

# EU DRAFT ON LOW CARBON TAXONOMY. A CASE STUDY

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## **EXECUTIVE SUMMARY**

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## ACCIONA CASE STUDY

# AN EXAMPLE OF HOW THE EU TAXONOMY MIGHT WORK IN PRACTICE

### 1. ABOUT THIS DOCUMENT

ACCIONA's main reason for undertaking this exercise was to improve investors' understanding of the contribution of its activities to climate change mitigation. To this end, the company, with advice from Deloitte, sought to define its business using the EU Taxonomy by applying the methodology of the Draft of the Technical Expert Group on Sustainable Finance. As a result of this analysis carried out with Deloitte, ACCIONA obtained an initial overview of the activities that have significant potential for mitigating climate change.

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## 2. WHY ACCIONA DEVELOPED THIS EXERCISE

Global investment in sustainable infrastructure is required to meet 72% of the Sustainable Development Goals as well as fulfilling the 2030 agenda of the United Nations. The problem is not the availability of funds, but the availability of analytical tools to identify sustainable investment opportunities, as well as the right incentive structures to channel investment flows.

With revenues of EUR 7.5bn (FY2018) - 80% from OECD countries -, EBITDA of EUR 1.2bn, CAPEX of EUR 1bn and more than 38,000 professionals, ACCIONA belongs to a small group of sustainable infrastructure developers. The company represents a special case in the sense that it invests in what it builds and operates - in long-term growth megatrends - be it in energy, social, transport, housing, water, waste treatment or any of our other technical capabilities.

The sustainable agenda transcends traditional economic sectors for finding effective solutions. A new sector strategically positioned to meet the needs and opportunities of the transition to a low-carbon economy as well as the sustainable agenda defined by the SDGs. In this group of companies, investors find renewable energy, sustainable mobility, water management or resilient cities infrastructure classified by its contribution to the 1.5°C scenarios.

Policy is already moving in this direction. In France, UK, Spain or Portugal, former sector ministries have merged policies and programs around the energy transition and/or the 2030 Agenda. The G20 has formalized this approach.

The European Union is in the process of identifying economic activities that contribute to a low carbon economy in order to implement measures that accelerate the transition towards it. ACCIONA welcomes this new classification of economic activities, which brings visibility to companies like ours, that develop infrastructure solutions to strengthen the low carbon economy and fulfill the goals of the 2030 agenda.

## 3. THE EU TAXONOMY

The EU is committed to sustainable development and environmental protection through regulation and, in recent years, through specific plans informed by the United Nations Sustainable Development Goals (SDGs) and the Paris agreement on climate change. The EU's climate strategy has also included the establishment of specific targets for the reduction of greenhouse gas (GHG) emissions by 2050, with interim targets being set for 2020 and 2030.

The participation of both the public and private sector, in particular the financial services sector, is necessary to achieve such ambitious goals. In this connection, decisions by lenders and investors to allocate capital or influence companies' plans through corporate governance can contribute to reorienting investments towards climate protection and the SDGs.

In order to provide incentives for the financial services sector's contribution, the European Commission has issued an action plan for financing sustainable growth that includes ten actions that help connect the financial services world with the needs of a sustainable economy. Defining a Taxonomy of sustainable activities, that serves as a tool that enables capital markets to identify and respond to investment opportunities that contribute to achieving the European Union's environmental policy and climate-change objectives, is one of this plan's key actions.

This initiative is important because, until now, there was no common classification system at global or European level that defines the requirements or criteria to be satisfied by an economic activity in order to be considered "sustainable". Various non-uniform labels and methodologies previously existed which all pursued different objectives.

The European Commission fostered the creation of a Technical Expert Group (TEG) that has worked on defining an EU Taxonomy, which was presented as the Draft of the Technical Expert Group on Sustainable Finance in relation to the development of an EU classification system (Taxonomy) for environmentally sustainable economic activities.

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The Taxonomy presents a list of economic activities grouped into seven macro-sectors, based on the NACE<sup>1</sup> classification. The methodology and criteria were designed to identify activities that make a substantial contribution to climate change mitigation. The criteria also considers whether those activities cause significant harm according to five other environmental objectives. It also presents a framework for evaluating the contribution of the activities to climate change adaptation.

It is important to highlight that, as the Draft of the Technical Expert Group on Sustainable Finance itself recognizes, this is merely a starting point, and it will be necessary to continue working on the identification of “sustainable” activities and developing the criteria included in the Taxonomy.

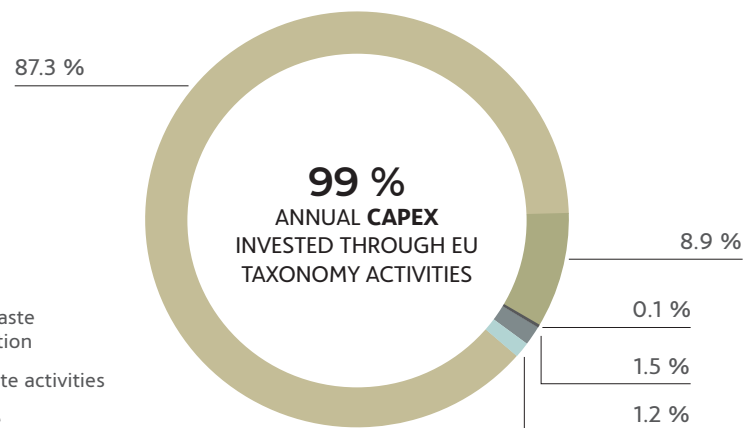
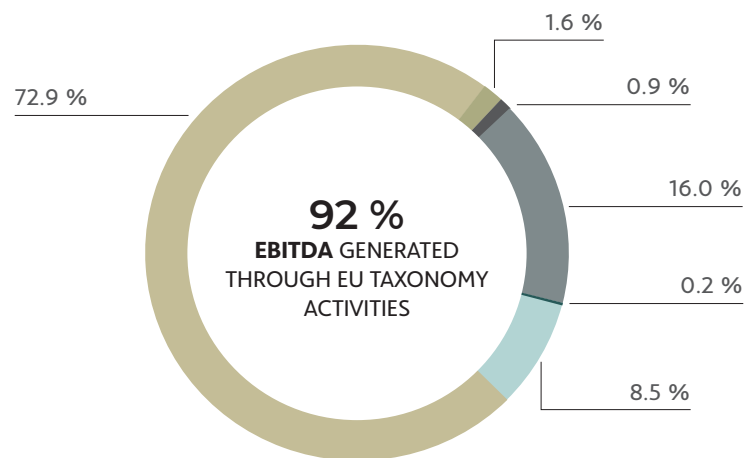
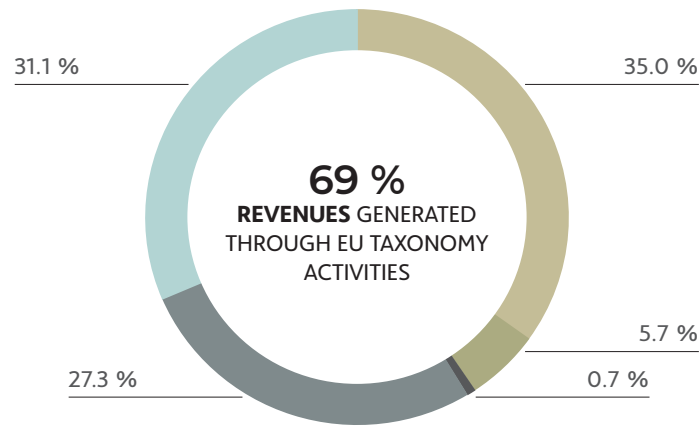
#### 4. USING THE EU TAXONOMY TO CLASSIFY ACCIONA’S ACTIVITIES

An analysis of ACCIONA’s activities showed they fit into five macro-sectors established by the EU Taxonomy. The groups identified are as follows:



<sup>1</sup> NACE . Statistical classification of economic activities in the European Community (NACE)

Once the criteria, metrics and thresholds of each subcategory were analyzed, ACCIONA's activities were aligned with the Taxonomy in terms of global revenue, EBITDA, and annual CAPEX using 2018 figures:



- Electricity, gas, steam and air conditioning supply
- Water supply, sewerage, waste management and remediation
- Construction and Real Estate activities
- Transportation and storage
- Agriculture, forestry and fishing
- Activities not included in taxonomy

## Figures in depth

Activities covered by the Taxonomy	Revenues (M€)	% Revenues	EBITDA (M€)	% EBITDA	Capex (M€)	% CAPEX
Electricity, gas, steam and air conditioning supply	2,520	35	840	73	560	87
Production of electricity from wind power	1,330	19	605	53	460	72
Production of electricity from solar PV	495	7	80	7	79	12
Production of electricity from hydropower	390	5	92	8	17	3
Production of electricity from Concentrated Solar Power	155	2	42	4	2.5	0.4
Production of electricity from bioenergy	150	2	22	2	0.5	0.07
Transportation and storage	1,960	27	184	16	10	1.5
Infrastructure for low carbon transport	1,960	27	185	16	3	0.5
Passenger cars and commercial vehicles	0.4	0.01	-1	-0.1	7	1
Water supply, sewerage, waste management and remediation	407	6	18	1.5	57	9
Centralized Wastewater treatment systems	177	2.5	-2	-0.2	17	3
Water collection & treatment and supply	161	2.5	12	1	33	5
Separate collection and transport of non-hazardous waste in source-segregated fractions	68	1	8	0.7	7	1
Construction and Real Estate activities	50	0.7	10	0.9	5	0.8
Construction of new buildings	43	0.6	5.5	0.5	0.5	0.1
Individual renovation measures, installation of renewables on-site and professional, scientific and technical activities	6.5	0.1	4.5	0.4	4.5	0.7
Agriculture, forestry and fishing	15	0.2	2.5	0.2	1	0.1
Growing of perennial crops	15	0.2	2.5	0.2	1	0.1
<b>TOTAL</b>	<b>4,950M€</b>	<b>*69 %</b>	<b>1,050M€</b>	<b>*92 %</b>	<b>630M€</b>	<b>*99%</b>

\*Over 2018 consolidated figures (once subtracted desconsolidated companies). More detail on methodology in Annex 1

# ACCIONA around the World

**PRESENT** IN MORE  
THAN 40 COUNTRIES  
ACROSS FIVE  
CONTINENTS



ENERGY



CONSTRUCTION



CONCESSIONS



WATER



SERVICES



INDUSTRIAL



INMOBILIARIA



OTHER  
BUSINESSES

## NORTH AMERICA

- Canada
- United States
- Mexico

## CENTRAL AND SOUTH AMERICA

- Brazil
- Chile
- Colombia
- Costa Rica
- Ecuador
- Nicaragua
- Panama
- Paraguay
- Peru

## EUROPE

- Germany
- Andorra
- Croatia
- Denmark
- Spain
- Hungary
- Italy
- Norway
- Poland
- Portugal
- United Kingdom
- Romania
- Turkey
- Ukraine

## AFRICA

- Algeria
- Cape Verde
- Egypt
- Kenya
- Morocco
- South Africa

## ASIA AND OCEANIA

- Saudi Arabia
- Australia
- Qatar
- United Arab Emirates
- Philippines
- India
- New Zealand
- Oman
- Singapore



## 5. LESSONS LEARNED

While conducting this analysis with real data, certain issues with the use of the EU Taxonomy came to light:

- It is relatively simple to align activities with the Taxonomy in the case of new investments or projects. However, in certain cases, the technical information required to conduct the analysis wasn't easily accessible since current reporting systems are not prepared for providing this information on a recurrent basis. This means that companies will require a transition period in which to adapt their reporting systems.
  - This methodology is very useful for identifying new projects that make a significant contribution to climate change mitigation or adaptation, but it is of limited use for categorising green activities. The fact that an activity is not in the Taxonomy does not mean that is considered a "brown" activity. In this regard, there are uncategorised activities currently in the Taxonomy which make a positive marginal contribution to the environmental objectives or are climate neutral.
  - A certain amount of difficulty was encountered when classifying certain activities, especially when they are the result of various NACE codes, e.g. projects involving the design, construction and operation of new energy facilities that include innovative energy production or storage systems.
  - In certain cases, the established criteria can be open to interpretation, especially when highly subjective, qualitative metrics are included.
  - The economic information relating to the Group's revenue, expenses, CAPEX and EBITDA is not organised by NACE code, so, in certain cases, it may be costly to adapt the information in order to obtain it by NACE, which also gives rise to the need for a transition period to adapt the information systems.
  - The use of the Taxonomy will largely hinge on each company's ability to obtain quality information that provides investors with assurance and reliability. However, the Taxonomy does not define the requirements or verification or audit processes that should be used to ensure that reliability.
  - CAPEX, EBITDA and even Revenue definitions can take into account various gross or net items and can be calculated based on separate or consolidated figures. Therefore, it would be recommendable to clarify the items that should be used.
  - NACE codes have not been identified for certain subcategories. It would be greatly useful to identify the NACE codes of the possible activities included in each subcategory.
  - Certain of the criteria, particularly in the DNSH 'DO NOT HAVE SIGNIFICANT HARM' assessment, can be difficult to apply to projects located outside the EU due to the fact that the reference legislation or standards are European. In the case of groups such as ACCIONA which perform projects throughout the world, it would be greatly useful to propose or accept the equivalent concepts in the regulatory frameworks applicable in other environments.
  - Certain of the criteria and thresholds do not take into account the initial situation of the activities and the scale of effort required, nor the impact on the overall value chain. In addition, the Taxonomy has no way of assessing the combined impact of one or more activities or investments, particularly when they reinforce each other. Accordingly, it could be the case that an investment that mitigates the impact of climate change in absolute terms might not fit in the Taxonomy because it is not within the thresholds defined in the proposed periods. Therefore, it would be positive and motivating to consider the size of the impacts and the activities and even, in certain cases, the multiplier effect of the impact when combining it with the impact of another activity.
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## ANNEX 1

### METHODOLOGY

The methodology applied in the analysis conducted was based on the methodology proposed in the Draft of the Technical Expert Group on Sustainable Finance in relation to the development of an EU classification system (Taxonomy) for environmentally sustainable economic activities published on June 18, 2019 and the recommendations for its implementation.

A requirement for understanding the methodology is being aware that the aforementioned Taxonomy is geared towards the six environmental objectives that sustainable activities should pursue as indicated in the European Regulation, which are as follows:

- I. Climate change mitigation.
- II. Climate change adaptation.
- III. Sustainable use and protection of water and marine resources.
- IV. Transition to a circular economy, waste prevention and recycling.
- V. Pollution prevention and control.
- VI. Protection of healthy ecosystems.

For an action to meet the definition of an 'environmentally sustainable economic activity' (Article 2 of the Regulation) and thus be considered Taxonomy-eligible, it must:

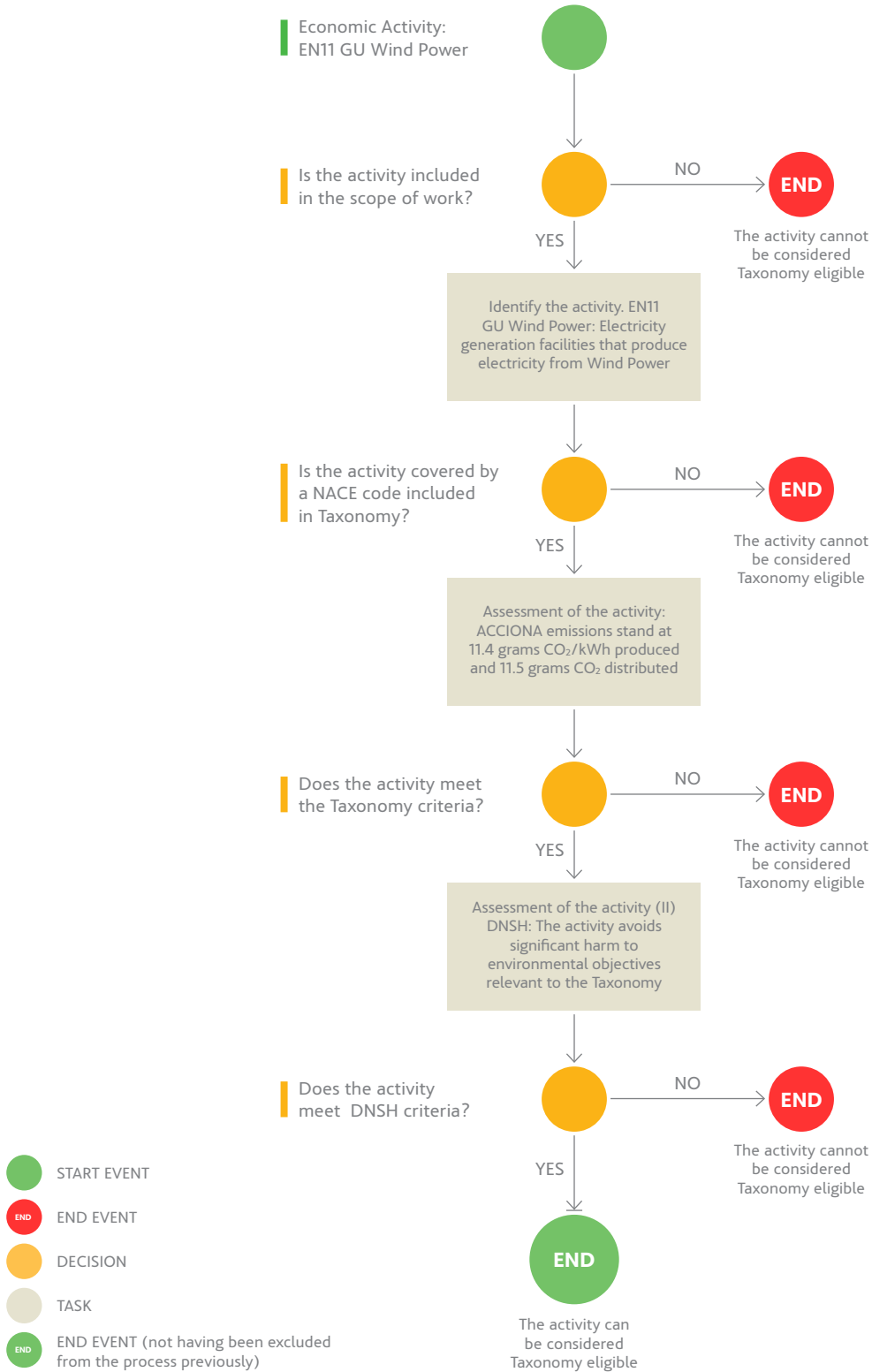
1. Contribute substantially to one or more of the environmental objectives and to the technical screening criteria.
2. Do no significant harm to any other environmental objective (Do No Significant Harm ("DNSH") criteria).
3. Comply with minimum social safeguards (under the draft regulation, these are defined as ILO core labour conventions).

Therefore, economic activities, even when making a substantial contribution to climate change mitigation and/or adaptation, may not be Taxonomy-eligible if they cause significant harm to the remaining environmental objectives or they do not comply with the social safeguards considered to be a prerequisite.

Taking into account this framework and the limitations inherent to an analysis of this kind, the methodology was structured into the phases described below.

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### Application of the EU Taxonomy to ACCIONA's economic activities. NACE 3518



## PHASES OF THE ANALYSIS

### I. Identification of the activities

Based on the divisional structure used when consolidating the ACCIONA Group's financial information, activities that might fall within any of the macro-sectors that, per the Taxonomy, can make a substantial contribution to climate change mitigation were identified in order to determine ACCIONA's potentially eligible activities:

- ACCIONA's activities were analysed using the classification of activities that, according to the Taxonomy, can make a substantial contribution to climate change mitigation: agriculture, forestry and fishing; manufacturing; electricity, gas, steam and air conditioning supply; water supply, sewerage, waste management and remediation; transportation; information and communication technologies; and construction and real estate activities.
- The analysis was based on ACCIONA's activities that were part of the consolidated group in 2018, excluding those that were deconsolidated in the first half of 2019, mainly Trasmediterranea and the concession operator Aigües Ter Llobregat (ATLL).

TAXONOMY - RECONCILIATION						
	Revenues		EBITDA		Capex	
	(€m)	Weight	(€m)	Weight	(€m)	Weight
Reported 2018A	7,510		1,245		643	
Consolidation Adjustments	-		3		-	
ATLL - desconsolidated	(161)		(94)		(5)	
Trasmediterránea - desc*	(160)		(4)		(0)	
Reference 2018A	7,189		1,149		638	
Energy	2,517	35%	837	73%	557	87%
Infrastructure	2,421	34%	212	18%	72	11%
Other Businesses	15	0%	2	0%	1	0%
Taxonomy 2018A	4,954	69%	1,052	92%	630	99%
Ex-Taxonomy 2018A	2,235	31%	97	8%	8	1%
Reference 2018A	7,189	100%	1,149	100%	638	100%

## II. Characterization of the activities

To characterize the various activities, fact sheets were prepared for each activity within each macro-sector. The fact sheets identify the information required to analyze fulfilment of the mitigation criteria, their metrics and the thresholds. Furthermore, those fact sheets identify the nature of the evidence required according to the DNSH assessment established by the Taxonomy for each activity. It is important to underline that:

- Alignment with the thresholds established in the Taxonomy was assessed taking into consideration metrics or global data by activity/technology and not by asset.
- The metric-based evaluation of the environmental impact of each activity/technology was determined on the basis of the future environmental impact in each category, based on the information available at ACCIONA relating to a standard or illustrative project, any verification of specific compliance with the metrics in each particular case was performed.
- The activities carried on by ACCIONA not identified in the EU Taxonomy were not taken into consideration in the analysis, even though they could be considered “green” in certain cases, based on other criteria or classifications.
- In those divisions where the detail of the nature of the projects could not be drawn from the consolidated information, and to avoid very costly data-obtainment procedures, estimates were extrapolated from the analysis of certain projects, based on the percentages and relative importance of the activities classified in the subcategories established by the Taxonomy. This was the case of certain activities in the Infrastructure Business, mainly the Construction Business.
- The Do No Significant Harm (DNSH) analysis for the power generation activities was performed partially using an illustrative project concerning each sub-activity and the information available in ACCIONA’s 2018 Sustainability Report.

The methodology applied in this analysis, given its illustrative purpose and general scope, did not include the verification of the existence of the minimum social safeguards since ACCIONA’s social policies and procedures tend to be above the minimum, as described in the aforementioned 2018 Sustainability Report.

## III. Obtaining the findings of the analysis

Once the activities’ general compliance with the Taxonomy’s criteria and metrics were analysed and the activities were classified as “eligible” or “green”, the revenue, EBITDA and CAPEX for 2018 associated with those activities, together with their relative importance in terms of ACCIONA’s total business, were estimated.

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BUSINESS AS UNUSUAL



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