

EU LOW CARBON TAXONOMY: ACCIONA'S CASE STUDY

EXECUTIVE SUMMARY

MARCH 2021

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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 Delegated Act presented by the Commission by the end of 2020. As a result of this analysis, ACCIONA obtained an initial overview of the activities that have significant potential for mitigating climate change.

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 6.47bn (FY2020), EBITDA of EUR 1.12bn, CAPEX of EUR 1.01bn* 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 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.

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 current Draft Delegated Act on the Taxonomy of environmentally sustainable economic activities, presents a list of economic activities grouped into nine macro-sectors, based on the NACE** classification. The methodology and criteria are 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.

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

**NACE. Statistical classification of economic activities in the European Community (NACE)

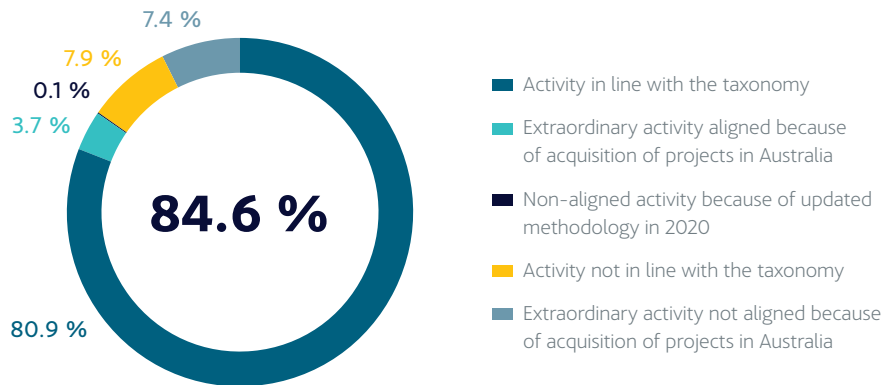
4. USING THE EU TAXONOMY TO CLASSIFY ACCIONA'S ACTIVITIES

ACCIONA's finance and sustainability teams have worked to assess the applicability and practicality of EU taxonomy in our business. Consequently, we established a system that classified all of our assets worldwide, in accordance with criteria under this taxonomy. With our audited 2020 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:

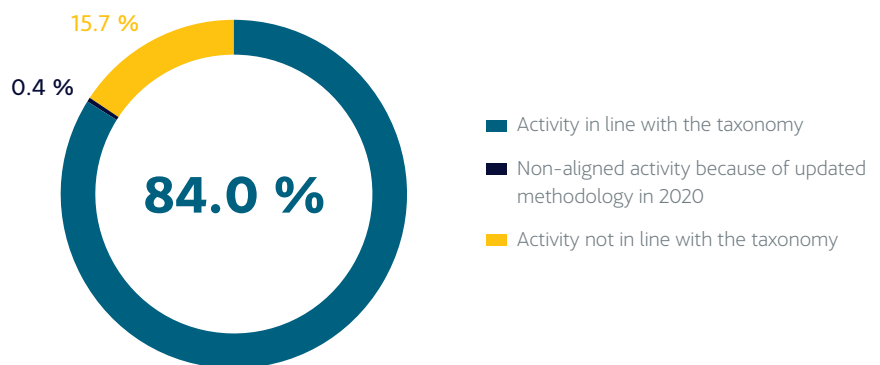


Once the criteria, metrics and thresholds of each subcategory were analyzed, ACCIONA's activities were aligned with the Taxonomy in terms of global revenue, EBITDA, and annual CAPEX using 2020 figures verified by independent auditors:

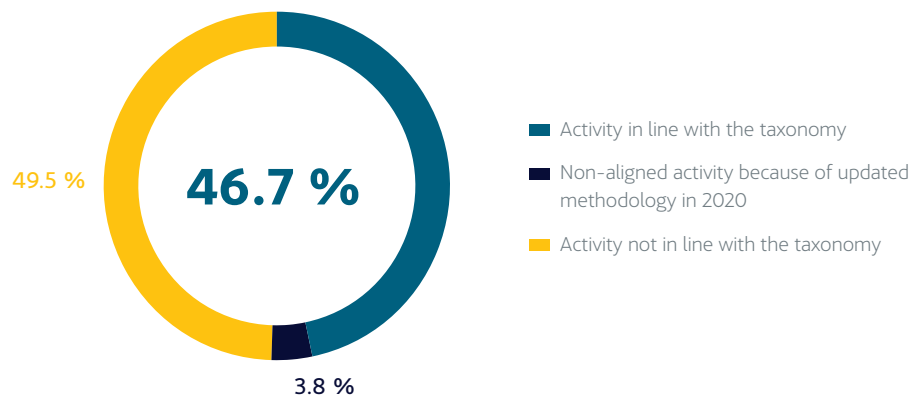
Alignment of CAPEX with the European taxonomy



Alignment of EBITDA with the European taxonomy



Alignment of Sales with the European taxonomy



*The EBITDA figure is not verified because it does not form part of the key indicators of results associated with environmentally sustainable economic activities observed by the Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 relating to the establishment of a framework to facilitate sustainable investments.

Figures in depth

Activities covered by the Taxonomy	Revenues (M€)	% Revenues	*EBITDA (M€)	*% EBITDA	Capex (M€)	% CAPEX
Electricity generation from wind power	1,492.86	23.06%	730.89	65.03%	626.07	61.8%
Electricity generation from hydropower	299.39	4.63%	57.34	5.10%	10.65	1.1%
Electricity generation using solar photovoltaic technology	177.86	2.75%	84.84	7.55%	132.33	13.1%
Electricity generation using concentrated solar power (CSP) technology	29.92	0.46%	12.20	1.09%	0.68	0.1%
Electricity generation from bioenergy	73.08	1.13%	-0.29	-0.03%	0.30	0.0%
Transmission and distribution of electricity	0.16	0.00%	-0.22	-0.02%	-	0.0%
Manufacture of renewable energy technologies	-	0.00%	0.00	0.00%	13.15	1.3%
Collection and transport of non-hazardous waste in source segregated fractions	70.76	1.09%	10.97	0.98%	4.64	0.5%
Operation of personal mobility devices	7.51	0.12%	-9.57	-0.85%	25.31	2.5%
Installation, maintenance and repair of energy efficiency equipment	13.15	0.20%	4.77	0.42%	2.76	0.3%
Reforestation	3.39	0.05%	0.13	0.01%	0.07	0.0%
Acquisition and ownership of buildings	98.20	1.52%	11.73	1.04%	4.95	0.5%
Construction, extension and operation of water collection, treatment and supply systems	21.96	0.34%	3.27	0.29%	1.53	0.2%
Construction, extension and operation of waste water collection and treatment	16.91	0.26%	4.00	0.36%	1.64	0.2%
Infrastructure for rail transport	715.25	11.05%	34.53	3.07%	32.96	3.3%
In-Taxonomy	3,020.40 M€	**46.7%	944.57 M€	**84.0%	857.05 M€	**84.6%
Ex-Taxonomy	3,452.03 M€	**53.3%	179.34 M€	**16.0%	156.07 M€	**15.4%
TOTAL	6,472.43 M€		1,123.90 M€		1,013.12 M€	

Notable among the activities contributing to these figures are the following:

- **Energy:** the construction and operation of production and transport installations for exclusively renewable source energy produced using wind, photovoltaic, hydraulic, biomass and solar thermal technologies.
- **Transport:** the construction of low-carbon transport infrastructure, principally urban and intercity railway infrastructures and the operation of mobility services using 100% renewable electricity.
- **Other taxonomy activities:** waste water treatment with renewable energy use and the efficient supply of drinking water, especially in water-stressed regions; provision of management services for waste ready for recovery; construction and promotion of certified sustainable buildings; the development of energy-efficient services; investment in manufacture of wind generators and reforestation services.

The variation in the percentage alignments with 2019 (93% of CAPEX, 83% of EBITDA and 58% of sales) occur for a number of reasons:

- The CAPEX figure within the taxonomy has changed compared to the previous year because of an extraordinary contribution to the figure attributable to the acquisition of a portfolio of construction projects in Australia. Discounting the effect of this extraordinary contribution, the CAPEX figure within the taxonomy would have been 91%.
- The technical requirements for the classification of activities have been updated compared to the June 2019 TEG recommendations document used last year. This circumstance impacts principally on the sales figure within the taxonomy which, using the previous criterion, would have been 50.5% of the total figure.

*The EBITDA figure is not verified because it does not form part of the key indicators of results associated with environmentally sustainable economic activities observed by the Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 relating to the establishment of a framework to facilitate sustainable investments.

**Over 2020 consolidated figures. More detail on methodology in Annex 1.

WORLD-CHANGING SOLUTIONS

ACCIONA operates in over 40 countries on 5 continents



Energy



Transport



Water



Social



Cities



Real estate



Financial



North America

- Canada
- USA
- Mexico

Central & South America

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

Europe

- Germany
- Andorra
- Austria
- Croatia
- Denmark
- Spain
- Hungary
- Italy
- Norway
- Poland
- Portugal
- UK
- Romania
- Ukraine

Africa

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

Asia & Oceania

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

ANNEX 1

METHODOLOGY

The methodology applied in the analysis conducted was based on the Taxonomy Regulation and the technical screening criteria on climate change mitigation proposed in the Draft Delegated Act on this subject, published by the end of 2020.

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.

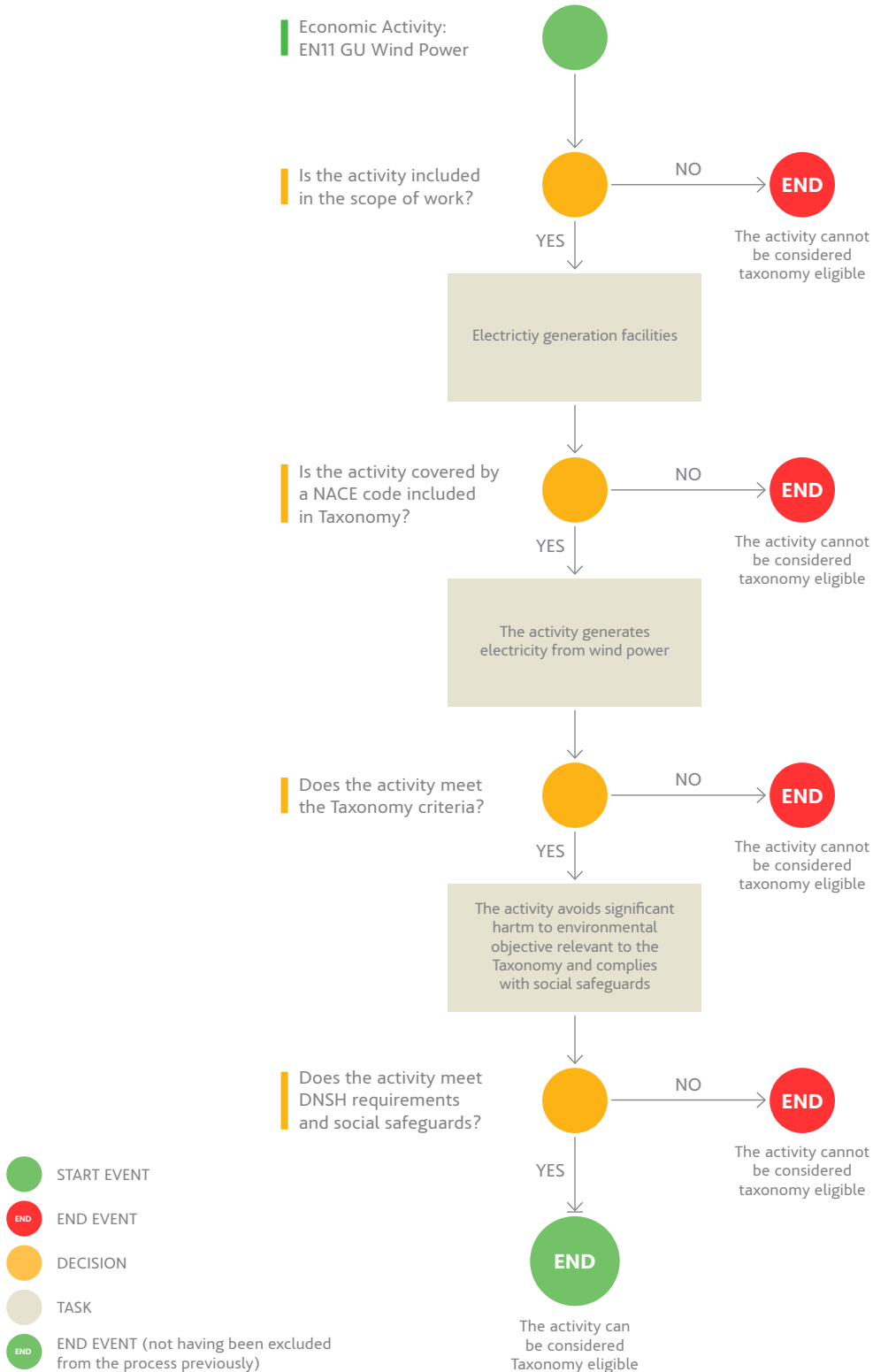
For an action to meet the definition of an 'environmentally sustainable economic activity' (Article 2 of the Regulation) and thus be considered Taxonomy-eligible, it must:

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.

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 and forestry; manufacturing; energy; water supply, sewerage, waste management and remediation, transport; and construction and real estate activities.

II. Characterization of the activities

To characterize the various activities, a fact sheet was prepared to analyze fulfilment of the mitigation criteria, their metrics and the thresholds. Furthermore, this fact sheet identifies 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.
- 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 2020 associated with those activities, together with their relative importance in terms of ACCIONA's total business, were estimated.



BUSINESS AS UNUSUAL



www.acciona.com

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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 December 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 LOW CARBON TAXONOMY: ACCIONA'S CASE STUDY (2021)" (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" including the Draft Delegated Act published by the EU Technical Expert Group on Sustainable Finance (https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en) (hereinafter the EU Taxonomy).

Responsibilities of ACCIONA management

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

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. 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 International Ethics Standards Board for *Accountants' International Code of Ethics for Professional Accountants* (including international independence standards) (IEABA Code), 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 the personnel responsible for the processes regarding 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 revenues and CAPEX of the activities included in the Case Study from its business management information systems
- Verification that the information extracted from their internal systems (ERP) 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 and calculations performed on revenue and CAPEX and the associated internal control processes with the financial information by using analytical procedures and review based on walkthrough and sampling testing, in order to understand the calculations performed and their application to the different activities selected in the Case Study.

The engagement team was comprised of professionals specialized in economic and environmental performance.

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

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the activities classification reported by ACCIONA in the accompanying document "EU LOW CARBON TAXONOMY: ACCIONA'S CASE STUDY (2021)" has not been prepared, in all material respects, in accordance with the EU Taxonomy within the framework of policies to facilitate sustainable finance as defined in the "Taxonomy Technical Report" including the Draft Delegated Act published by the EU Technical Expert Group on Sustainable Finance.

Purpose of our report

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 LOW CARBON TAXONOMY: ACCIONA'S CASE STUDY (2021)" and, therefore, it may not be used for any other purpose or used in another context. Under separate cover, we will provide ACCIONA management with an internal report outlining our complete findings and areas for improvement.

KPMG Asesores, S.L.

A handwritten signature in blue ink, appearing to read 'Patricia Reverter Guillot'.

Patricia Reverter Guillot

6 April 2021