly accelerate progress along this necessary decarbonization path in the short and medium term.
- The criteria should be aligned with the Renewable Energy Directive (RED II) for electricity generation using biomass and biogas. At present, this doesn't appear to be the case.

No significant harm to the other EU environmental objectives:

- The guidelines of the Taxonomy Regulation make it clear that not **every** level of harm done to the five other EU environmental objectives should lead to the assumption that activities are not environmentally sustainable, but only a **significant** level of harm. The overwhelming reference to demanding national and European legislation thus appears appropriate. Requirements above and beyond this, as in the case of electricity generation from hydropower and bioenergy in the current draft of the delegated act, are not appropriate and cause a high degree of legal uncertainty in terms of the validity of requirements enacted in the ordinary legislative process and the approvals that are based upon them.
- It should be beyond doubt that an environmental impact assessment (EIA) within the meaning of the requirements set out in the criteria has also been conducted if the relevant authority deems at an early stage of the EIA (such as the preliminary survey stage) that no further stages are necessary because there is clear evidence of the environmental compatibility.

- Our understanding is that the mention of the 2011 EIA Directive 2011/92/EU is only indicative in nature, because it may be possible to demonstrate that comparable requirements have been met (particularly in relation to activities in third countries). Many plants were commissioned before 2011 and underwent the prescribed EIA at the time, which, in our opinion, does not significantly differ from the requirements of the aforementioned EU Directive. The EIA criterion should also be deemed to be met for these plants.
- Overall, the EIA is an important indication that the plants in which it has been conducted pose no risk of doing significant harm to the environmental objectives. Nonetheless, it is conceivable that there are cases in which no EIA has been properly conducted, yet there is still no demonstrable risk of doing significant harm to the other EU environmental objectives.
- The current guidelines for EU environmental objective 2 “climate change adaptation” set a threshold value of 270 g CO₂e/kWh in relation to the use of electricity generation from gas, without specifying whether this is an absolute threshold value or an average value calculated over the lifetime of the plant. An appropriate value should be chosen here – also taking into account the security of energy supply – and the calculation method should be clarified.

Minimum safeguards for occupational safety and human rights:

- According to the TEG taxonomy report, there is a requirement to ensure compliance at activity level rather than group level. This is probably based on the view that the taxonomy only covers a company’s individual business activities and therefore cannot impose requirements on other activities that lie beyond its scope of regulation. However, a Group-wide approach to ensuring compliance with the minimum safeguards is recommended for pragmatic and complete monitoring of these requirements. In this regard, particular care would have to be taken to ensure that requirements relating to the relevant information are met for the business activities classified as taxonomy-compliant.
- It is becoming apparent that the legislation covering due diligence in relation to occupational health and safety and human rights currently being drafted at EU level (EU legislative proposal on human rights supply chain due diligence) and national level in Germany (legislative initiative concerning the Due Diligence Act (Sorgfaltspflichtengesetz)) exceeds the requirements of the Taxonomy Regulation: If the relevant requirements are properly and effectively

implemented, it should thus be assumed that the taxonomy criteria for minimum safeguards are also met. Proper and effective implementation can be demonstrated, for example, by an audit that meets the IDW Auditing Standard: Compliance Management Systems (IDW PS 980).

Reporting requirements pursuant to Art. 8(2) Taxonomy Regulation:

- The need to include reporting requirements for environmentally sustainable opex should be carefully reconsidered, because the added value in content terms is not clear.
- The ESMA recommendations to the EU Commission currently give rise to an unjustified granularity of the information provided by having to provide such information for each activity, environmental objective, etc. If implemented in the forthcoming delegated act, these recommendations would result in a disproportional workload when viewed against the only low added value for the report users. There is also no direct point of reference for this granularity in the Taxonomy Regulation. Reporting at reporting segment level within the meaning of IFRS 8 appears to be preferable.
- It should be made clear that information on environmentally sustainable capex (and opex) should only be provided for activities where the company already generates substantial revenue or assumes that this will be the case in the future (core business). An examination of capex, in particular, could be paramount for evaluating the future viability of a company.
- The EU NFRD should be revised in line with the requirements of the Taxonomy Regulation.
- The EU Commission should clarify its interpretation of the first reporting year at the earliest opportunity with regard to the ambiguous nature of Article 27(2) of the Taxonomy Regulation in order to create legal certainty for all parties concerned.

Appendix: Important documents

EnBW Integrated Annual Report 2020:
www.enbw.com/report2020

EU Regulation 2020/852 dated 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending EU Regulation 2019/2088 (EU Taxonomy Regulation):
<https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:32020R0852&from=EN>

Draft delegated act to specify the EU taxonomy's technical screening criteria (including appendices): <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy>

EU-TEG on Sustainable Finance, Technical Report:
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

EU-TEG on Sustainable Finance, Taxonomy Report: Technical Annex:
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

EU taxonomy FAQ document:
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200610-sustainable-finance-teg-taxonomy-green-bond-standard-faq_en.pdf

ESMA Final Report: Advice on Article 8 of the Taxonomy Regulation
https://www.esma.europa.eu/sites/default/files/library/esma30-379-471_final_report_-_advice_on_article_8_of_the_taxonomy_regulation.pdf

ESMA Consultation Paper: Draft advice to European Commission under Article 8 of the Taxonomy Regulation:
https://www.esma.europa.eu/sites/default/files/library/esma30-379-325_consultation_paper_-_draft_advice_to_ec_under_article_8_of_the_taxonomy_regulation.pdf

The Sustainable Finance Committee of the Federal Government: Shifting the Trillions – 31 Recommendations for the Federal Government
https://sustainable-finance-beirat.de/wp-content/uploads/2021/03/210319_SustainableFinanceCommitteeRecommendations.pdf

DRSC: CSR study: Horizontal study and recommendations for action for the revision of CSR guidelines as commissioned by the Federal Ministry of Justice and Consumer Protection (BMJV):
https://www.drsc.de/app/uploads/2021/02/210211_ESG_study_ASCG_ES_final.pdf

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Reference, see p. 9: Global Reporting Initiative (GRI) is the independent international organization – headquartered in Amsterdam with regional offices around the world – that helps businesses, governments and other organizations understand and communicate their sustainability impacts