

EU Taxonomy Reporting Review

Reported capital investments break through the USD500 billion mark, but average Taxonomy-alignment levels barely increase.

Morningstar Sustainalytics

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Authors

Hortense Bioy, CFA
Head of Sustainable Investing Research
Morningstar Sustainalytics

Noemi Pucci
ESG Quantitative Associate Analyst
Morningstar Sustainalytics

Contributors

Lisette Brackel
Kate Dzhaha

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Executive Summary

The EU Taxonomy, a cornerstone of the European Union's sustainable finance framework, is a classification system that helps companies and investors identify "environmentally sustainable" economic activities to make sustainable investment decisions, with the ultimate goal of making Europe the world's first climate-neutral continent by 2050.

Last year, EU companies started reporting on their Taxonomy-aligned activities. In this report, we examine the latest reported data in 2024 and compare it to last year's. This report is the first of a series that will monitor the progress companies are making in reporting their Taxonomy alignment and commitment to the investments needed in the transition to a more sustainable economy.

Key Takeaways

- ▶ At least 1,300 non-financial companies¹ are now reporting on their Taxonomy-aligned activities, but 42% report zero alignment.
- ▶ Average alignment levels reported this year are quasi-unchanged compared to last year.
- ▶ Companies disclosing above-zero data have 28% of their capital investments (capex) aligned with the Taxonomy, on average. Including zero values, average capex alignment amounts to less than 19%.
- ▶ Total aligned investments reported over the past two years amount to over USD 500 billion.
- ▶ While companies in the Industrials sector represent the largest portion of disclosing entities, companies in the Utilities and Consumer Discretionary sectors report making the highest aligned investments. Electricity and transport related activities are the biggest beneficiaries.
- ▶ Spain and Norway boast the highest average level (44%) of capex alignment, while Germany and France, report the highest aligned investments over the past two years (USD 108 billion and USD 104 billion, respectively).
- ▶ Average alignment levels are expected to gradually increase starting next year, when alignment reporting on the four new environmental objectives of the Taxonomy (Circular Economy, Pollution Prevention, Biodiversity Protection, and Water and Marine Resources) becomes mandatory. Currently, reporting on these objectives is limited.
- ▶ Overall, the alignment for Nuclear Energy and Natural Gas is low due to the challenges and complexity of meeting all the EU Taxonomy's conditions.
- ▶ It is still early days for Taxonomy reporting and investors should be mindful of data inaccuracies, incompleteness, and misalignment. We found that 88% of companies either reported inaccurate data or left out one of the required datapoints, while 10% do not meet all the Taxonomy's criteria.

¹ Companies reporting on the non-financial template. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2486>

Introduction

The EU Taxonomy,² a cornerstone of the EU's Action Plan on Sustainable Finance and an important tool in achieving better market transparency, is a classification framework for identifying “environmentally sustainable” economic activities to make sustainable investment decisions. Having entered into force in July 2020, the Taxonomy sets out four overarching conditions that an economic activity must meet in order to qualify as environmentally sustainable:

- ▶ Making a substantial contribution to at least one of the six environmental objectives:
 - ▶ Climate Change Mitigation (CCM),
 - ▶ Climate Change Adaptation (CCA),
 - ▶ Circular Economy,
 - ▶ Pollution Prevention,
 - ▶ Biodiversity Protection, and
 - ▶ Water and Marine Resources);
- ▶ Doing no significant harm to any of the other five environmental objectives;
- ▶ Complying with minimum safeguards; and
- ▶ Complying with the technical screening criteria set out in the Taxonomy delegated acts.

How is the EU Taxonomy Currently Used?

Companies that fall under the scope of the Corporate Sustainability Reporting Directive (CSRD)³ must include in their annual reports the extent to which their activities are covered by the EU Taxonomy (Taxonomy eligibility) and comply with the sustainability criteria set in the Taxonomy delegated acts (Taxonomy alignment). The EU Taxonomy is integrated into other EU regulatory frameworks to promote sustainable finance and corporate transparency, including the Sustainable Finance Disclosure Regulation (SFDR) and MiFID II sustainability preferences, under which Article 8 and Article 9 funds must provide Taxonomy-alignment data. The EU Taxonomy is also increasingly used by various actors to define and assess business strategies, transition planning, investing and lending⁴.

What are Companies Reporting on?

Large, listed EU companies started to report on Taxonomy eligibility in 2022 and Taxonomy alignment in 2023 against the two climate objectives⁵ – climate change mitigation and climate change adaptation. In 2024, companies must also report on eligibility against the Taxonomy's other four environmental objectives: Circular Economy, Pollution Prevention, Biodiversity Protection, and Water and Marine Resources.

The EU Taxonomy identifies 151 sustainable activities across various sectors. Each of these activities is classified according to its potential contribution to the environmental objectives.

² https://commission.europa.eu/system/files/2021-04/sustainable-finance-taxonomy-faq_en.pdf

³ The Taxonomy Regulation is applicable to public-interest entities with more than 500 employees, and either more than EUR 40 million in revenue or EUR 20 million on the balance sheet. The regulation is also applicable to financial market participants who offer financial products.

⁴ For example, the EU Taxonomy has been adopted by the European green bond standard.

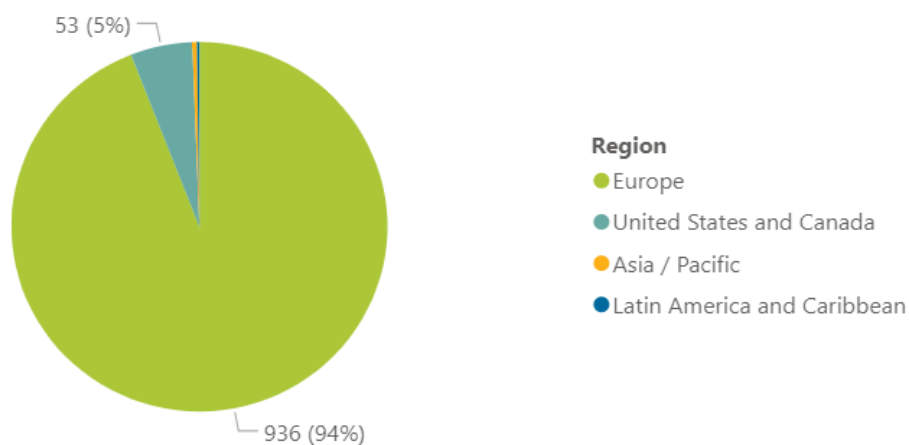
⁵ Companies started to report on Taxonomy eligibility for climate change mitigation and climate change adaptation in 2022.

The Universe of Reporting Companies

In this report, we analyze Taxonomy-alignment data collected by Morningstar Sustainalytics on more than 1,300 non-financial companies⁶ that have reported for their 2022 and 2023 financial years. We examine three alignment KPIs, namely the percentages of company turnover (revenue), operating expenditures (opex) and capital expenditures (capex)⁷ aligned with environmental sustainability criteria, with a focus on capex, as it offers a deeper insight into companies' ambition to become more sustainable in the future.

For FY2023 alone, Morningstar Sustainalytics has so far collected and validated Taxonomy-alignment data for close to 1,100 non-financial companies reporting. About 94% of them are domiciled in Europe. Some non-EU countries, such as Norway, Iceland and Liechtenstein, have adopted the regulation, while others have chosen to report on the Taxonomy to enhance their appeal to European investors and prepare for future sustainability regulations. The growing influence of the Taxonomy makes it increasingly relevant for companies worldwide.

Exhibit 1 Number of Companies Reporting Taxonomy-Aligned Data for FY2023 -- Regional Breakdown



Source: Morningstar Sustainalytics, FY2023 data

We expect company coverage to expand further in subsequent years when reporting on additional activities becomes mandatory and the scope of application increases. Starting in 2025, the scope of application will expand to gradually cover all entities subject to the Corporate Sustainability Reporting Directive (CSRD).

⁶ For financial institutions, given the lack of alignment data prior to 2024 and the poor quality of available reported data, Morningstar Sustainalytics has only now started to collect the data, which will be made available at the end of 2024. Financial institutions are facing challenges in filling out the regulatory template at the entity level.

⁷ Revenue refers to the income generated by a company from its regular business activities, such as the sale of goods and services. Capex represents the funds a company invests in acquiring, maintaining, or upgrading its physical assets, such as buildings, equipment, or technology. Opex covers the ongoing costs of running a business, including salaries, utilities, maintenance, and other day-to-day operational expenses.

At this point, many more companies should be reporting⁸ but are not yet doing so. Of those that are, there is a trend to report zero alignment. Of the abovementioned 1,100 companies, 42% have reported zero alignment to all three KPIs for FY2023. This is due to several reasons. First, the EU Taxonomy reporting exercise is complex, stemming from the depth and breadth of the framework. For example, companies must source granular data from multiple divisions and suppliers, yet some companies do not have adequate measuring and reporting systems to do that. Companies must also ensure they meet the Do Not Significant Harm (DNSH) principle across all objectives, requiring companies to evaluate their activities across multiple dimensions. Moreover, the risk of making mistakes can deter companies from fully engaging with the Taxonomy. The whole process of compliance is resource intensive.

Overall KPI Alignment Levels Are Quasi-Unchanged

Considering all data (including zero values), we found that average KPI alignment levels have remained quasi-unchanged over the last two reporting years. Average revenue alignment increased modestly from 12.2% for 2022 to 12.9% for 2023. Average opex alignment decreased slightly from 14.6% to 14.3%, while average capex alignment exhibited a marginal increase from 17.9% to 18.6%.

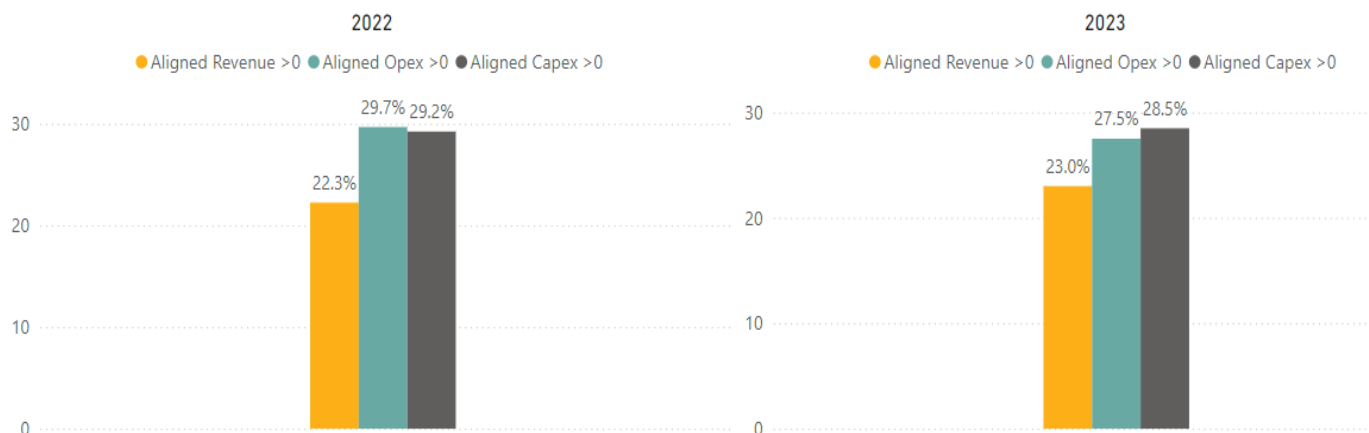
Exhibit 2a Overall Average Alignment of Revenue, Opex and Capex (including zero-alignment values)



Source: Morningstar Sustainalytics

Focusing on above-zero Taxonomy alignment for 2023 (exhibit below), we found that companies reported an average of 23% aligned revenue, 27.5% aligned opex, and 28.5% aligned capex. These alignment levels are also very similar to those observed for 2022. Here, like above, capex presents the highest alignment percentage among the three Taxonomy KPIs. This can be interpreted as a positive signal that companies are investing in environmental projects that are turning non-sustainable activities into sustainable ones.

⁸ This year, it is expected that 1,990 companies are in scope for reporting.

Exhibit 2b Above-Zero Average Alignment of Revenue, Opex and Capex

Source: Morningstar Sustainalytics

While average KPI alignment levels remain unchanged, we found that more companies reported higher alignment in 2023 relative to 2022 than companies that reported lower alignment. More companies also reported above-zero values⁹. But these changes fail to be reflected in the average numbers mentioned above.

Revenue reflects the income generated from a company's current business activities. Many companies, especially those in traditionally carbon-intensive industries, may not yet derive a significant portion of their revenue from Taxonomy-aligned activities and it might take them time to transform their products and services. Hence, their average revenue alignment is lower compared to opex and capex alignment.

Opex covers the day-to-day costs of running a business. Companies are often quicker to adopt sustainable operational practices, such as improving energy efficiency in processes, sourcing renewable energy, and minimizing waste. This allows for a higher percentage of aligned operational spending, but it still takes time to align all operational aspects with sustainability criteria, especially in industries where there are fewer green alternatives for daily operations.

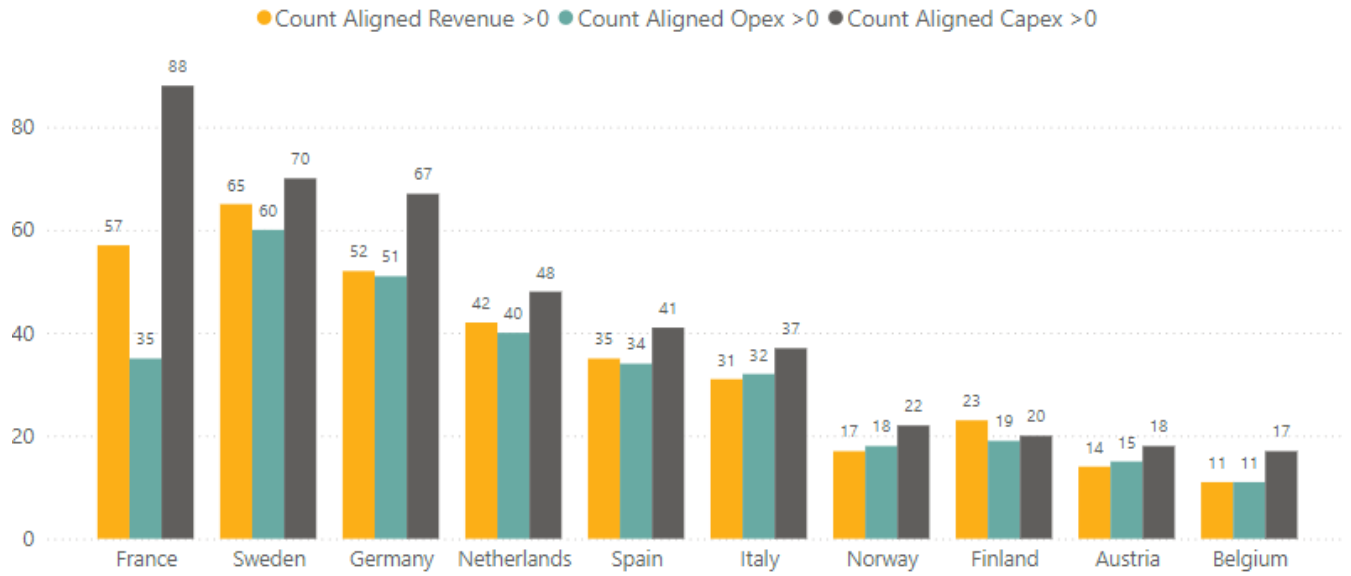
Capex reflects investments in long-term infrastructure, equipment, and technology. Companies often focus their capex on projects that align with sustainability objectives. Many companies, for example, invest heavily in transitioning to renewable energy sources, building energy-efficient infrastructure, or adopting clean technologies. These investments are often larger and more capital-intensive than ongoing operational expenses. In general, companies seem focused on prioritizing capex alignment as a way to signal commitment. As we reveal later, the activities reported on most so far have been on Climate Change Mitigation. We expect overall alignment numbers to rise as companies report on more activities and increase their investments in sustainable activities.

⁹ In 2023, 247 companies increased their revenue alignment, including 22 companies that reported positive revenue alignment from zero. On the other hand, 111 companies decreased their revenue alignment. Meanwhile, 208 companies increased their opex alignment, including 31 companies that increased it from zero, while 123 companies decreased their opex alignment. Finally, 282 companies reported higher capex alignment in 2023, including 43 companies that increased it from zero. On the other hand, 150 companies decreased their capex alignment.

France, Sweden and Germany House Highest Number of Reporting Companies

Looking at location, we find that France, Sweden and Germany are the countries housing the largest number of companies reporting Taxonomy alignment above zero for FY2023. While one would expect to see France and Germany at the top, given their economic size, Sweden may come as a surprise.

Exhibit 3 Countries with the Highest Number of Companies Reporting Taxonomy Alignment Above Zero

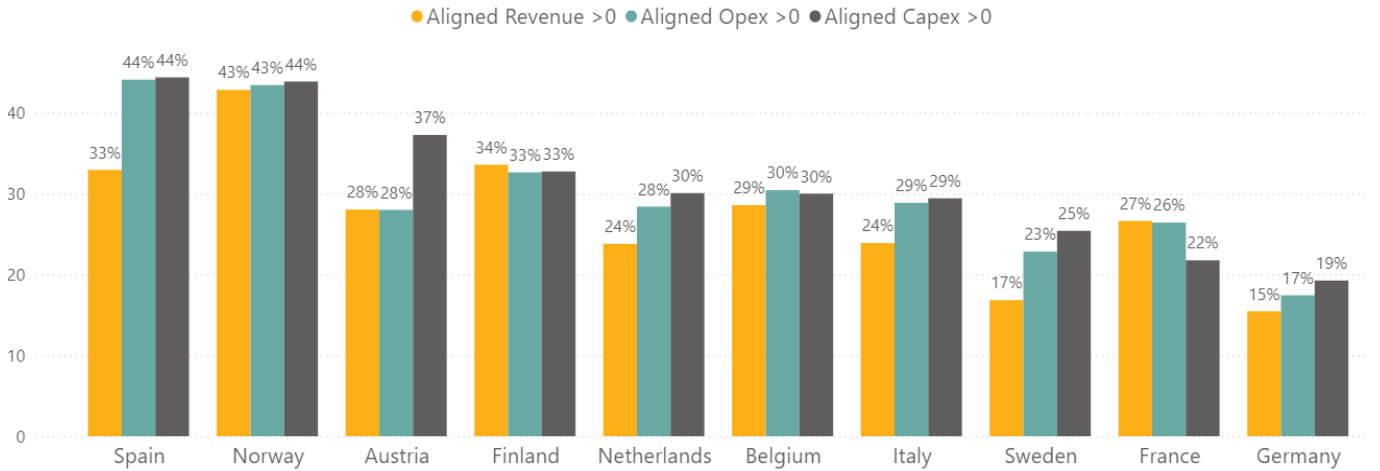


Source: Morningstar Sustainability, FY2023 data

Looking at Taxonomy alignment for the top reporting countries reveals a different picture. Sweden may currently boast one of the highest numbers of reporting companies, but their Taxonomy alignment is below average: only 16.7% for revenue, 23.6% for opex, and 26.2% for capex. This is partly due to Sweden's complex and diverse energy generation mix, which includes hydropower, wind, nuclear energy, bioenergy, and biomass. In particular, nuclear energy, bioenergy, and biomass face stricter and more nuanced criteria for alignment under the EU Taxonomy. Additionally, Sweden's economy relies heavily on hard-to-decarbonize industries, such as manufacturing, steel production, forestry, and chemicals, further contributing to lower alignment percentages.

In first and second place for Taxonomy alignment, we find Spain and Norway, where companies currently report high average alignment figures of 43-44% for opex and capex. Spain has invested heavily in renewable energy, especially wind and solar. The government has launched a plan to phase out coal-fired power plants and support green energy technologies. The country also benefits from EU Recovery funds and national subsidies aimed at supporting green projects. Meanwhile, Norway is a leader in carbon capture and storage (CCS) technology and derives nearly all its electricity from renewable hydropower. Moreover, it has been investing heavily in the transition to renewable energy and decarbonizing its oil and gas operations.

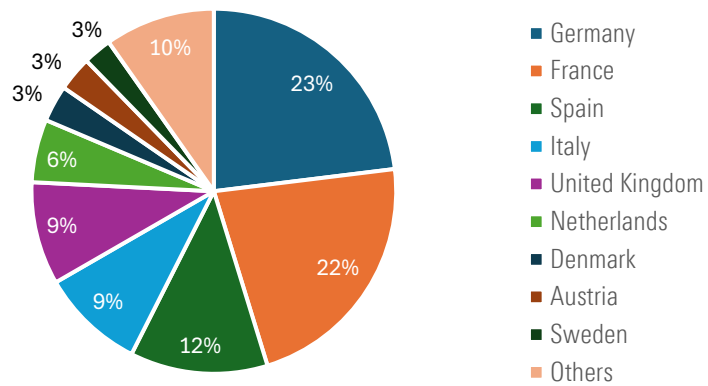
Exhibit 4 Average Alignment Above Zero of Revenue, Opex and Capex



Source: Morningstar Sustainability, FY2023 data

In absolute aligned capex investments, Germany, France and Spain are investing the most in aligned activities, with USD 108 billion, USD 104 billion, and USD 57 billion of capital, respectively. The United Kingdom comes in fifth place. Despite not being subject to the EU Taxonomy, we see voluntary alignment reporting there, with USD 42 billion of aligned capex. This helps to ensure that UK companies remain attractive to the EU investors base.

Exhibit 5 Total Capex-Aligned Investments By Country

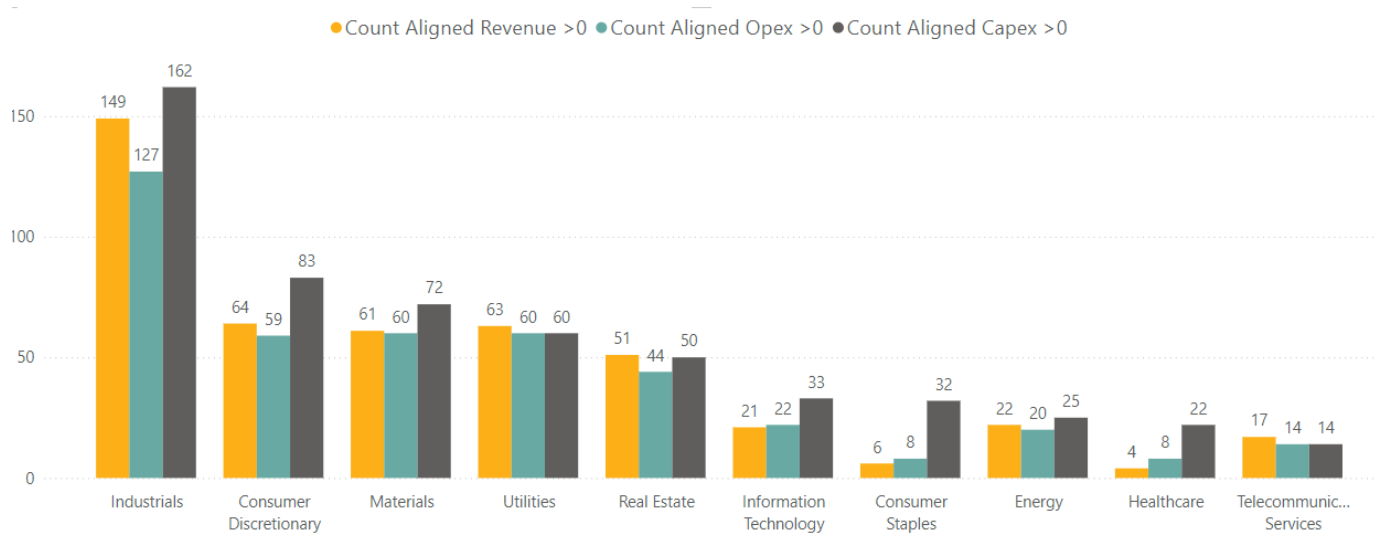


Source: Morningstar Sustainability, based on FY2022 and FY2023 capex data

Utilities Companies Have the Highest Alignment Numbers

Looking across the sectors, we see that Industrials companies (175) represent the largest portion (30%) of our sample of FY2023 reporting companies, followed by Consumer Discretionary (85 companies, 15%) and Materials (73 companies, 13%). These numbers somewhat reflect the make-up of the EU economy. The lowest reporting sectors are Telecoms, Healthcare and Energy.

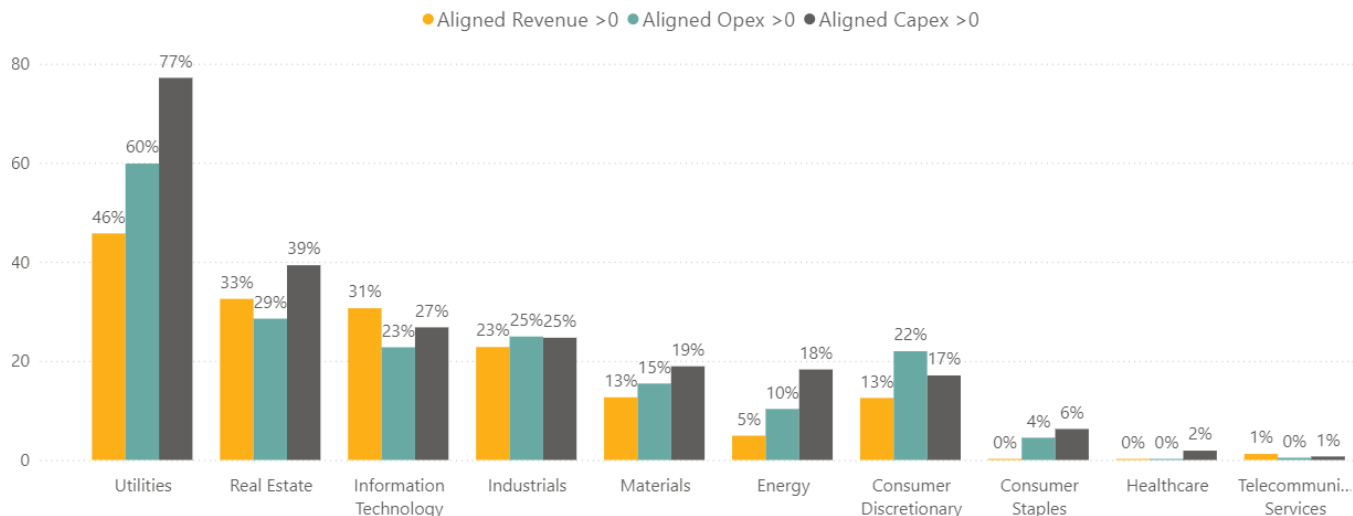
Exhibit 6 Number of Companies Reporting Above-Zero Taxonomy Alignment per Sector



Source: Morningstar Sustainalytics, FY2023 data

However, when it comes to Taxonomy alignment, Utilities stands out as the sector with the highest numbers across all three KPIs. Utilities companies report an impressive 77% average capex alignment, while their average revenues are 45% aligned. This sector is pivotal in driving the energy transition towards low-carbon technologies. Meanwhile, other high-emitting sectors, such as Materials and Energy, exhibit low alignment figures, with only 18% of capex in these sectors aligned with EU sustainable objectives.

Exhibit 7 Taxonomy Alignment Above Zero per Sector

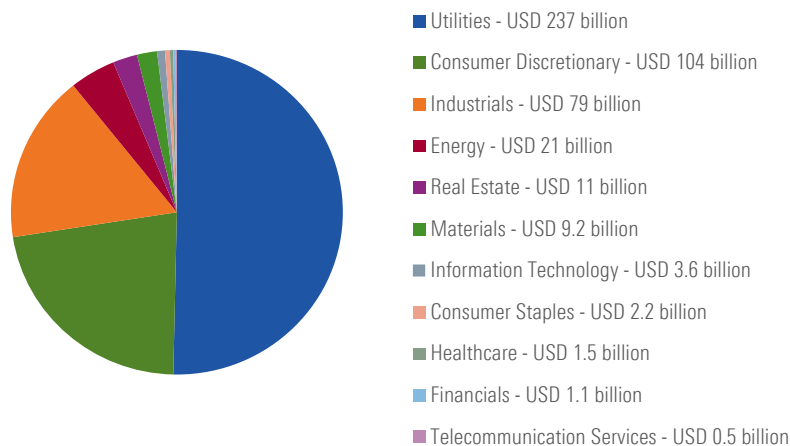


Source: Morningstar Sustainalytics, FY2023

In terms of capex investments since companies first started reporting, the Utilities sector leads, with approximately USD 236 billion, accounting for 50% of the total reported aligned investments. The Consumer Discretionary sector follows, with capex investments of USD 104 billion. The primary driver behind the latter is the capital-intensive Automotive industry, which includes large-scale investments related to the transition to electric vehicles, battery production, and the development of alternative fuels. Industrials, meanwhile, is trailing with USD 78 billion, contributing almost 17% of the total.

In total, aligned capital investments reported for FY2022 and FY2023, and for which we have collected data, amount to slightly more than USD 500 billion.

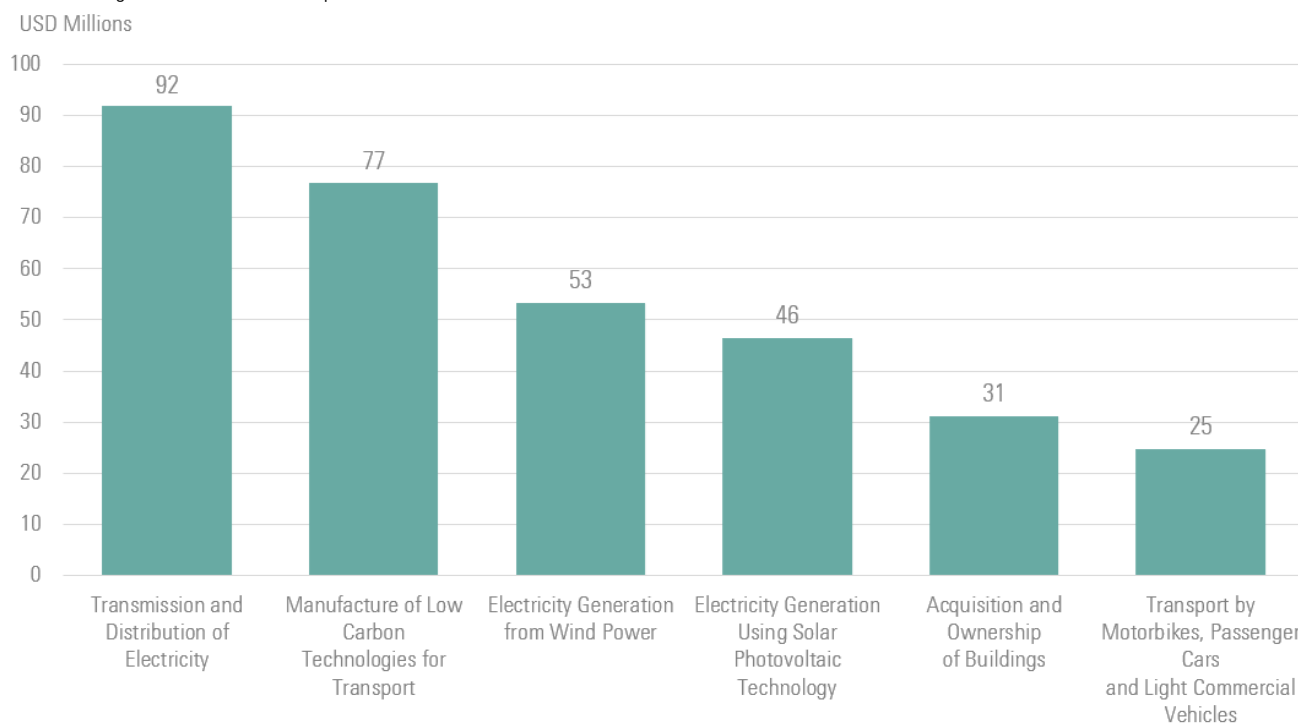
Exhibit 8 Taxonomy-Aligned Capex of Reporting Companies



Source: Morningstar Sustainalytics, based on FY2022 and FY2023 capex data

In line with this sector breakdown, we list below the six activities that benefit most from the investments. Featured at the top are Transmission and Distribution of Electricity, Manufacture of Low Carbon Technologies for Transport, Electricity Generation from Wind Power, and Electricity Generation Using Solar Photovoltaic Technology.

Exhibit 9 Aligned Investments for Top Activities



Source: Morningstar Sustainalytics, based on FY2022 and FY2023 capex data

Volkswagen AG tops the list of companies reporting on capex alignment, with a total of USD 39 billion of aligned capex in Manufacture of Low Carbon Technologies for Transport reported so far in 2022 and 2023. In second place is British company **National Grid Plc**, an energy company operating electricity and gas distribution networks in the UK and parts of the United States. National Grid reported aligned capital investments of USD 18 billion in Transmission and Distribution of Electricity. Third for capex investments is **Lagardere SA**, a French group specializing in publishing and travel retail, operating stores in airport and travel hubs worldwide. It reported USD 16 billion in Acquisition and Ownership of Buildings.

Climate Change Mitigation Remains the Dominant Environmental Objective

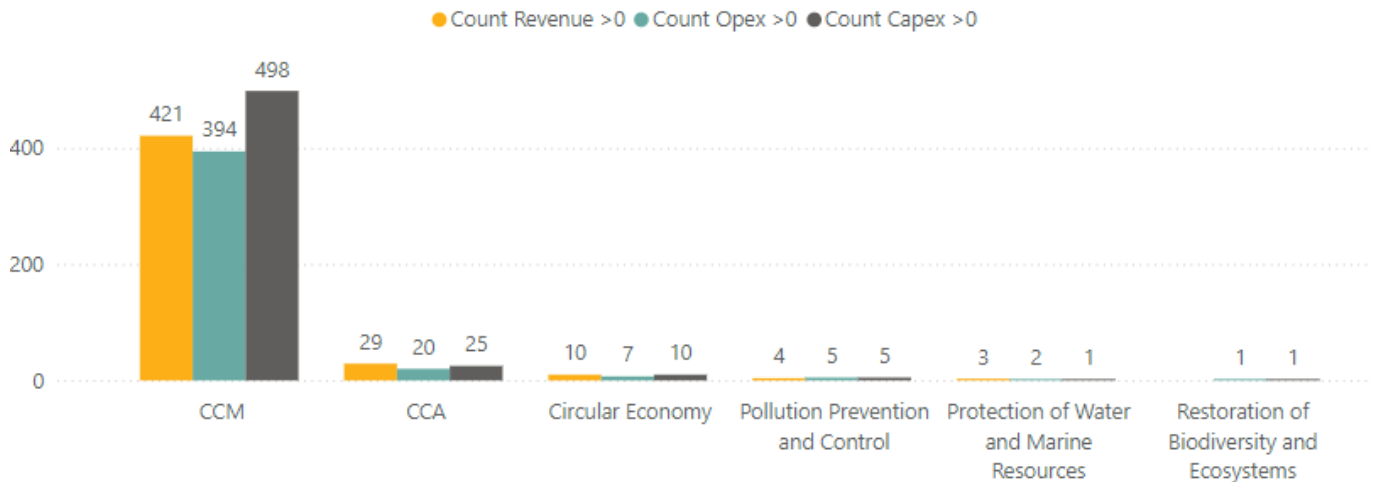
Analyzing the EU Taxonomy objectives that are reported on most by companies, we see that Climate Change Mitigation (CCM) remains the overwhelming focus. For FY2023, out of 744 companies reporting on CCM, 498 reported above-zero alignment.

Activities related to CCM refer to economic activities that significantly contribute to a reduction of greenhouse gas emissions, aligning with the EU's goal to achieve climate neutrality by 2050. These activities include renewable energy generation, energy efficiency improvements, carbon capture,

sustainable transport, and other initiatives that lower emissions and foster a transition to a low-carbon economy.

By contrast, of the 575 companies reporting on Climate Change Adaptation (CCA), only 29 reported alignment above zero. CCA involves activities that help companies and communities adapt to the effects of climate change, such as extreme weather events, rising sea levels, or changing weather patterns. It is focused on resilience related to climate risks. These companies operate mainly in the Consumer Discretionary, Industrials, and Materials sectors.

Exhibit 10 Number of Companies Reporting Taxonomy Alignment per Objective

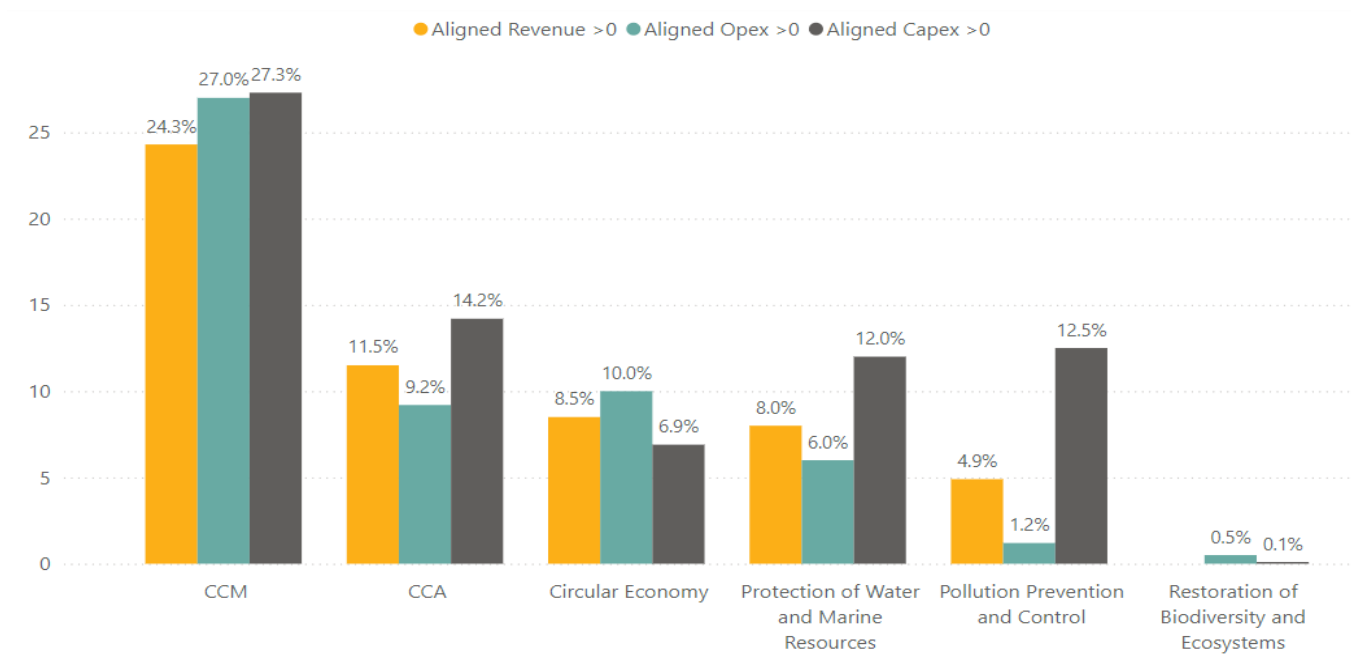


Note: CCM is Climate Change Mitigation and CCA is Climate Change Adaptation
 Source: Morningstar Sustainalytics, FY2023

Meanwhile, even fewer companies have started reporting on alignment with the other four Taxonomy objectives, namely Circular Economy, Pollution, Water, and Biodiversity¹⁰. This is partly because alignment reporting on these objectives is currently voluntary, but it will become mandatory from 2025 (for the 2024 financial year) in a phase-out way.

The exhibit below shows average alignment across the three KPIs for each of the six objectives. As expected, CCM alignment numbers are roughly the same as the overall numbers presented at the beginning of this report, while the other five objectives exhibit much lower levels of Taxonomy alignment.

¹⁰ *Circular Economy*: For the circular economy theme, companies are required to disclose how they contribute by reducing resource use, waste, and pollution, designing products for reuse, recycling, and durability; or promoting practices that keep materials in use for as long as possible.
Pollution Prevention and Control: Concerning the pollution prevention and control theme companies must report on measures to minimize air, water, and soil pollution; actions taken to reduce the release of hazardous chemicals and manage waste responsibly.
Protection of Biodiversity and Ecosystems: This new theme includes include key aspects such as: managing land use responsibly and avoiding deforestation; protecting endangered species and restoring degraded ecosystems; ensuring sustainable sourcing of natural resources.
Sustainable Use and Protection of Water and Marine Resources: This theme targets companies whose operations are focused on reducing water consumption and preventing water pollution; sustainable water management, including water recycling and reuse; protecting marine biodiversity and ecosystems from business activities such as overfishing or marine pollution.

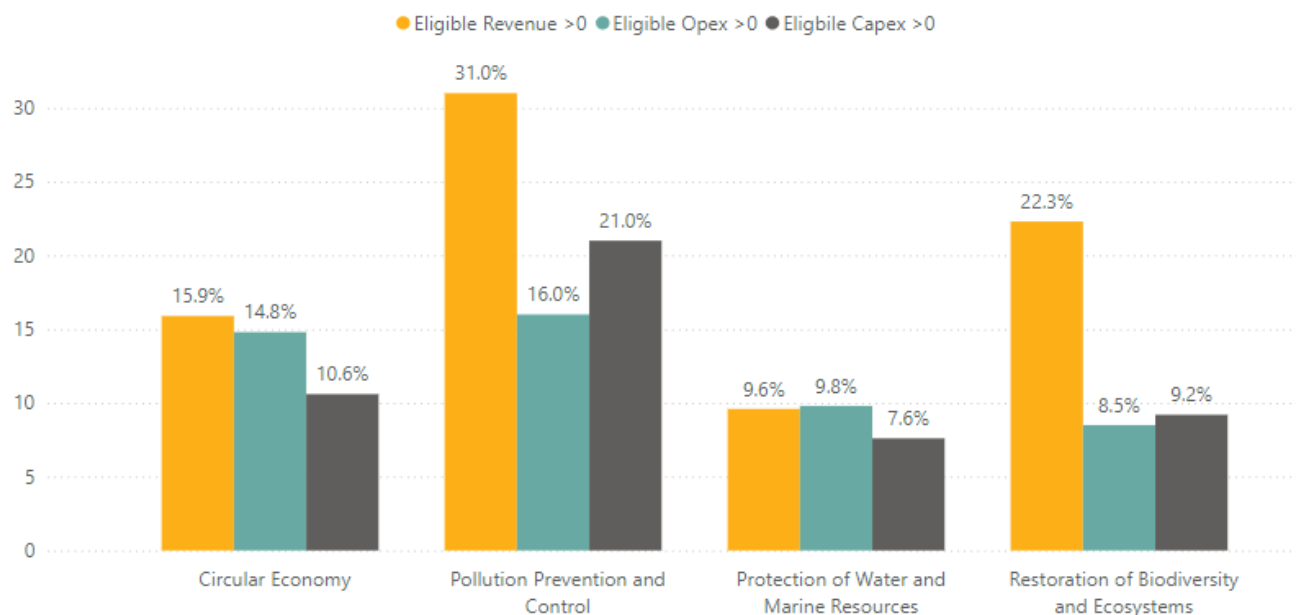
Exhibit 11a Taxonomy Alignment Above Zero per Objective

Source: Morningstar Sustainalytics, FY2023

However, more companies reported Taxonomy eligibility data for FY2023 and, as illustrated below, the level of Taxonomy eligibility is generally much higher than reported alignment. For example, in the case of the Circular Economy, 137 companies reported eligibility above zero, although only 10 reported capex alignment above zero¹¹.

It is worth highlighting that the four newly added objectives encompass fewer than 40 activities, in contrast to the first two objectives, which cover over 100 activities. Reporting on the new environmental objectives may require detailed impact data, which in turn requires investment in new tools and expertise. Moreover, some of these objectives do not concern sectors such as Finance or Technology, thus, there is less reporting on these themes compared to CCM. It is also worth noting that Biodiversity and Ecosystems, and Circular Economy often have long-term objectives and are harder to quantify in the short term. Examples include depollution and dismantling of end-of-life products, and the conservation and restoration of habitats, ecosystems and species.

¹¹ For Pollution Prevention and Control, the gap narrows slightly: 42 companies had capex eligibility above zero, yet only four reported any capex alignment. For Biodiversity and Ecosystems, only three companies reported capex eligibility above zero. Of these, only one matches eligibility with alignment, while the others indicate zero alignment. Regarding Water and Marine Resources, 16 companies reported some level of capex eligibility. However, just one—Volue ASA, a Norwegian company—aligns its eligibility and alignment data.

Exhibit 11b Taxonomy Eligibility Above Zero per Objective

Source: Morningstar Sustainalytics, FY2023

Top Companies Reporting the Highest Capex-Aligned Levels

In this section, we list the companies that report the highest levels of capex alignment (in percentage) across the six Taxonomy objectives. As shown in the exhibit below, the top 10 companies for Climate Change Mitigation (CCM) are primarily involved in energy infrastructure, renewable energy, and sustainable development. **ERG Spa** is an Italian energy company focused on renewable energy, particularly wind power. Finland's **Kempower** operates in the electric mobility business, while Romania's **SN Nuclearelectrica SA** focuses on nuclear energy (more on this company in the next section) and **Statnett** is the national transmission system operator of Norway, responsible for the electricity grid.

Exhibit 12 Companies with the Highest Levels of Aligned Capex for Climate Change Mitigation

Company	Country	CCM - Aligned Capex >0 Percentage	Market cap. (mln. USD)
ERG SpA	Italy	100	3,980
Kempower Oyj	Finland	100	764
SN Nuclearelectrica SA	Romania	100	2,985
Statnett SF	Norway	100	
TenneT Holding BV	Netherlands	100	
Teollisuuden Voima Oyj	Finland	100	
EDP Renováveis SA	Spain	100	16,672
Elia Group SA/NV	Belgium	100	8,070
Altareit SA	France	99	872
Acquirente Unico SpA	Italy	99	

Source: Morningstar Sustainalytics, FY2023

The top 10 companies with the highest levels of capex alignment for Climate Change Adaptation (CCA) are from various sectors and industries, including Real Estate, Technology, Media and Construction. **Webuild SpA**, **Ellaktor SA** and **Cementir Holding NV** focus on developing climate resilient infrastructure that can resist extreme weather conditions. **Polski Holding Nieruchomości SA** and **Mercialys SA** are involved in Real Estate Development and Management, sectors that are increasingly focused on building properties resilient to climate risks, such as rising sea levels, extreme temperatures, and storm surges. **Cementir Holding NV** contributes to climate adaptation through its production of low-carbon and resilient construction materials. **CD Projekt SA**, **Wirtualna Polska Holding SA** and **Metropole Television SA** may not be directly involved in physical climate adaptation, but their business continuity planning and resilience strategies can help safeguard digital assets against climate risks.

Exhibit 13 Companies with the Highest Levels of Aligned Capex for Climate Change Adaptation

Company	Country	CCA - Aligned Capex >0 Percentage	Market cap. (mln. USD)
Polski Holding Nieruchomosci SA	Poland	100	134
CD Projekt SA	Poland	84	4,729
Wirtualna Polska Holding SA	Poland	62	758
CTP NV	Netherlands	51	8,527
Cementir Holding NV	Italy	39	1,699
Mercialys SA	France	27	1,201
Clariane SE	France	8	761
Ellaktor SA	Greece	7	799
Webuild SpA	Italy	7	2,760
Métropole Télévision SA	France	6	1,711

Source: Morningstar Sustainability, FY2023

Of the 13 companies in our coverage reporting on the Circular Economy, **Tomra Systems ASA** has the highest average alignment. The USD 4 billion Norwegian company, which specializes in recycling technology and sorting systems, reports an average alignment of 62% for revenue, 53% for opex and 52% for capex.

Related to Pollution Prevention and Control, there are six companies reporting some – albeit very low – alignment. These companies stem from a variety of sectors: **AF Gruppen ASA** works in the Construction and Civil Engineering industry; **Ellaktor SA** is a Greek company in the Construction, Infrastructure, and Renewable Energy Development sectors; **Lassila & Tikanoja Oyj** is a Finnish company focused on advancing the Circular Economy, particularly waste reduction and resource efficiency; **Motor Oil (Hellas) Corinth Refineries S.A** is a Greek company investing in green energy; **NEUCA SA** is a Polish company that focuses on the distribution of pharmaceutical products; and **Stora Enso Oyj** is a leader in sustainable forestry and renewable materials.

Concerning Sustainable Use and Protection of Water and Marine Resources, we find three companies. First is **EVN AG**, an Austrian energy company working in the generation and distribution of electricity, natural gas, heat, and water. Secondly, from Finland, there is **Lassila & Tikanoja Oyj**, which provides

services in the waste management and other environmental services. Finally, **Volue ASA**, based in Norway, provides software and digital solutions for the energy, power grid, and infrastructure sectors.

For the Biodiversity and Ecosystems objective, **Arctic Paper SA**, a Polish company, reports on capex and **The Navigator Co. SA** from Portugal reports on opex. They both operate in the Pulp and Paper industries, with a focus on environmentally sustainable practices, including forest management and the use of renewable energy sources in their production processes. The numbers reported are relatively minor.

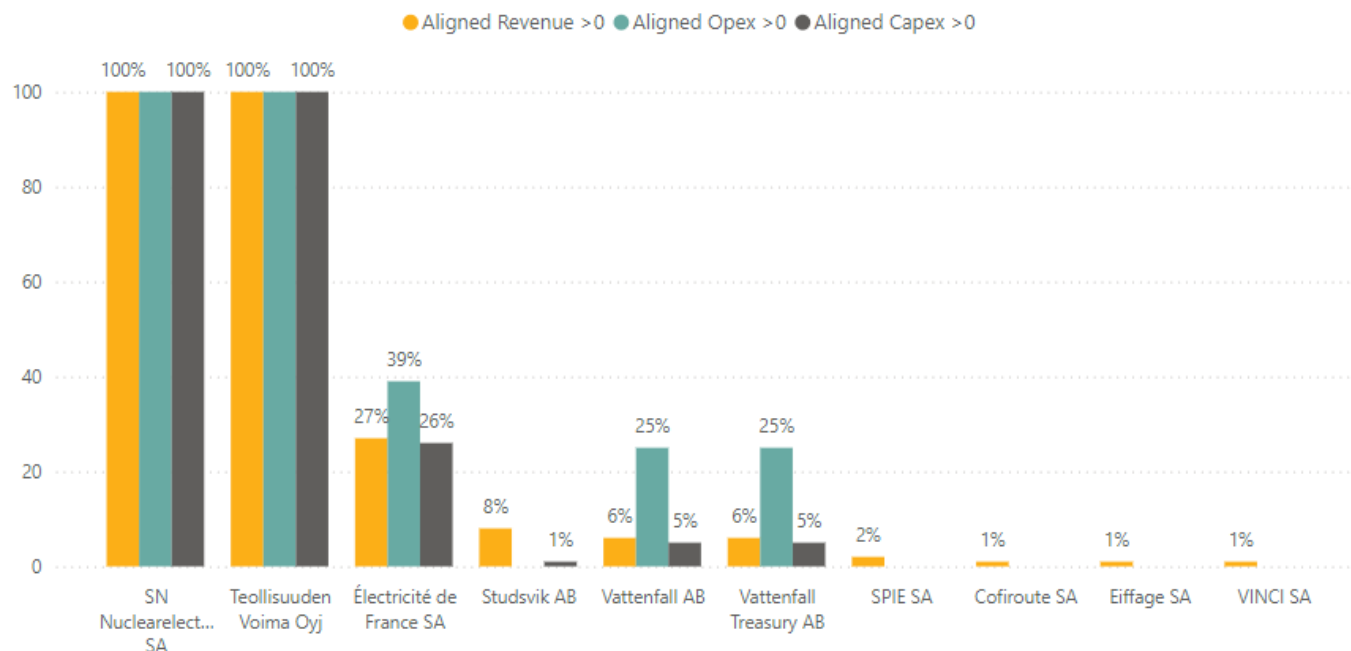
Low Reporting for Nuclear Energy and Natural Gas

This year, companies started reporting alignment to nuclear energy and natural gas. Following lively debates, the European Commission added these activities as sustainable energy sources in July 2022, significantly later than other sectors. These additions reflect a pragmatic approach to the transition toward a low-carbon economy while maintaining energy security. Nuclear power is now classified as Taxonomy aligned if it meets strict safety and waste management criteria. This is based on the argument that nuclear energy produces low direct carbon emissions, making it a viable option for achieving the EU's climate neutrality goals. Natural gas, seen as a transition fuel, has also been included in the Taxonomy under specific conditions¹².

The delayed inclusion of these two activities in the Taxonomy means that companies have had less time to adapt their reporting framework to comply with the strict criteria, resulting in a slower uptake. For both nuclear energy and natural gas, meeting CCA criteria is challenging as adaptation efforts involve building resilience to climate impacts, such as extreme weather events, which can be hard where infrastructure must meet strict safety criteria. For natural gas, many companies are still in the transitional phase of moving from coal or other high emission sources.

Only 10 companies under our coverage reported above-zero alignment on nuclear activities. The standouts are **Teollisuuden Voima Oyj (TVO)** and **SN Nuclearelectrica SA**, which both report 100% alignment with all three KPIs. The latter is a Romanian company involved in the production of nuclear energy, providing a significant portion of the country's electricity. TVO is a Finnish nuclear power company that plays a crucial role in Finland's energy supply.

¹² To qualify, new facilities must have low carbon intensity and a plan to transition to zero-carbon fuels by 2035. Gas power plants must: replace coal-fired power plants or play a transitional role in decarbonizing energy production; emit less than 270 grams of CO₂ per kilowatt-hour or have a clear path toward reducing emissions through technologies like carbon capture and storage (CCS).

Exhibit 14 Nuclear Energy Companies Average Alignment Above Zero (in %)

Source: Morningstar Sustainalytics, FY2023

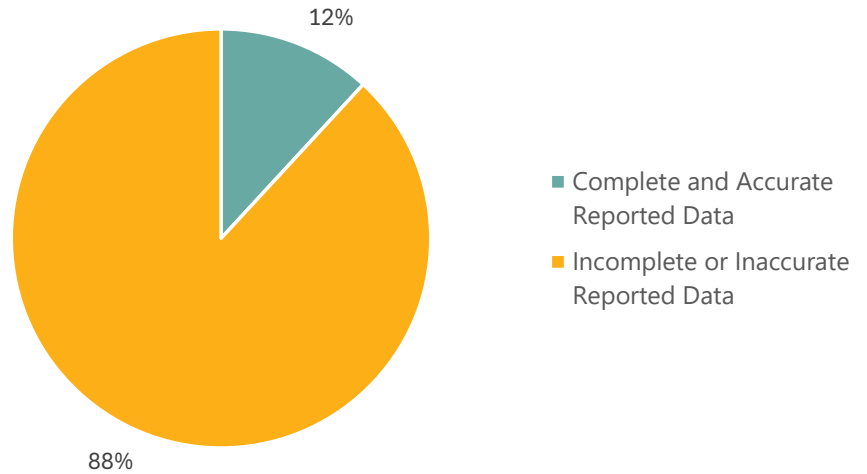
Concerning natural gas, only one company under our coverage, **EP Infrastructure AS**, has reported. Based in Czechia, the company focuses on gas transmission, gas and power distribution, heat generation, and gas storage. It reported 3% of aligned capex.

Quality of Reported Data

Investors should be mindful of reliability issues when using Taxonomy-alignment data, as it is still early days and there is ample room for improvement. We have created two flags to help investors identify areas where there may be potential data issues requiring further investigation.

The first is the "Reported-Calculated" flag, which indicates whether a company has reported all datapoints accurately according to the regulatory template. We found that 90% of companies have either reported inaccurate data or left out one or more of the required datapoints, leading Morningstar Sustainalytics to have to fill in the gaps where possible, based on available correct reported data. This highlights the challenges companies face when completing the template, as only 12% were able to do so without errors.

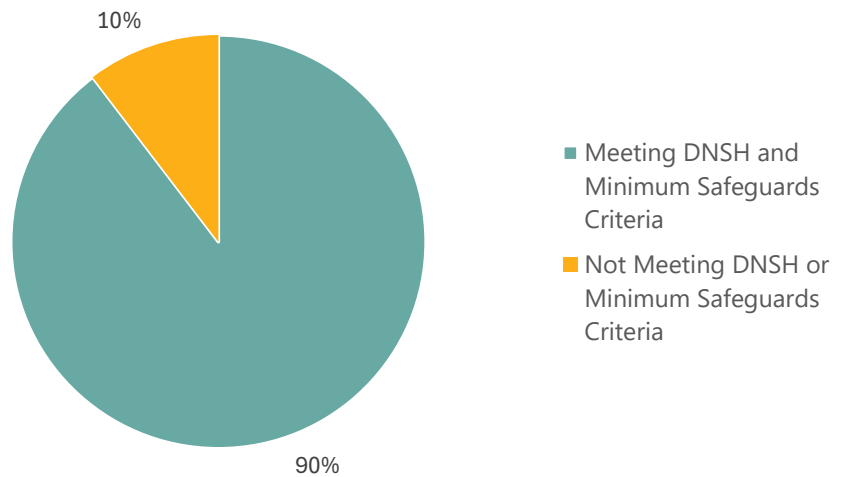
Exhibit 15 Proportion of Companies Reporting Complete and Accurate Data



Source: Morningstar Sustainalytics, FY2023

The second flag is “DNSH or MS Discrepancy for Aligned”, which helps identify alignment data that may not meet the regulation’s criteria for full alignment. According to the regulation, for an activity to be considered fully aligned, it must not only contribute to one or more of the environmental goals, but also “Do no significant harm (DNSH) to any of the other five environmental objectives” and “Comply with minimum safeguards”. Within our dataset, we found that 10% of companies reported data that do not meet these criteria. Addressing DNSH discrepancies is essential for ensuring the credibility and integrity of sustainability reporting.

Exhibit 16 Proportion of Companies That Meet the DNSH and Minimum Safeguards Criteria



Source: Morningstar Sustainalytics, FY2023



About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. For more information, visit www.sustainalytics.com.



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