

# EU LOW CARBON TAXONOMY: ACCIONA'S CASE STUDY

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## EXECUTIVE SUMMARY

FEBRUARY 2020

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## **ACCIONA CASE STUDY**

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

### **1. ABOUT THIS DOCUMENT**

ACCIONA's main reason for undertaking this exercise is to improve investors' understanding of the contribution of its activities to climate change mitigation. To this end the company, 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, 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, to fulfil the United Nations 2030 Agenda. 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 7.19bn (FY2019), EBITDA of EUR 1.36bn, CAPEX of EUR 1.27bn\* and more than 39,000 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 to find effective solutions. There is a new sector strategically positioned to meet the needs and opportunities of the transition to a low-carbon economy, and the 2030 sustainability agenda. 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 sustainability 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 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, which help connect the financial services world with the needs of a sustainable economy. Defining a Taxonomy of sustainable activities, which serves as a tool that enables capital markets to identify and respond to investment opportunities, and 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). The TEG that has worked on defining an EU Taxonomy, which was presented as the Draft of the Technical Expert Group on Sustainable Finance for the development of an EU classification system (Taxonomy) of environmentally sustainable economic activities.

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\*This figure is fully identifiable with the gross investment from the group's cash flow statement.

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, including a framework for evaluating the contribution of the activities to climate change adaptation, as well as compliance with minimum social safeguards.

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

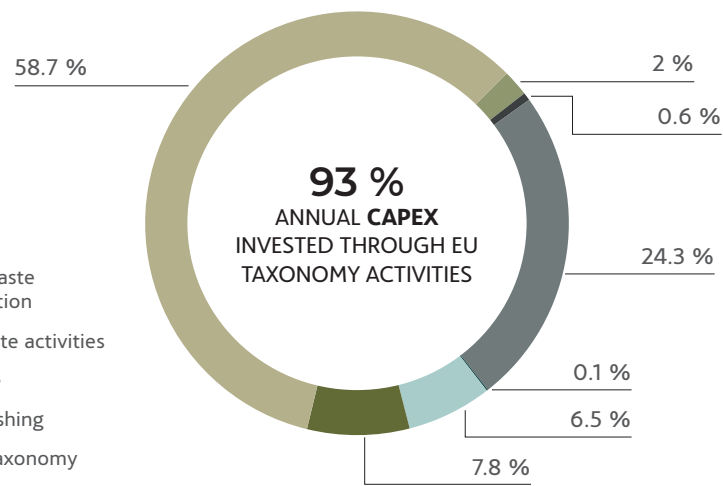
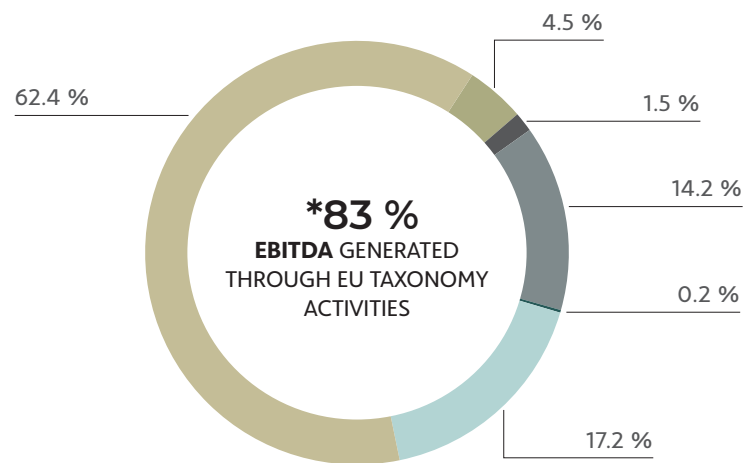
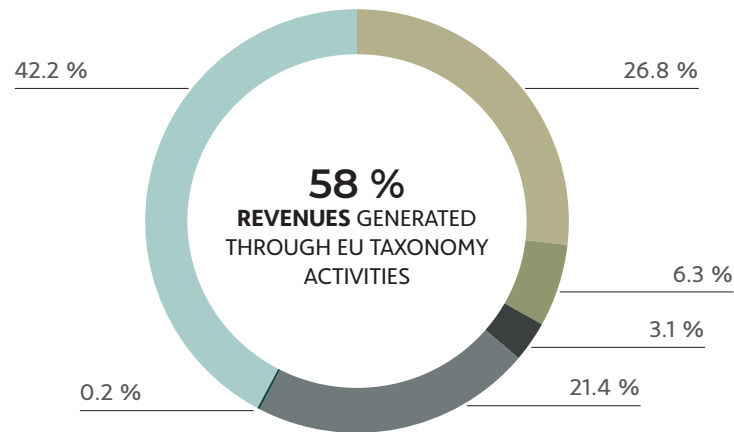
## 4. USING THE EU TAXONOMY TO CLASSIFY ACCIONA'S ACTIVITIES

ACCIONA's finance and sustainability teams have worked with the TEG documents on the EU Low Carbon Taxonomy to assess their applicability and practicality in our business. Consequently, we established a system that classified all of our more than 2,000 assets worldwide, in accordance with criteria under this taxonomy. With our audited 2019 financial results, the analysis has provided us with an idea of the alignment of our business lines to these requirements. This exercise was done in line with the EU Green Finance Framework, and the external review of the data together with a second party opinion are available on our sustainable finance website. An analysis of ACCIONA's activities showed they fit into six 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 2019 figures verified by independent auditors:



- 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
- Manufacturing

\*The EBITDA figure is not verified since the EU Technical Expert Group on Sustainable Finance does not contemplate this variable amongst those that can be used for calculating percentages of activity that meet the requirements of the 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	1,924.50	26.80	846.60	62.41	746.06	58.74
Production of electricity from wind power	1,139.38	15.85	736.44	54.29	614.17	48.36
Production of electricity from solar PV	230.47	3.21	36.89	2.72	132.77	10.45
Production of electricity from hydropower	330.51	4.60	37.23	2.74	10.11	0.80
Production of electricity from Concentrated Solar Power	23.46	0.33	8.04	0.59	-12.01	-0.95
Production of electricity from bioenergy	194.93	2.71	27.61	2.04	1.02	0.08
Transmission and distribution of electricity	5.74	0.08	0.39	0.03	-	-
Transportation and storage	1,539.70	21.41	192.48	14.19	308.57	24.30
Infrastructure for low carbon transport	1,534.55	21.34	194.59	14.34	280.56	22.09
Passenger cars and commercial vehicles	5.15	0.07	-2.11	-0.17	28.01	2.21
Water supply, sewerage, waste management and remediation	452.25	6.30	61.70	4.55	25.45	2.00
Centralized Wastewater treatment systems	209.94	2.92	27.91	2.06	8.70	0.68
Water collection & treatment and supply	159.13	2.21	22.46	1.66	4.55	0.36
Separate collection and transport of non-hazardous waste in source-segregated fractions	83.18	1.16	11.33	0.84	12.20	0.96
Construction and Real Estate activities	219.81	3.10	19.97	1.47	7.55	0.60
Construction of new buildings	193.75	2.69	17.33	1.27	2.76	0.22
Individual renovation measures, installation of renewables on-site and professional, scientific and technical activities	26.06	0.36	2.64	0.20	4.79	0.38
Manufacturing	-	-	-	-	99.02	7.80
Manufacture of low carbon technologies	-	-	-	-	99.02	7.80
Agriculture, forestry and fishing	16.20	0.23	2.70	0.20	0.70	0.10
Growing of perennial crops	16.20	0.23	2.70	0.20	0.70	0.10
<b>Taxonomy 2019</b>	<b>4,152.48M€</b>	<b>**58 %</b>	<b>1,123.51M€</b>	<b>**83 %</b>	<b>1,187.40M€</b>	<b>**93 %</b>
<b>Breakdown by ACCIONA's Business Units</b>						
Energy	1,367.22	19 %	855.44	63 %	838.27	66 %
Infrastructure	2,642.91	37 %	245.37	18 %	345.72	27 %
Real Estate	126.15	2 %	19.99	1 %	2.67	0 %
Other Businesses	16.20	0 %	2.71	1 %	0.73	0 %
<b>In-Taxonomy 2019</b>	<b>4,152.48M€</b>	<b>**58 %</b>	<b>1,123.51M€</b>	<b>**83 %</b>	<b>1,187.40M€</b>	<b>**93 %</b>
Energy	608.50	9 %	(10.64)	(1 %)	(2.70)	0 %
Infrastructure	2,226.72	31 %	185.48	14 %	49.86	4 %
Real Estate	14.47	0 %	0.16	0 %	(16.02)	(1 %)
Grupo Bodegas	24.3	0 %	4.06	0 %	1.09	0 %
Other Businesses	164.11	2 %	54.03	5 %	50.41	4 %
<b>Ex-Taxonomy 2019</b>	<b>3,038.10M€</b>	<b>42 %</b>	<b>233.09M€</b>	<b>17 %</b>	<b>82.64 M€</b>	<b>7 %</b>
<b>TOTAL</b>	<b>7,190.58 M€</b>		<b>1,356.60M€</b>		<b>1,270.04M€</b>	

\*The EBITDA figure is not verified since the EU Technical Expert Group on Sustainable Finance does not contemplate this variable amongst those that can be used for calculating percentages of activity that meet the requirements of the taxonomy.

\*\*Over 2019 consolidated figures (subtracting deconsolidated 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



INMOBILIARIA



OTHER  
BUSINESSES

## NORTH AMERICA

- Canada
- United States
- Mexico

## CENTRAL AND SOUTH AMERICA

- Brazil
- Chile
- Colombia
- Costa Rica
- Ecuador
- Nicaragua
- Panama
- Paraguay
- Peru
- Trinidad & Tobago
- Dominican Republic

## EUROPE

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

## AFRICA

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

## ASIA AND OCEANIA

- Saudi Arabia
- Australia
- Qatar
- United Arab Emirates
- Philippines
- India
- New Zealand
- Oman
- Hong Kong
- Vietnam



## 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:

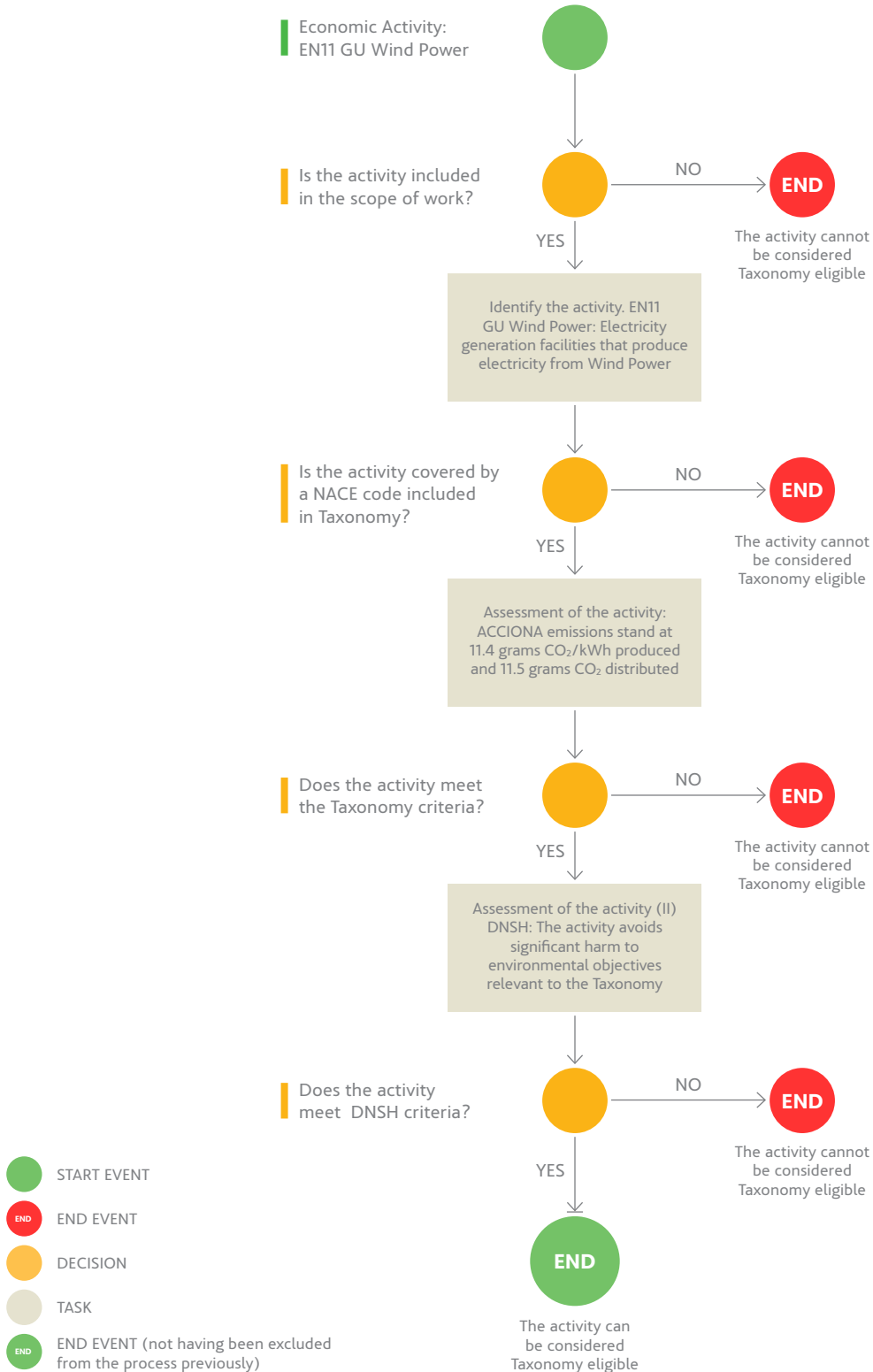
1. Contribute substantially to one or more of the environmental objectives and to the technical screening criteria.
2. Do no significant harm to any other environmental objective (Do No Significant Harm ("DNSH") criteria).
3. Comply with minimum social safeguards (under the draft regulation, these are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



\*NACE 3518 is the code of the activity used in this example, the electricity production from wind power.

## 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; and construction and real estate activities.

### 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:

- 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 was performed partially using an illustrative project concerning each activity.

### 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 2019 associated with those activities, together with their relative importance in terms of ACCIONA's total business, were estimated.

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## **Independent limited assurance report on ACCIONA's classification of activities based on the EU Taxonomy**

To management of Acciona, S.A.,

Pursuant to our engagement letter dated March 2020, we have performed an independent limited assurance review of the classification of activities of Acciona, S.A. (hereinafter ACCIONA), included in the accompanying document, "EU DRAFT ON LOW CARBON TAXONOMY. A CASE STUDY (2020)" (hereinafter the Case Study), to submit a report indicating that, based on the work carried out and the evidence obtained, nothing leads us to believe that the aforementioned activity classification scheme has not been prepared, in all material respects, on the basis of the EU Taxonomy within the framework of policies to facilitate sustainable finance as defined in the "Taxonomy Technical Report" published by the EU Technical Expert Group on Sustainable Finance ([https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy\\_en](https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en)) (hereinafter the EU Taxonomy).

### **Responsibilities of ACCIONA management**

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ACCIONA management is responsible for the preparation and presentation of information on the classification of activities included in the Case Study in accordance with the EU Taxonomy.

Management is also responsible for the information and statements contained in the Case Study, the implementation of the processes and procedures for the selection and presentation of information on revenue and investment and on the classification of activities, and for establishing and maintaining the control and management systems from which the information is obtained.

These responsibilities include establishing the controls that management considers necessary to provide limited assurance that the preparation of this information is free of material misstatements whether due to fraud or error.

### **Our responsibility**

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Our responsibility consists of examining the classification of ACCIONA's activities included in the Case Study prepared by ACCIONA management and reporting thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We have conducted our engagement in accordance with the Revised International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This standard requires us to plan and execute our procedures to obtain limited assurance on whether the classification of ACCIONA's activities included in the Case Study has been prepared, in all material respects, in accordance with the EU Taxonomy.



We apply the International Standard on Quality Control (ISQC1) and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due diligence, confidentiality and professional behaviour.

Our limited review engagement consisted of making enquiries of management and the persons responsible for the preparation of the information presented in the Case Study, and applying cost accounting and other evidence gathering procedures such as:

- Verification of the scope of ACCIONA's activities included in the Case Study, including an inventory of activities by business segment, division and subdivision.
- Verification of ACCIONA's internal processes and procedures for determining which of its activities meet the requirements under the EU Taxonomy.
- Verification, based on our interviews with management and other senior employees, of their understanding of the internal processes for classifying the activities of its different segments and business divisions in accordance with the EU Taxonomy.
- Verification that ACCIONA's assignment of eligibility criteria for both eligible and non-eligible projects is correct and consistent with the EU Taxonomy.
- Verification through sampling of the classifications defined by ACCIONA for its activities in accordance with EU Taxonomy.
- Understanding of the process followed by ACCIONA to extract information on turnover and CAPEX of the activities included in the Case Study from its business management information systems
- Verification that the information extracted was used by ACCIONA as the basis for performing the calculations and assignments to each business segment.
- Analysis of the consistency of the processes for gathering the quantitative data on revenue and CAPEX and the associated internal control processes reflected in the Case Study with the financial information gathering and associated internal control processes, by using analytical procedures and review testing based on sampling, in order to understand the calculations performed and their application to the different activities selected in the Case Study.

Our multidisciplinary team included specialists in economic performance and sustainability reviews.

Given their nature and timelines, the procedures applied in a limited assurance engagement are different from those used in a reasonable assurance engagement and are less in scope. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than would have been obtained had a reasonable assurance engagement been performed. Under no circumstances may this report be considered an auditor's report.



## **Conclusion**

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Our conclusion has been formed on the basis of, and is subject to, the matters described in this report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on the procedures applied and the evidence obtained, we are not aware of any event that would lead us to believe that the activity classification included by ACCIONA in the accompanying Case Study, was not established, in all material respects, in accordance with the EU Taxonomy.

In a separate document, we will provide ACCIONA management with an internal report outlining our complete findings and areas for improvement.

## **Purpose of our report**

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In accordance with the terms of our engagement, this Independent Review Report has been prepared for ACCIONA in relation to its Case Study entitled "EU DRAFT ON LOW CARBON TAXONOMY. A CASE STUDY (2020)" and, therefore, it may not be used for any other purpose or used in another context.

KPMG Asesores, S.L.

A handwritten signature in blue ink, appearing to read 'Patricia Reverter Guillot', written over a light blue circular stamp.

Patricia Reverter Guillot

3 April 2020



BUSINESS AS UNUSUAL



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