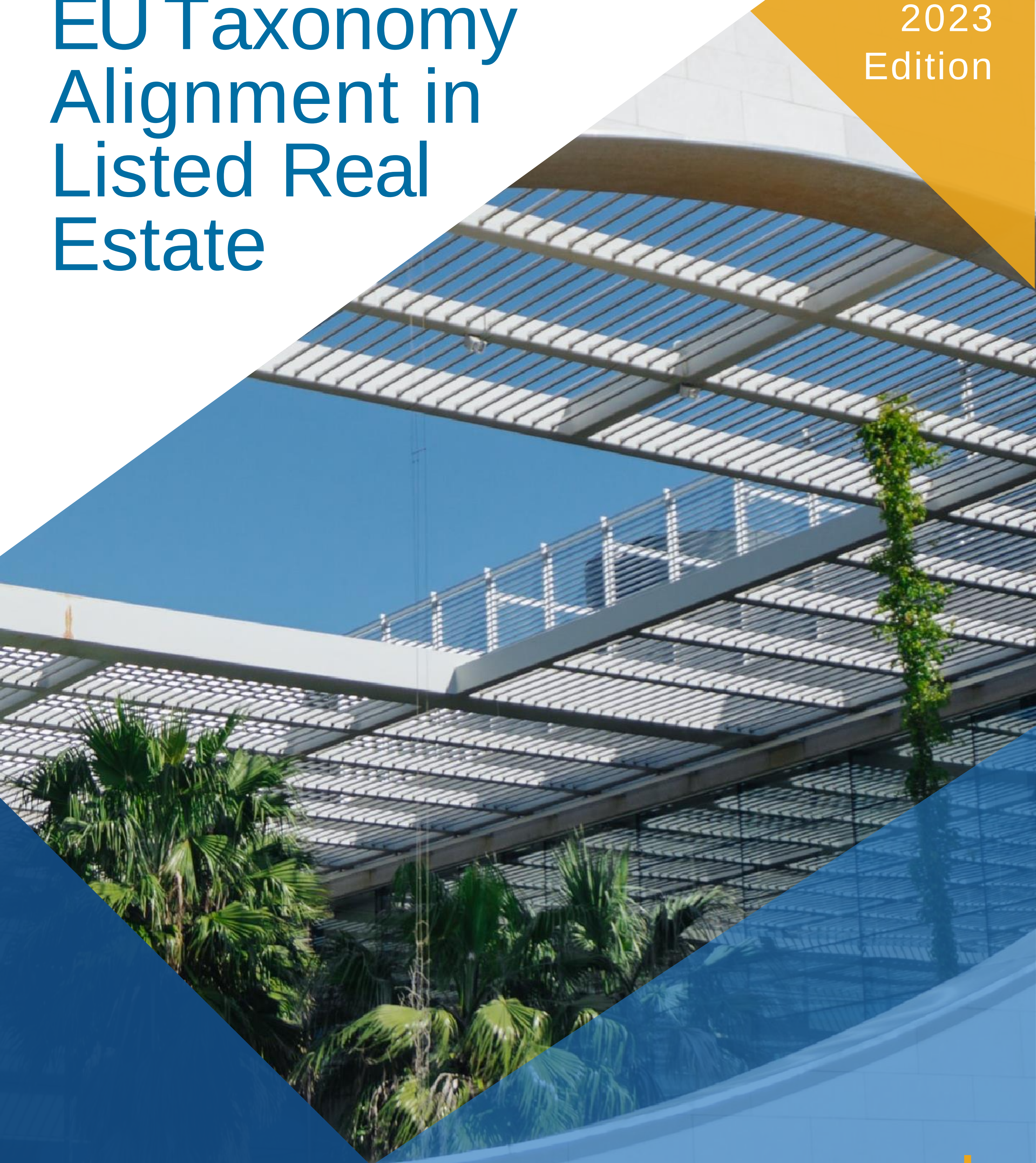
EPRA GUIDE

# EU Taxonomy Alignment in Listed Real Estate

Nov 2023 Edition



A practical guide to determining if Listed Real Estate activities are environmentally sustainable as per the criteria of the EU Taxonomy

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

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# INTRODUCTION

The European Public Real Estate Association (EPRA) is the voice of the publicly traded European real estate sector, aiming at sharing information with investors and stakeholders, while promoting best market practices and cohesion of the sector. As such, EPRA plays a key role in sharing information on the latest EU regulations to guide members through the upcoming challenges and reporting requirements.

Having said that, EPRA has put together the content of this report with the aim of providing guidelines to its members on the implementation of the Regulation (EU) 2020/852, known as the EU Taxonomy. The content of this report aims at providing updated guidelines following the publication of the technical screening criteria of the four other environmental objectives, the amendments made to the two climate objectives, and also covering the questions gathered from the EPRA members, following several workshops, such as:

- **How do I report on the eligibility of activities?**
- **How do I report the alignment of activities?**
- **How can I define the top 15% building stock?**
- **What methodology to use for reporting of Turnover, CapEx, OpEx percentages?**

At the same, EPRA is neither issuing an opinion nor rules that EPRA members must follow. On the contrary, the content of this report should be seen as a support or guidebook during the implementation phase. Any methodologies EPRA has presented herein as market practices must be adapted to the local regulations where the asset resides or confirmed by your auditor.

**What is the EU Taxonomy?** The tipping point was in December 2019, when the European Commission (EC) renewed its climate commitment through the European Green Deal, which set the goal to achieve climate neutrality by 2050. With this target in mind and some additional local interim net zero targets by 2030, the EC launched a series of regulations, including the EU Taxonomy, involving both financial and non-financial actors to enhance reporting transparency and to mobilise capital towards a more sustainable economic system.

The EU Taxonomy, dated 18 June 2020, aims to provide a common language to define those activities that are deemed as environmentally-sustainable, by targeting six main environmental objectives. It also establishes clear criteria that economic activities need to meet in order to be classified as environmentally sustainable.

**Why is the EU Taxonomy important for the Real Estate sector?** The Real Estate sector is increasingly in the spotlight of the EU Taxonomy, as buildings, according to estimates, are responsible for 40% of energy consumption and for 36% of greenhouse gas emissions in the EU, due to construction, usage, renovation and demolition[1]. Therefore, real estate companies' continued transformation and continuous effort to have sustainable activities will be a key support in achieving carbon-neutrality targets. Given the importance of sustainability integration for this sector, the EC developed a set of delegated acts on how to perform the analysis and how to report the information.

> The Real Estate sector has a high impact on the environment. The EU now defines environmentally sustainable real estate activities through the criteria of the EU Taxonomy.

[1]European Union, *"In focus: Energy Efficiency in buildings"*, available at: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-lut-17_en

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# OBJECTIVES


# 1 Regulatory Context EU Taxonomy

## 1.1 What is the EU Taxonomy?

The EU has set up a dedicated Action Plan on Financing Sustainable Growth in order to increase investment that has a positive environmental and social contribution. As described by the EC, the objective is to shift capital flows away from activities that have negative social and environmental consequences and to direct finance towards economic activities that have genuine long-term benefits for society, reduce risks and enhance returns.

The EU Taxonomy serves as a backbone to the EU's sustainable action plan by providing a common language on which economic activities can be considered as environmentally sustainable. It is intended to be used by regulators both at EU and national level, across all market sectors. Please refer to Figure 1 for a complete picture of the legislative framework.

*The application of the Taxonomy's in terms of corporate disclosures does not effectively replace any previous non-financial disclosures but comes as an additional element.*

### EU TAXONOMY REGULATION

2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020

on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

#### PROVISIONS ON TAXONOMY DISCLOSURE

Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 and the Environmental Delegated Act (adopted on 27 June 2023), both amending and supplementing the Regulation (EU) 2020/852 of the European Parliament and of the Council, specify the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of the Directive 2013/34/EU concerning environmentally sustainable economic activities, and specify the methodology to comply with that disclosure obligation.

#### TECHNICAL SCREENING CRITERIA

##### EU CLIMATE TAXONOMY

Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

Climate change mitigation (CCM) | Climate change adaptation (CCA)

##### EU ENVIRONMENTAL TAXONOMY

Commission Delegated Regulation (not in force until publication in the Official Journal) of 27 June 2023 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the four remaining environmental objectives, referred to as "The Tax4", and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

Sustainable use & protection of water & marine resources | Transition to a circular economy | Pollution prevention and control | Protection & restoration of biodiversity & ecosystems

**Figure 1 – EU Taxonomy: legislative framework**

# 11 What is the EU Taxonomy (cont.)

## EU Taxonomy as a benchmark for the transitions taking place in real estate assets

The EU Taxonomy framework establishes a common classification system for identifying environmentally sustainable activities and, indirectly, green financial products. In the real estate sector, the EU Taxonomy can be used as a benchmark for assessing and guiding the transition to more sustainable practices through:

- Using the EU Taxonomy criteria to set sustainability targets for real estate projects needs.
- Accessing Green Finance options, such as green bonds or sustainable loans, or sustainable products with greater ease due to the EU Taxonomy being closely linked to the EU's overarching sustainable finance framework.

## EU Taxonomy as a screening tool for development and transaction deal-flow

EU Taxonomy can be used as a screening tool to meet the demand of investors with sustainability preferences: by applying the EU Taxonomy framework, the E/S characteristics promoted and/or sustainable investment objective could be demonstrated with sufficient level of supporting evidence for:

- Project identification
  - Real estate players can use the EU Taxonomy criteria to identify prospective real estate investment opportunities with more ease
- Sustainability risk management
  - By incorporating the EU Taxonomy criteria into investment decision-making, investors can assess the potential risks and returns associated with a project or transaction in relation to sustainability

## EU Taxonomy as a minimum valuation and comparability standard for real estate assets

Though the EU Taxonomy is primarily a classification system for environmentally sustainable activities, it influences indirectly how real estate assets are valued and compared.

While real estate activities which are not EU Taxonomy aligned are not necessarily non-sustainable, the aligned activities have clear criteria and thresholds as to what makes them sustainable as per the EU Taxonomy framework, forging the comparison between the different approaches implemented to ensure sustainable construction.

The obligations of real estate developers to disclose the extent to which they align with the EU Taxonomy and how their real estate assets meet the specific sustainability criteria further behaves as a comparability standard, and by extension, a valuation standard due to the influence this may have on stakeholders and potential investors.

## EU Taxonomy as a framework for the (re)financing of real estate projects

EU Taxonomy can influence how real estate assets and projects are evaluated based on their environmental sustainability, leading to impacts on the (re)financing of such projects.

The EU Taxonomy encourages Green Financing Options, which often come with favorable terms including lower interest rates and/or rent or sales premiums. Real estate projects looking for re-financing can benefit from these and also attract investors seeking sustainable investment options.

# 11 What is the EU Taxonomy (cont.)

EU Taxonomy disclosures do not stand by themselves, they form an essential part of the sustainability regulatory framework together with other ESG-related regulation. Real estate market figures reported under EU Taxonomy will also be used in EU taxonomy disclosures for financial institutions, SFDR-related disclosures, as well as part of CSRD.

The EU Taxonomy has established a benchmark for market players to strive for, presenting a new challenge for the sector. Now, these market participants are exploring ways to attain the standards set by the EU Taxonomy sustainability framework, recognizing the opportunities at the conclusion of this lengthy, demanding, yet ultimately rewarding journey.

## EU Taxonomy reporting

**for the real estate market players**

### Linked reporting requirements

#### Financial institutions

Real Estate sector players calculating EU Taxonomy KPIs are providing a foundation to leverage on for financial market players – they provide essential data reported under EU Taxonomy which allows alignment of their level KPIs, e.g. GAR – Green Asset Ratio for banks and specific KPIs on turnover, CapEx and OpEx for asset managers.

#### SFDR requirements

SFDR requirements include reporting EU Taxonomy alignment at the product level for Article 8 (if the product is pursuing a sustainable investment objective) and Article 9 funds.

Also, EU Taxonomy is considered as one of the more solid frameworks to be used to demonstrate the commitment to sustainable investment objective of a financial product.

#### CSRD requirements

The scope of companies with the obligation of reporting under EU Taxonomy will grow with the phased-in introduction of Corporate Sustainability Reporting Directive.

CSRD also brings an additional mandatory requirement to provide limited assurance procedures for reported indicators, including the disclosures in line with Article 8 of the EU Taxonomy.

### Opportunities

#### Tax reduction

Financial market participants could benefit from launching sustainable products aligned with the EU Taxonomy.

**Example:** Luxembourg

From 1 January 2021, a reduced subscription tax rate benefit was introduced to the individual compartments of UCITS (Part I) and UCI (Part II) – on their part of total net assets investing in taxonomy-aligned sustainable assets.

#### Supporting transition in the RE sector

EU Taxonomy sets certain thresholds to define sustainable activities, thus pushing market players to consider sustainability matters together with financial indicators to create bigger value of their assets.

#### Preparing for more stringent financing conditions in the future

Recent trends, e.g. introduction of the European Green Bond Standard (EU GBS), demonstrate, that in the future financial support could be available for projects supporting activities that are aligned with EU Taxonomy.

**Figure 2– EU Taxonomy: challenges and opportunities**

# 1.1 What is the EU Taxonomy (cont.)

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The regulation sets out four main criteria described in Figure 2, which need to be met in order for an eligible economic activity to be considered as an environmentally sustainable economic activity:

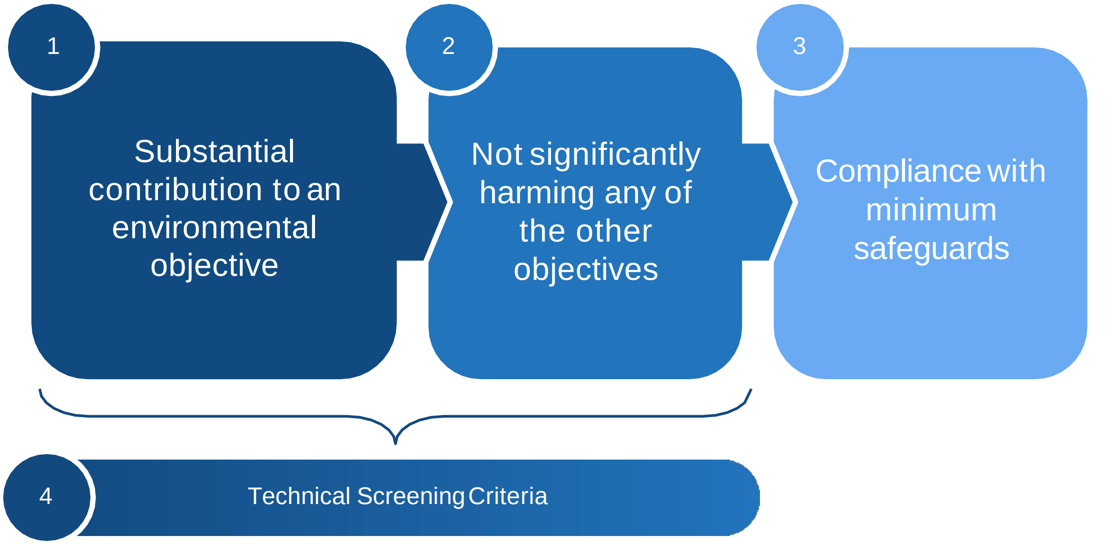


**Figure 3 – EU Taxonomy criteria**

The environmental objectives set out by the EU Taxonomy are 6 in total and they will be further described on page 10.

Furthermore, a Commission Delegated Regulation was released dated 4 June 2021 supplementing the EU Taxonomy by establishing the Technical Screening Criteria (TSC) for 12 new economic activities for 6 industries. It determines the conditions under which an economic activity qualifies as contributing substantially to the first two defined objectives of the EU Taxonomy, Climate Change Mitigation and Climate Change Adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

Complementing these two objectives, the release of the Environmental Delegated Regulation in June 2023 outlines 35 economic activities across 8 industries by setting the criteria for activities to be qualified as environmentally sustainable under the four remaining objectives of: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems.

The Delegated Regulations (Climate and Environmental) include the detailed screening for the set of economic activities eligible to make a substantial contribution to the six objectives, such as for example agriculture, manufacturing, transportation, real estate and construction activities, amongst others.

The two Delegated Acts outline the TSCs for determining the conditions under which economic activities qualify as contributing substantially to one or several of the 6 objectives, while doing no significant harm to the rest of the objectives.

TSCs for determining the conditions under which an economic activity qualifies as contributing substantially to each objective and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, are disclosed in:

- Annex I of the climate delegated regulation – for CCM;
- Annex II of the climate delegated regulation – for CCA;
- Annex I of the environmental delegated regulation – for the sustainable use and protection of water and marine resources;
- Annex II of the environmental delegated act – for the transition to a circular economy;
- Annex III of the environmental delegated act – for pollution prevention and control; and
- Annex IV of the environmental delegated act – for the protection and restoration of biodiversity and ecosystems.

At the same time, in the context of the EU Taxonomy it is important to distinguish between the terms "eligibility" and "alignment". The key steps that need to be undertaken to conclude on the eligibility and the alignment of an economic activity are summarised in Figure 4.

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**Step 1** Eligibility assessment of the economic activity

- ***The first step*** *is to analyze whether the activity is part of the scope of the TSC.*

- *The economic activities are defined and are linked to the relevant NACE sectors. The mapping between NACE codes and the eligible activities is not a one-to-one system, but one economic activity may be associated with several NACE codes. It is also highly important to understand the definition of the activity behind to ensure the proper interpretation of the activity as eligible.*

- *Not all economic activities that companies may perform are eligible.*

- *If the activity is not defined in the screening criteria, it is not eligible under the EU Taxonomy and therefore, it cannot be considered as environmentally sustainable.*

**Step 2** Alignment assessment of the economic activity

**2.1** Substantial contribution

- *For eligible activities, the analysis of the alignment can be performed by checking whether the activity makes a* ***substantial contribution*** *to an environmental objective.*

**2.2** DNSH

- *The next step is to make sure, that, while contributing to one objective, the activity* ***does not significantly harm (DNSH)*** *the other 5 objectives according to the checks set out in the TSC.*

**2.3** Minimum safeguards

- ***Finally,*** *the activity needs to comply with minimum social safeguards to qualify as environmentally sustainable.*

*All the checks need to be met to consider the alignment of the activity.*
*Please note, the substantial contribution and DNSH checks are specific to the activity and the objective. Minimum safeguards are always the same regardless of the economic activity or the objective.*

**Figure 4 – EU Taxonomy eligibility and alignment steps**

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# 1.2 What are the EU Taxonomy objectives?

The EC has defined six environmental objectives, as described in the figure below:


Of the 6 environmental objectives, our analysis indicates that only the objectives of the 'Climate Change Mitigation', 'Climate Change Adaptation' and 'Transition to a Circular Economy' have a focus on the Real Estate sector. Due to this consideration, the report will focus on these three environmental objectives over others.

**Figure 5 – EU Taxonomy environmental objectives definition and their entry into force**

*To be noted that the amendments introduced on July 2023 with the Climate Delegated Act, providing additional TSCs for 12 new economic activities for 6 industries, will in addition be applicable starting the 1st of January 2024.

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# 1.3 Key milestones of the EU Taxonomy Timeline

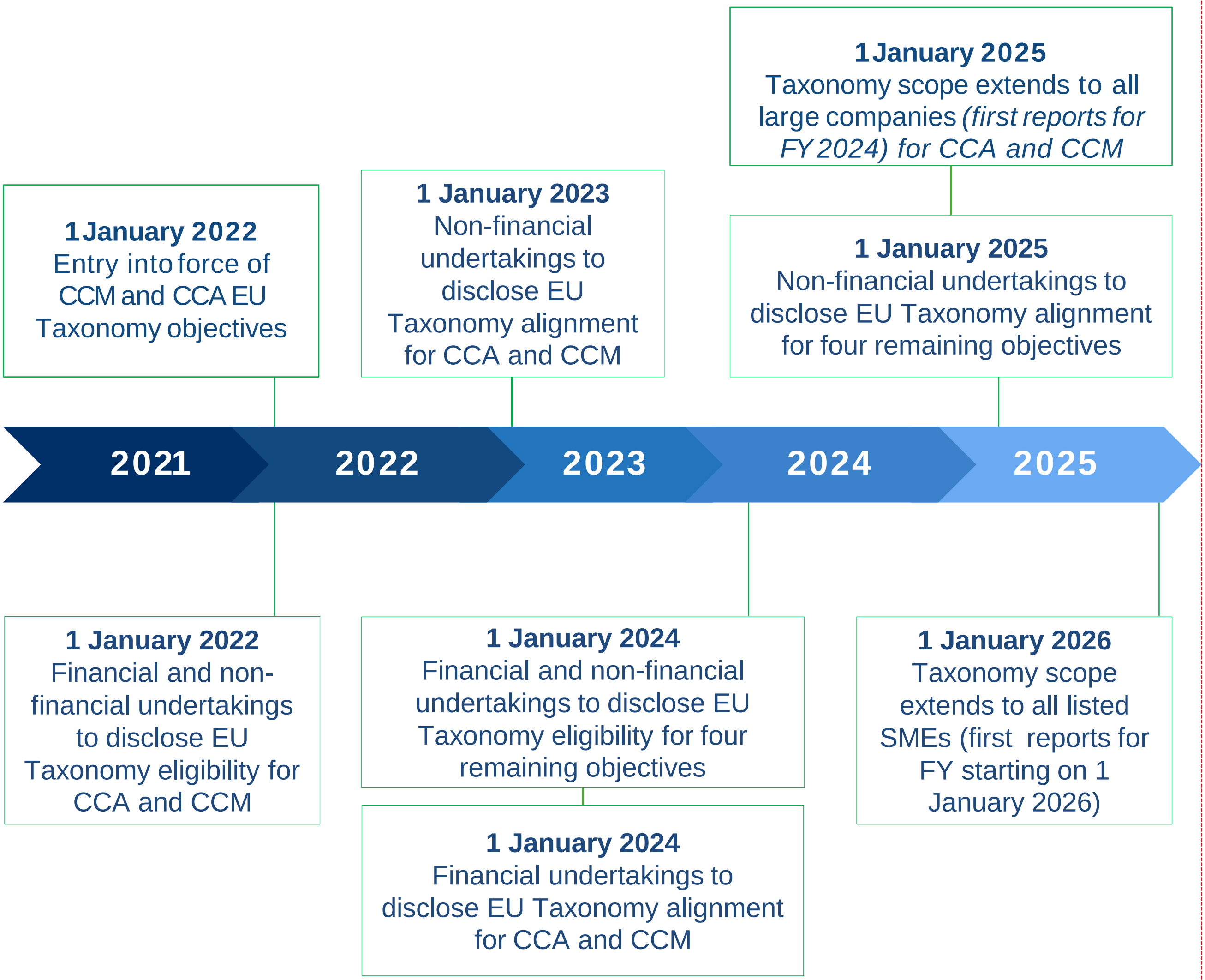


**Figure 6 – EU Taxonomy timeline showing dates of obligations coming into force**

Only undertakings which are defined as large public-interest companies with >500 employees, fall under the EU Taxonomy disclosure requirements until 2025 (reporting on 2024 data).

*For financial years starting on or after 1st of January 2025*, following the CSRD coming into force requiring the disclosures in line with the EU Taxonomy Article 8, the scope is extended to companies that meet at least 2 out of the 3 criteria: >250 employees, Turnover >€50 million; Balance sheet exceeding €25 million, and certain SMEs, as to report on Taxonomy eligibility and alignment.

*Note that the scope of the EU Taxonomy for listed property companies is the same as the scope of the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD), with the thresholds updated following the amendment of the Accounting Directive applicable for Financial years from January 2024. Only the balance sheet total and the net turnover criteria for SMEs and large undertakings are impacted, both increasing by approximately 25% to reflect the significant inflation during years 2021 and 2022. More information about this initiative available HERE on the European Commission Website.*

# 1.4 What are the EU Taxonomy activities for Real Estate?

## 1.4.1 Climate Delegated Regulation – CCM and CCA

Within the scope of the current report, the following chapters will focus on the Real Estate Sector.

The Construction and Real Estate activities are grouped together and included in Section 7 of the TSC and comprises of seven activities detailed in Figure 7.

Each activity shall have a specific TSC for each of the environmental objectives.

The economic activities can be of three types:

1. **Stand-alone**
2. **Enabling:** activities that directly enable other activities to make a substantial contribution to an environmental objective
3. **Transitional:** activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance

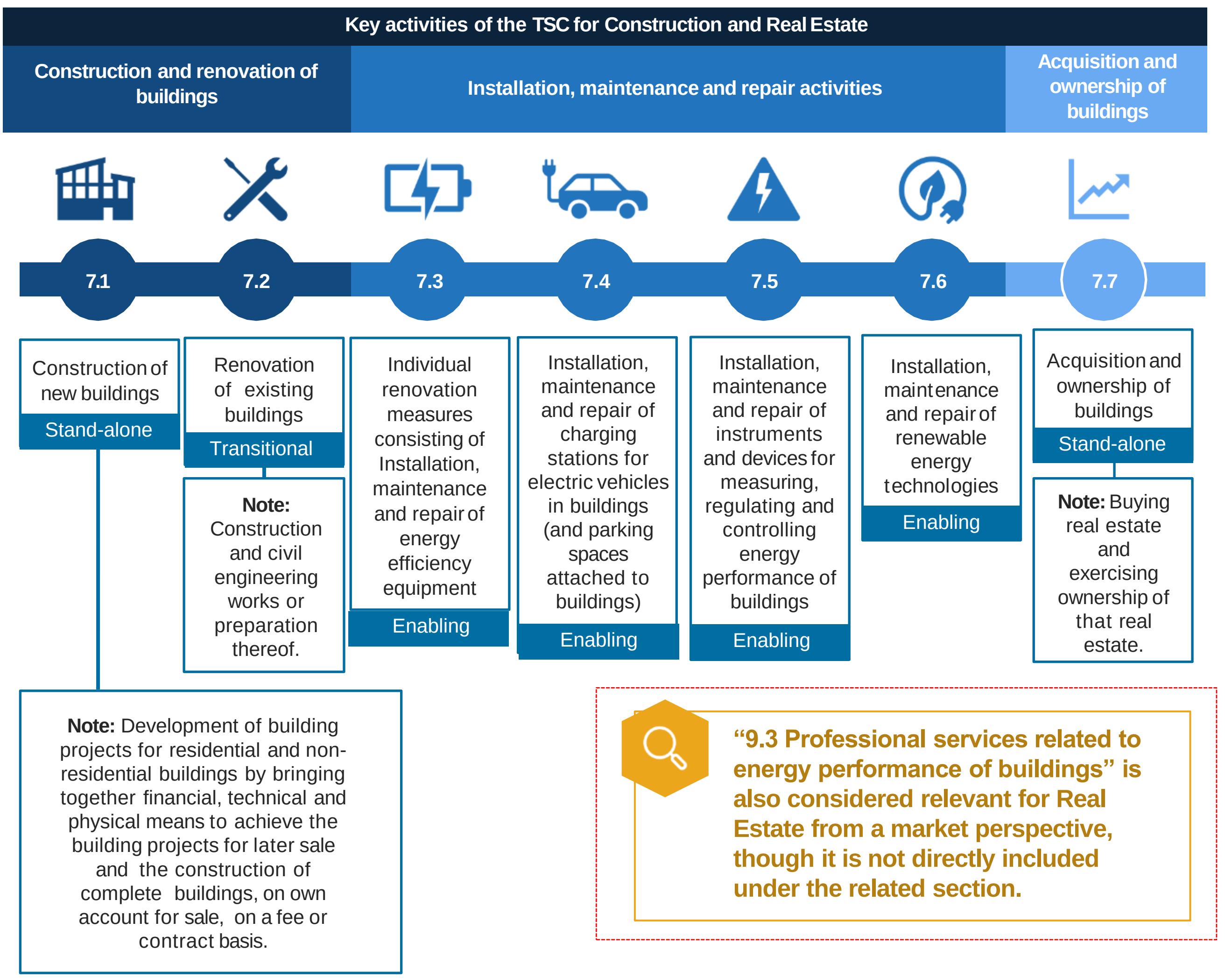


**Figure 7 – Construction and Real Estate activities for CCM and CCA**

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As shown in Table 1 below, several NACE codes may be associated and correspond to one eligible economic activity.

**In scope of the current report, the analysis of CCM and CCA objectives will be performed only on the activity "7.7 Acquisition and ownership of buildings".**

For both objectives, the report will detail the review of the EU Taxonomy-eligibility and EU Taxonomy-alignment for the activity 7.7, detailing the NACE codes associated with the activity, the TSC for substantial contribution, DNSH and the minimum safeguards to comply with.

**Activity 7.1 displayed in the table below only refer to the activities performed for the purpose of the sale of assets only.**

## Table 1 – Construction and Real Estate activities NACE codes

| NACE codes | Companies' eligible NACE Codes | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Real estate | Manufacturing | | Construction | | | Professional, scientific and technical activities | Other - Repair of personal and household goods |
| EU Taxonomy eligible activities | L68 | C16, C17, C22, C23, C25, C27, C28 | C33.12 | F41 | F42 | F43 | M71 | S95.21, S95.22 |
| 7.1 Construction of new buildings | | | | ◉ | | ◉ | | |
| 7.2 Renovation of existing buildings | | | | ◉ | | ◉ | | |
| 7.3 Installation, maintenance and repair of energy efficiency equipment | | ◉ | ◉ | | ◉ | ◉ | ◉ | ◉ |
| 7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) | | ◉ | | | ◉ | ◉ | ◉ | |
| 7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings | | ◉ | | | ◉ | ◉ | ◉ | |
| 7.6 Installation, maintenance and repair of renewable energy technologies | | ◉ | | | ◉ | ◉ | ◉ | |
| 7.7 Acquisition and ownership of buildings | ◉ | | | | | | | |

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# 1.4 What are the EU Taxonomy activities for Real Estate?

## 1.4.2 Environmental Delegated Regulation – Circular Economy

Our understanding is that, of the 4 remaining objectives defined by EU Taxonomy, only the objective of the 'Transition to a Circular Economy' includes the activities related to Construction and Real Estate.

For this reason, the report will focus on this environmental objective above the others.

The Construction and Real Estate activities are grouped together and included in Section 3 of the TSC and comprises of five activities detailed in Figure 8.

Each activity shall have a specific TSC for each of the environmental objectives.

The Construction and Real Estate activities 3.1 and 3.2 are the same as the CCA and CCM activities 7.1 and 7.2.

Activities 3.3 – 3.5 are not present in the Climate Delegated Regulation, and have been introduced in the Environmental Delegated Regulation.

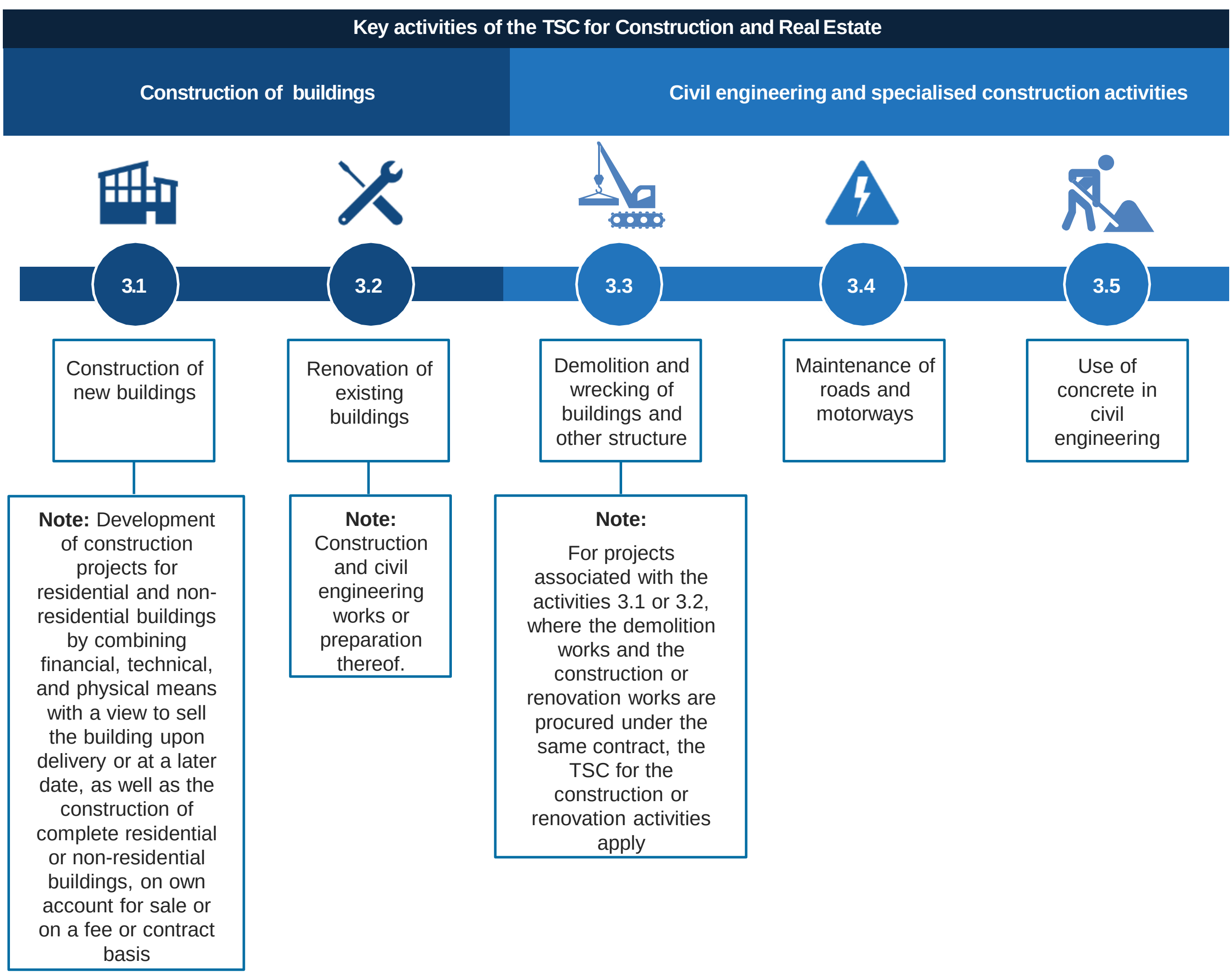


**Figure 8 – Construction and Real Estate activities for Circular Economy**

As shown in Table 2 below, several NACE codes may be associated and correspond to one eligible economic activity.

**In scope of the current report, the analysis of the CE objective will be performed only on the activities:**

- **3.1 Construction of new buildings**
- **3.2 Renovation of existing buildings**
- **3.3 Demolition and wrecking of buildings and other structure**

The report will detail the review of the EU Taxonomy eligibility and EU Taxonomy alignment for the activities 3.1-3.3, detailing the NACE codes associated with the activities, the TSCs for substantial contribution, DNSH and the minimum safeguards to comply with.

**The activities 3.4 and 3.5 may be less relevant for the Real Estate sector, and more relevant to Construction**

| NACE codes → / EU Taxonomy eligible activities ↓ | Companies' eligible NACE Codes | | | | | | |
|---|---|---|---|---|---|---|---|
| | Construction of buildings | | Civil engineering | | | Specialised construction activities | |
| | **F41** | ***F41.1, F41.2*** | **F42** | ***F42.11*** | ***F42.12, F42.13, F42.2, F42.9*** | **F43** | ***F43.1*** |
| 3.1 Construction of new buildings | | ● | | | | ● | |
| 3.2 Renovation of existing buildings | ● | | | | | ● | |
| 3.3 Demolition and wrecking of buildings and other structure | | | | | | | ● |
| 3.4 Maintenance of roads and motorways | | | | ● | | | |
| 3.5 Use of concrete in civil engineering | | | | | ● | | |

**Table 2 – Construction and Real Estate activities NACE codes**

# 2 Climate Change Mitigation

## 2.1 Eligibility

As described in the previous pages, an economic activity is considered eligible when it is in the scope of the EU Taxonomy's TSC criteria.

To verify the eligibility of its economic activities, a company needs to check against the list of eligible activities as described in the EU Climate Taxonomy's TSC. NACE codes, as referred to in the EU Taxonomy's TSC, could help the companies navigate with this check. It should be noted that one economic activity can be eligible for more than one environmentally-sustainable objectives as defined by the EU Taxonomy and that for one economic activity, several NACE codes may apply. A good example is the 7.7 economic activity category where it is not the code which matters, but rather the description of the activity in the TSC (which is different to the one described in the NACE regulation).

To remain within the scope of the current report, the focus is on the activity "7.7 Acquisition and ownership of buildings", which consists of buying real estate and exercising ownership.

This economic activity is associated with NACE code L68 (NACE code for Real Estate activities). Furthermore, it may be eligible both for CCM and CCA objectives.

Such mapping only defines whether the activity is eligible under the EU Taxonomy. In order to verify whether the activity is also aligned, it needs to undergo the steps described on Page 6. In the next pages we will detail the three steps of the alignment which apply to CCM.

## 2.2 Substantial Contribution

An economic activity is making a "substantial contribution" to an environmentally-sustainable objective, when it complies with specific TSC which consist in a set of conditions that the activity needs to respect.

In the case of CCM, the TSC reflect the need to avoid producing greenhouse gas emissions, to reduce such emissions or to increase greenhouse gas removals and long-term carbon storage. With this purpose, the TSC define specific thresholds or performance levels that the economic activity should achieve in order to qualify as contributing substantially to CCM, as per Figure 6.

The TSC for substantial contribution for the economic activity "7.7 Acquisition and ownership of buildings", largely depend on the type of buildings in scope (residential vs non-residential), the date in which the building was built (different conditions for buildings built before or after 31 December 2020) and on the energy performance. Figure 9 details the steps to assess the conditions to determine whether the activity substantially contributes to CCM.

Please note, the TSC for substantial contribution are not the same for all the eligible activities in the real estate sector.

***Two possible definitions of "building built before": either the building permit release or the building completion notice. The TSC doesn't specify this definition and two most common options are possible to consider and both are relevant at the time of the acquisition (which creates more questions: at the moment the contract is signed or the ownership is transferred?***

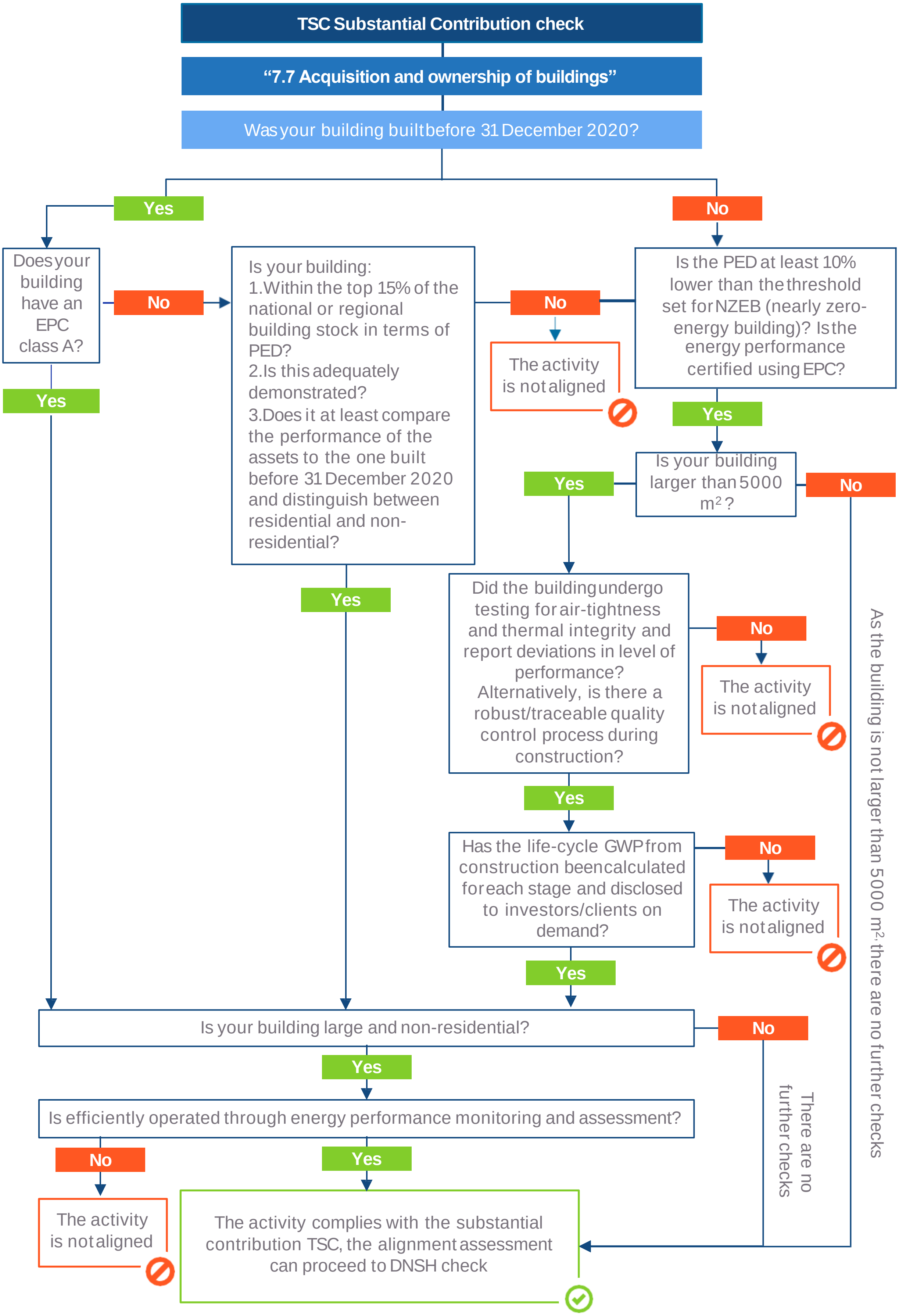


**Figure 9 – CCM Substantial Contribution TSC check**

# 2.3 DNSH

An EU Taxonomy-aligned economic activity needs to substantially contribute to one of the environmentally-sustainable objectives while not significantly harming any of the remaining five objectives. The TSC determines the conditions under which the economic activity causes no significant harm to one or more of those environmental objectives.

In the context of the CCM objective, for the activity "7.7 Acquisition and ownership of buildings" the only DNSH check to be performed is related to CCA. For this check, the economic activity needs to comply with the criteria set out in the Appendix A of the EU Taxonomy Climate Delegated Regulation. It details a non-exhaustive list of the "Climate-related hazards", which represents an indicative list of the most common climate hazards that should be considered as a minimum in the assessment of climate risks and vulnerability for the building. Please also note that adaptation solutions only need to be determined for climate hazards which have been identified as material.

A selection of climate hazards are summarised in Table 3.

<table>
<tr><th></th><th>Temperature-related</th><th>Wind-related</th><th>Water-related</th><th>Solid mass-related</th></tr>
<tr><td rowspan="6">Chronic</td><td>Changing temperature (air, freshwater, marine water)</td><td rowspan="6">Changing wind patterns</td><td>Changing precipitation patterns and types (rain, hail, snow/ice)</td><td>Coastal erosion</td></tr>
<tr><td>Heat stress</td><td>Precipitation or hydrological variability</td><td>Soil degradation</td></tr>
<tr><td>Temperature variability</td><td>Ocean acidification</td><td>Soil erosion</td></tr>
<tr><td rowspan="3">Permafrost thawing</td><td>Saline intrusion</td><td rowspan="3">Solifluction</td></tr>
<tr><td>Sea level rise</td></tr>
<tr><td>Water stress</td></tr>
<tr><td rowspan="4">Acute</td><td>Heat wave</td><td>Cyclone, hurricane, typhoon</td><td>Drought</td><td>Avalanche</td></tr>
<tr><td>Cold wave/frost</td><td>Storm (including blizzards, dust and sandstorms)</td><td>Heavy precipitation (rain, hail, snow/ice)</td><td>Landslide</td></tr>
<tr><td rowspan="2">Wildfire</td><td rowspan="2">Tornado</td><td>Flood (coastal, fluvial, pluvial, ground water)</td><td rowspan="2">Subsidence</td></tr>
<tr><td>Glacial lake outburst</td></tr>
</table>

**Table 3 – EU Taxonomy Climate Delegated Act, Appendix A, "Classification of climate-related hazards"**

To ensure that the activity does not significantly harm CCA, it should be verified that adaptation solutions are put in place to tackle the climate risk hazards which have been assessed as “material”. Therefore, the following steps should be followed for the DNSH check:

1. Perform a vulnerability assessment of the building to verify which of the climate hazards listed in the table above are “material”, referring to high probability of occurrence of the climate phenomenon. This shall be done through expert knowledge, urban planning regulatory risk prevention plans and/or exposure assessments.
2. For the climate hazards that are considered “material” analyze the relevant adaptation solutions which have been implemented at building level so as to the vulnerability of the building towards the occurrence of that material climate hazards.

The DNSH principle is applicable at the level of the economic activity, but the criteria is often linked to the underlying real estate asset behind the economic activity. It should be noticed that DNSH checks are not the same for all the activities under category “7 Construction and real estate activities” and they can also relate to other environmental objectives and not only to Climate Change Adaptation as for the activity 7.7. For Instance, for the activity “7.1. The construction of new buildings requires DNSH checks, which are associated with all five other objectives. It includes elements such as specific water use (e.g., showers to have a maximum water flow of 8 liters/min etc.) or building components and materials, amongst others.

Table 4 displays some examples of adaptation solutions that could be put in place to tackle a selection of climate hazards.

The list of solutions is not exhaustive, other measures may be implemented to tackle the material climate hazards displayed below. Please note that both physical and non-physical adaptation solutions are eligible.

| Material climate hazards | Examples of adaptation solutions (both physical and non-physical) |
|---|---|
| Changing temperature (air, freshwater, marine water) | Renewal of the air conditioning plants and ventilation ducts |
| | Demolishing of the old water-cooling units and replacing them with district cooling system |
| Heat stress<br>Heat wave | Renewal of the cooling pipes, cooling beams and cooling fan coil units |
| | Renovation of the façades |
| Temperature variability | Refurbishment of the windows |
| | Fire response protocol and site evacuation plan |

**Table 4 – Example of Adaptation Measures**

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# 2.4 Minimum Safeguards

Finally, in order to align an economic activity with the EU Taxonomy, the activity should be carried out in compliance with minimum safeguards, as indicated by Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

1. The OECD Guidelines for multinational enterprises.
2. The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

The first guideline includes non-binding principles and standards for business with a responsible conduct, considering a global context consistent with applicable laws and internationally recognised standards.

The second guideline contains a framework for companies to report on with respect to human rights.

The minimum safeguards are standards that apply equally, independent from environmental objective that the economic activities intend to promote. Although the minimum safeguards apply for at the company level, they still need to be assessed for each economic activity.

***Currently, the minimum safeguards' requirements are always the same, independently from the economic activities or the environmentally-sustainable objectives that the company intends to pursue.***

***The 2023 OECD Guidelines include updated recommendations for alignment on internationally agreed goals on climate change and biodiversity***

Please note that, in October 2022, the Platform of Sustainable Finance published a report with additional guidelines with regards to the minimum safeguards checks. This report provides further guidance by clarifying the regulatory landscape surrounding Article 18, providing existing market examples of compliance with minimum safeguards, and by making concrete recommendations on which criteria may signal that a company is not complying with minimum safeguards as per Article 18 of the EU Taxonomy regulation.

***Currently, minimum safeguards are described in the main body of the Taxonomy regulation, they are not part of the TSC of the climate delegated regulation.***

Changed since 2022

Table 5 below displays some examples of recommendations under the OECD Guidelines for Multinational Enterprise that undertakings need to respect in order to comply with minimum safeguards.

### Table 5 – Examples of OECD recommendations for multinational enterprises

| OECD guidelines sections | Examples of recommendations |
|---|---|
| General policies | • Enterprises should respect internationally recognised human rights.<br>• Enterprises should support and uphold good governance principles and apply good corporate governance practices. |
| Disclosure | • Disclosure policies should include material information on the financial and operating results of the enterprise.<br>• Enterprises should communicate responsible business conduct information as part of their responsibility to carry out due diligence. |
| Human rights | • Enterprises should respect human rights, which means they should avoid infringing on the human rights of others and should address adverse human rights impacts.<br>• Enterprises should have a policy commitment to human rights. |
| Employment and Industrial Relations | • Enterprises should respect the right of workers employed by the multinational enterprise to establish or join trade unions and representative organisations of their own choosing.<br>• Enterprises should avoid all forms of forced or compulsory labour. |
| Environment | • Enterprises should establish and maintain a system of environmental management appropriate to the enterprise.<br>• Enterprises should conduct meaningful engagement with relevant stakeholders affected by adverse environmental impacts associated with the enterprise's operations, products or services. |
| Combating Bribery | • Enterprises should not offer, promise or give undue pecuniary or other advantage to public officials or employees of partners.<br>• Enterprises to develop and adopt adequate internal controls, ethics and compliance measures for preventing and detecting bribery. |
| Consumer Interests | • Enterprises should ensure that goods and services meet all agreed or legally required standards for consumer health and safety.<br>• Enterprises should provide consumers with access to fair, easy to use, timely and effective non-judicial dispute resolution. |
| Science and Technology | • Enterprises should ensure that their activities are compatible with the S&T policies/plans of the countries in which they operate.<br>• Enterprises should adopt practices to allow the transfer and rapid diffusion of technologies and know-how. |
| Competition | • Enterprises should carry out their activities in a manner consistent with all applicable competition laws and regulations.<br>• Enterprises should refrain from entering into or carrying out anti-competitive agreements among competitors. |
| Taxation | • Enterprises should contribute to the public finances of host countries by making timely payment of their tax liabilities.<br>• Enterprises should treat tax governance compliance as important elements of their oversight and risk management systems. |


# 3 Climate Change Adaptation

## 3.1 Eligibility

As described in the previous pages, an economic activity is considered as EU Taxonomy-eligible when it is in the scope of the EU Taxonomy's TSC criteria. In order to verify the eligibility of its economic activities, a company needs to check if their economic activities are in the EU Taxonomy list of eligible activities for each of the objectives. One way to do it would be to start through the NACE codes as supportive descriptions of the different activities, to have a first understanding of the activities in scope. Afterwards, the next step would be to review the description of the eligible activity in the TSC to check if it applies.

In scope of the current report, the focus is on the activity "7.7 Acquisition and ownership of buildings". This economic activity is associated with NACE code L68 (NACE code for Real Estate activities). Out of these real estate activities, only those which consist of buying real estate and exercising ownership are eligible under 7.7, and it may be eligible both for CCM and CCA objectives. Companies buying real estate and exercising ownership are therefore eligible to be aligned under the EU Taxonomy for this activity. In order to verify whether the activity is also EU Taxonomy-aligned it needs to undergo the steps described at Page 6. In the next pages of this Chapter we will detail the 3 steps of the EU Taxonomy-alignment process: substantial contribution, DNSH and minimum safeguards which apply to CCA.

## 3.2 Substantial Contribution

As explained in Chapter 2, an economic activity is making a "substantial contribution" to an environmentally-sustainable objective, when it complies with specific TSC which consist in a set of conditions that the activity needs to respect for being qualified as substantially contributing to that objective.

In the case of CCA, the TSC reflect the fact that climate change is likely to affect all sectors of the economy. As a result, all sectors will need to be adapted to the adverse impact of the current climate and the expected future climate. With this purpose, the TSC require the economic operators to perform climate change risk assessment and to develop solutions that tackle the most material risks that are identified through the assessment. The TSC for this objective also takes into account the context and the location in which the economic activity is carried out and the need to ensure the resilience of critical infrastructure in front of climate and weather-related disasters. The TSC for substantial contribution for the economic activity "7.7 Acquisition and ownership of buildings" foresee the performance of a climate risk and vulnerability assessment to identify the key climate risks affecting the building and the verification of adequate physical and non-physical solutions implementation to tackle the identified material risks. Figure 10 displays in detail the steps and conditions to be covered to check the alignment with substantial contribution TSC for CCA. The climate hazards to be assessed during the materiality assessment, for the purpose of the substantial contribution check, are displayed on pages 24 and 25 of this report. Please note that only those risks identified as material need to be assessed in the vulnerability assessment.

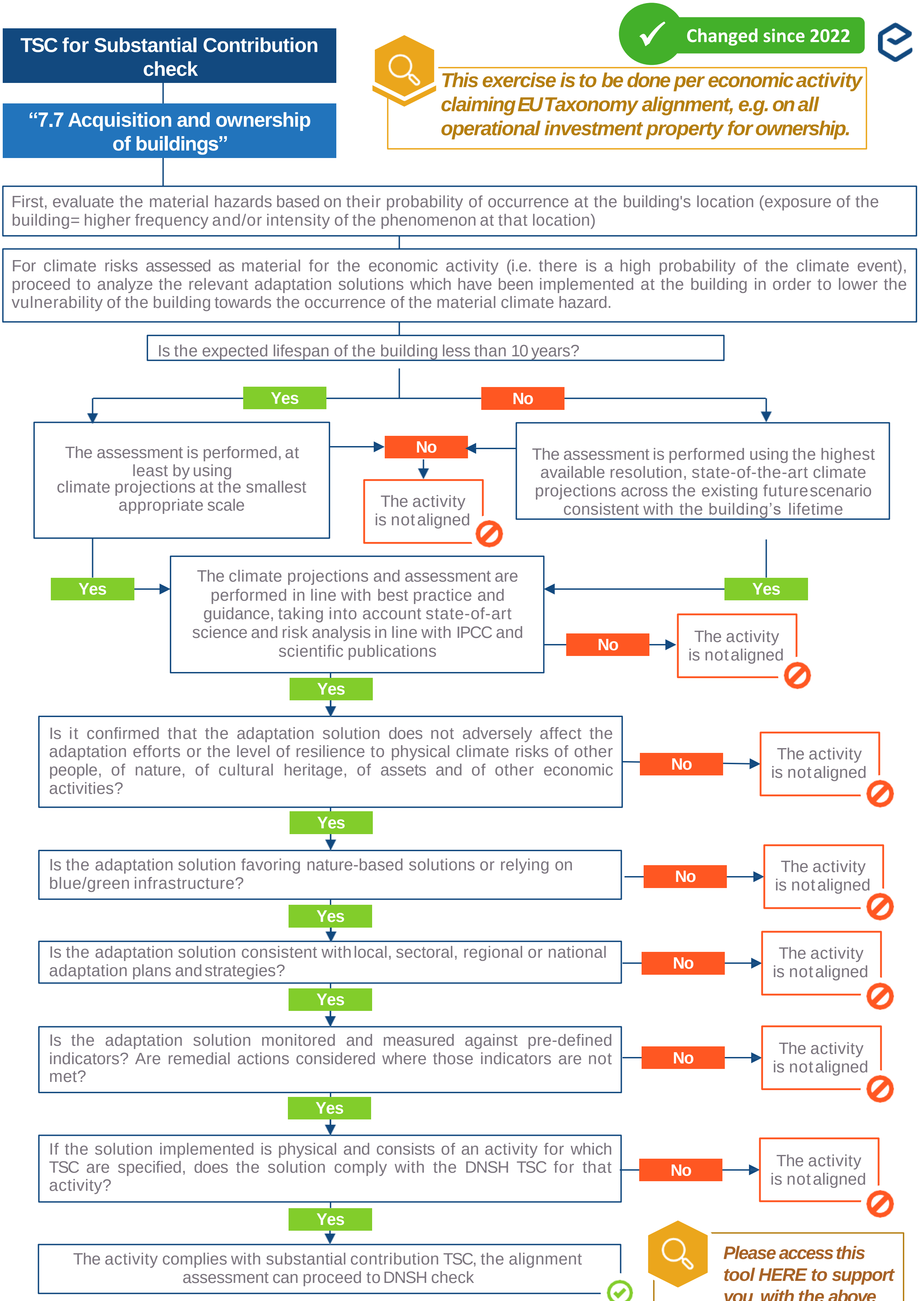



**Figure 10 – CCA Substantial Contribution TSC check**

A few examples of adaptation measures against material climate hazards are presented below in Tables 6, 7, and 8. The examples below do not represent an exhaustive list of adaptation solutions for the material climate hazards and economic operators might put in place several other adaptive measures.

**Table 6 – Example 1, adaptation measures**

| Material climate hazards | Examples of adaptation solutions |
|---|---|
| Sea level rise | Maintenance manual with health and safety plan of the building<br>Flooding event response protocol and site evacuation plan in place |

**Table 7 – Example 2, adaptation measures**

| Material climate hazards | Examples of adaptation solutions |
|---|---|
| Changing precipitation patterns and types (rain, hail, snow/ice)<br>Precipitation hydrological variability | Renewal of air conditioning plants and ventilation ducts<br>Installation of wind and snow traps in the air intakes of the buildings<br>Renovation of facades<br>Refurbishment of the facades<br>Renewing and repairing of roofs and roof terraces<br>Local repairing and renewing of the underdrain system, ground floor slabs and waterproofing of basement walls |

**Table 8 – Example 3, adaptation measures**

| Material climate hazards | Examples of adaptation solutions |
|---|---|
| Drought | Renewal of the domestic water and sewage pipes (some of the sewers have been relined instead of renewed)<br>Installation of new efficient water fixtures & appliances |

# 3.3 DNSH

For the purpose of reviewing the alignment of the activity "7.7 Acquisition and ownership of buildings" with the TSC, the DNSH checks are required for one other objective: CCM. In this context, the below checks need to be followed:

1. The asset is not dedicated to extraction, storage, transport, manufacture of fossil fuel.
2. For buildings built before 31 December 2020, the building has at least an EPC class C. As an alternative, the building is within the top 30% of the national or regional building stock expressed as operational PED and demonstrated by adequate evidence. Such evidence concludes on the asset's performance against the performance of the national or regional stock built before 31 December 2020 and distinguishes between residential and non-residential buildings.

*In Chapter 9 we have gathered information on some interpretations of the top building stock.*

3. For buildings built after 31 December 2020, the PED defining the energy performance of the building resulting from the construction does not exceed the threshold set for the NZEB requirements in national regulation implementing Directive 2010/31/EU. The energy performance is certified using an EPC certificate.

*To be noted that there is limited standardisation of EPCs and NZEBs in Europe. For example, for PED in France, the French law should be applied as reference for the conversion between primary energy and final energy.*

# 3.4 Minimum Safeguards

To ensure comprehensive coverage of the CCA analysis, we have detailed the Minimum Safeguards under this section, which mirrors exactly the text from the previous Chapter 2.

Finally, to align an economic activity with the EU Taxonomy, the activity should be carried out in compliance with minimum safeguards, as indicated by the Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

1. The OECD Guidelines for multinational enterprises.
2. The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

The first guideline includes non-binding principles and standards for business with a responsible conduct, considering a global context consistent with applicable laws and internationally recognized standards.

The second guideline contains a framework for companies to report on with respect to human rights.

The minimum safeguards are standards and they apply equally independently from the economic activities and the environmentally-sustainable objectives the activity intends to pursue.

*Currently, the minimum safeguards' requirements are always the same, independently from the economic activities or the environmentally-sustainable objectives that the company intends to pursue.*

Please note that, in October 2022, the Platform of Sustainable Finance published a report with additional guidelines with regards to the minimum safeguards checks. This report provides further guidance by clarifying the regulatory landscape surrounding Article 18, providing existing market examples of compliance with minimum safeguards, and by making concrete recommendations on which criteria may signal that a company is not complying with minimum safeguards as per Article 18 of the EU Taxonomy regulation.

Please refer to page 21 for further information on OECD Guidelines regarding minimum safeguards.

Chapter new to 2023

# 4 Transition to a circular economy

## 4.1 Eligibility

When an economic activity is in scope of the EU Taxonomy's TSC criteria, it is considered to be EU Taxonomy eligible. To verify whether an economic activity is indeed eligible, a company must check the EU Taxonomy's list of eligible activities for each of the EU Taxonomy objectives. This can be done through the NACE codes, which act as supportive descriptions of the eligible activities. Afterwards, companies can review the description of the eligible activity in the TSC to check if it applies.

In our opinion, of the 4 environmental objectives, 'Transition to a circular economy' is the only one which has a list of eligible activities for 'Construction and Real Estate', and therefore it will be delved into deeper than the others.

In scope of the current report, the focus is on the following activities:

- 3.1 'Construction of new buildings' – with associated NACE codes F41.1, F4.2 and F43;
- 3.2 'Renovation of existing buildings' – with associated NACE codes F41 and F43;
- 3.3 'Demolition and wrecking of buildings and other structures' – with associated NACE code F43.1.

In order to verify whether the activities are also EU Taxonomy aligned, they need to undergo the steps described as per Page 9. In the next pages of this Chapter we will detail the 3 steps of the EU Taxonomy-alignment process: substantial contribution, DNSH and minimum safeguards which apply to economic activities included in the EU Taxonomy objective of the transition to a circular economy.

## 4.2 Substantial Contribution

Once a company has determined that it has an economic activity which is in scope of the EU Taxonomy, the company must verify that the economic activity makes a "substantial contribution" to an environmentally sustainable objective. The activity must comply with specific TSC which consist of a set of conditions that the activity needs to respect in order to be qualified as substantially contributing to that objective.

In the case of the objective of a transition to a circular economy, the TSC reflect the fact that building construction, renovation, and demolition contributes to preventing global warming and waste production. As a result, the TSC require the economic operators to assess the life-cycle Global Warming Potential (GWP) of their buildings, comply with the standards for waste treatment, ensure appropriate retention of the original building and minimize the use of primary raw materials in favor of secondary raw materials to tackle the most material risks that are identified through the assessment.

The TSC for substantial contribution for the economic activities 3.1, 3.2 and 3.3 of construction, renovation and demolition of buildings, respectively, foresee the necessity of Global Warming Potential calculations to be executed at each stage of the building's life cycle to identify the severity of the greenhouse gas emissions of the real estate project. Figures 11-13 display in detail the steps and conditions to be covered to check the alignment with substantial contribution TSC for the three eligible activities for the transition to a circular economy objective.

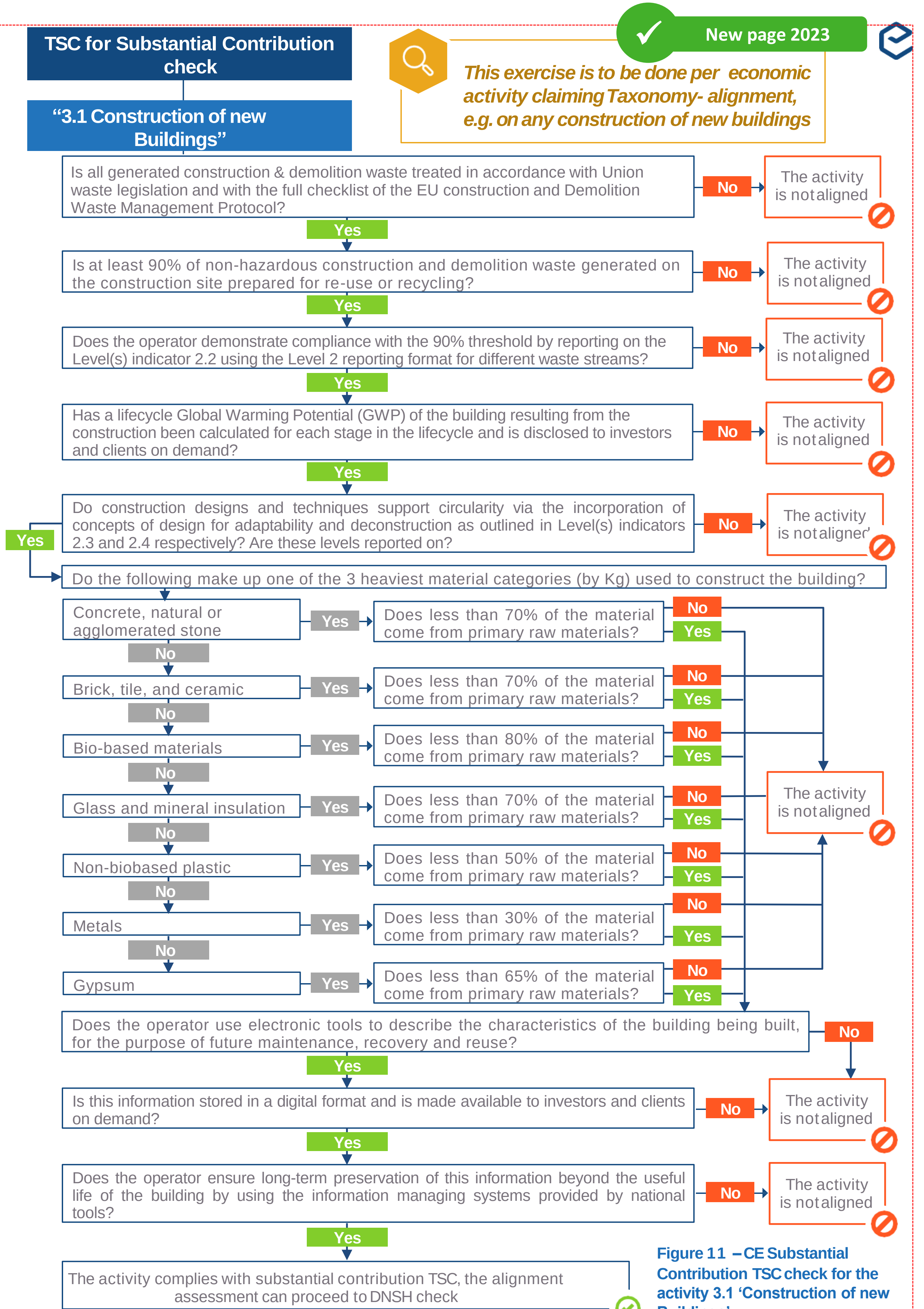



**Figure 11 – CE Substantial Contribution TSC check for the activity 3.1 'Construction of new Buildings'**

New page 2023

# TSC for Substantial Contribution check

## "3.2 Renovation of existing Buildings"

*This exercise is to be done per economic activity claiming Taxonomy-alignment, e.g. on any renovation of existing buildings*

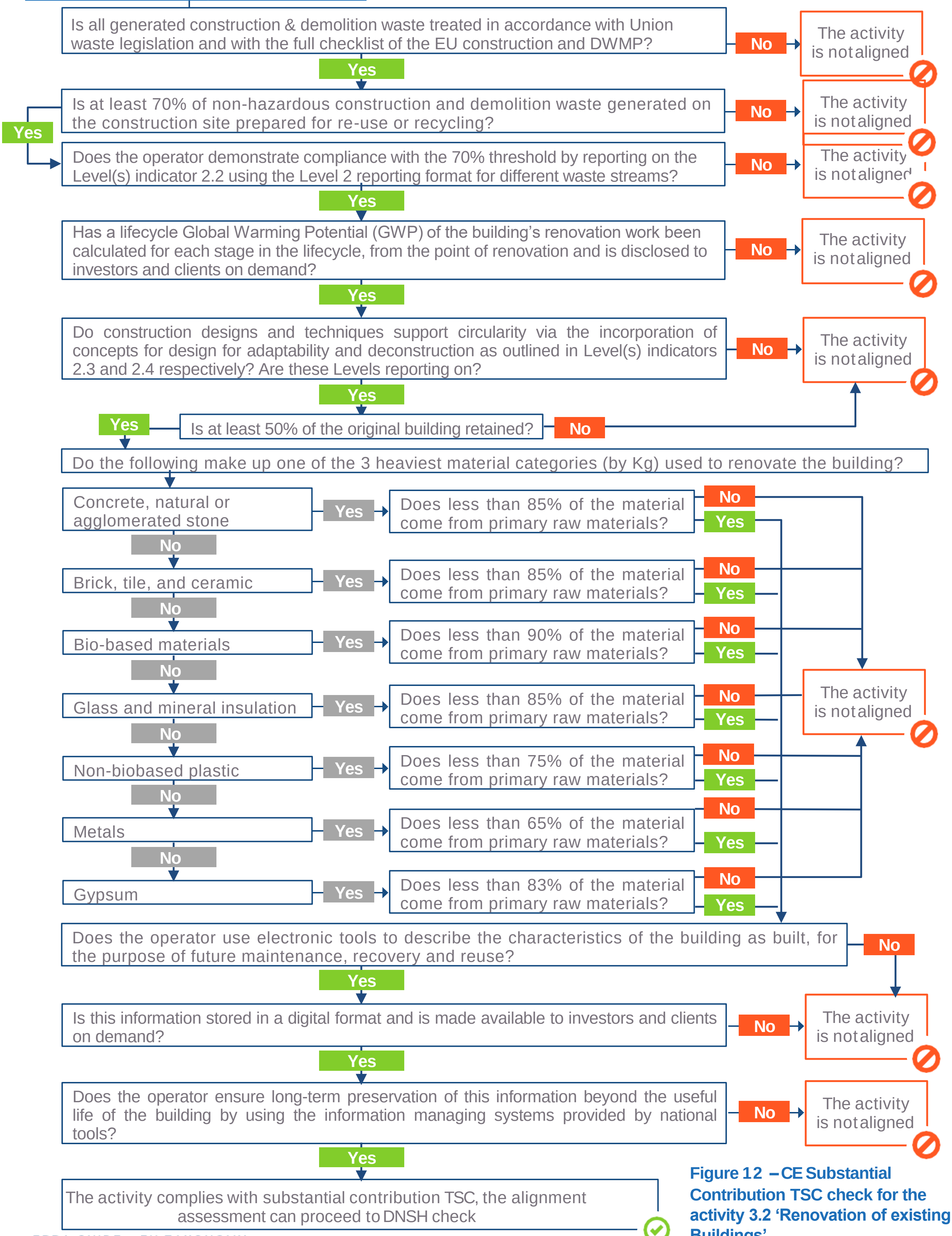



**Figure 12 – CE Substantial Contribution TSC check for the activity 3.2 'Renovation of existing Buildings'**

New page 2023

**TSC for Substantial Contribution check**

**"3.3 Demolition and wrecking of buildings and other structures"**

***This exercise is to be done per economic activity claiming Taxonomy-alignment, e.g. on all demolitions and wrecking of buildings and other structures***

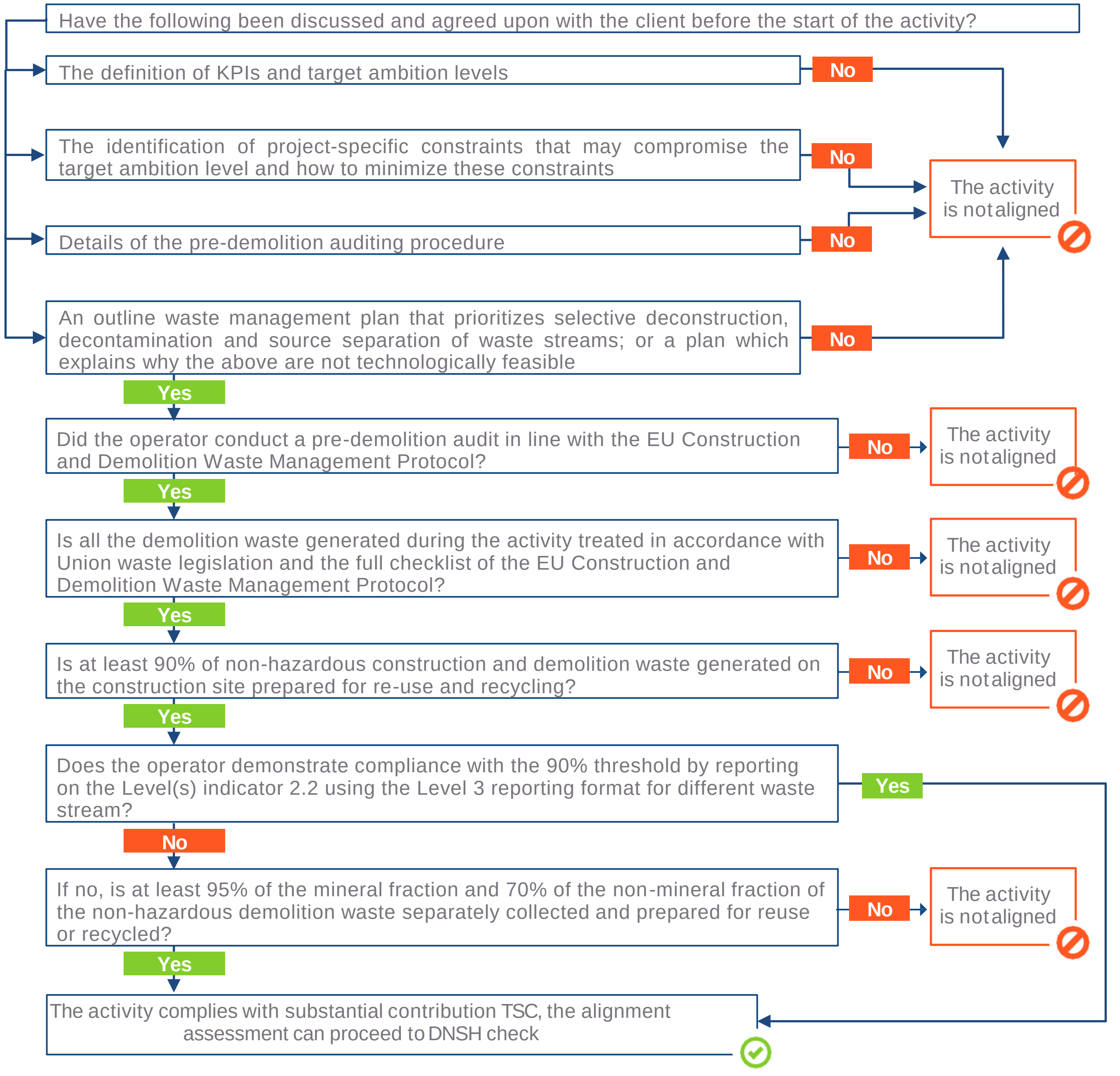



**Figure 13 – CE Substantial Contribution TSC check for the activity 3.3 'Demolition and wrecking of buildings and other structures'**

New page 2023

# 4.3 DNSH

## Activity 3.1 "Construction of new buildings"

With the aim of reviewing the alignment of the activity "3.1 Construction of new buildings" with the TSC, the DNSH checks are required for all the five other objectives. In this context, the below checks need to be followed:

### For climate change mitigation*

- The building is not dedicated to extraction, storage, transport or manufacture of fossil fuels
- The Primary Energy Demand (PED) resulting from the construction does not exceed the threshold set for the nearly zero-energy building (NZEB) requirements
- The energy performance is certified using an EPC scheme.

### For climate change adaptation

- The activity complies with the criteria set out in Appendix A of the CE annex

### For the sustainable use and protection of water and marine resources

- Where installed, except for installations in residential building units, the specified water use for the certain water appliances including taps, showers, toilets, and urinals, are attested by product datasheets, a building certification or an existing product label in the Union

### For pollution prevention and control

- Building components and materials used in construction are compliant with the criteria set out in Appendix C of the Circular Economy annex and with the mg of formaldehyde per m³ emitted, as well as the mg of other categories 1A and 1B carcinogenic volatile organic compounds emitted per m³
- Should construction be located on a brownfield site, a compliant investigation for potential contaminants has been made
- Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance work

### For the protection and restoration of biodiversity and ecosystems

- The activity complies with the criteria set out in Appendix D to the Circular Economy Annex
- The new construction is not built on a forest; arable or crop land with a minimum of moderate soil fertility and below ground biodiversity; nor greenfield land of high biodiversity value or which houses endangered species

## Activity 3.2 "Renovation of existing buildings" *

With the intention of reviewing the alignment of the activity "3.2 Renovation of existing buildings" with the TSC, the DNSH checks are required for all 5 other objectives. In this context, the below checks need to be followed:

### For climate change mitigation

- The building is not dedicated to extraction, storage, transport or manufacture of fossil fuels

### For climate change adaptation

- The activity complies with the criteria set out in Appendix A of the Circular Economy annex

### For the sustainable use and protection of water and marine resources

- Where installed, except for installations in residential building units, the specified water use for the certain water appliances including taps, showers, toilets, and urinals, are attested by product datasheets, a building certification or an existing product label in the Union

### For pollution prevention and control

- Building components and materials used in construction are compliant with the criteria set out in Appendix C of the Circular Economy annex and with the mg of formaldehyde per m³ emitted, as well as the mg of other categories 1A and 1B carcinogenic volatile organic compounds emitted per m³
- Measures are taken to reduce noise, dust and pollutant emissions

### For the protection and restoration of biodiversity and ecosystems

- No DNSH criteria established

* Companies reporting EU Taxonomy alignment for the construction, acquisition and ownership of buildings, and for building renovations must navigate diverse national requirements set by each Member State, which can be significantly challenging for organizations with cross-border economic and financial activities.

New page 2023

# 4.3 DNSH (cont.)

## Activity 3.3 "Demolition and wrecking of buildings and other structures"

To review the alignment of the activity 3.3 with the TSC, the DNSH checks are required for all the five other objectives. In this context, the below checks need to be followed:

### For climate change mitigation

- Where foam panels are removed or laminated boards installed which contain foams with Fluorinated greenhouses gases, saturated and unsaturated Hydrofluorocarbons, and Ozone Depleting Substances, the operator must ensure reuse or destruction of the foams to reduce emissions
- Should recovery of these foams not be technically feasible, documentation proving this must be drawn up and available on demand for 5 years

### For climate change adaptation

- The activity complies with the criteria set out in Appendix A of the Circular Economy annex

### For the sustainable use and protection of water and marine resources

- The activity complies with the criteria set out in Appendix B of the Circular Economy annex

### For pollution prevention and control

- Measures are taken to reduce noise, dust and pollutant emissions during works

### For the protection and restoration of biodiversity and ecosystems

- The activity complies with the criteria set out in Appendix D of the Circular Economy annex

# 4.4 Minimum Safeguards

For the purpose of completeness of the CE analysis, we have detailed the Minimum Safeguards under this section, which mirrors exactly the text from the previous Chapter 2.

Finally, in order to align an economic activity with the EU Taxonomy, the activity should be carried out in compliance with minimum safeguards, as indicated by the Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

1. The OECD Guidelines for multinational enterprises.
2. The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

The first guideline includes non-binding principles and standards for business with a responsible conduct, considering a global context consistent with applicable laws and internationally recognized standards.

The second guideline contains a framework for companies to report on with respect to human rights.

The minimum safeguards are standards and they equally apply independently from the economic activities and the environmentally-sustainable objectives the activity intends to pursue.

***Currently, the minimum safeguards' requirements are always the same, independently from the economic activities or the environmentally-sustainable objectives that the company intends to pursue.***

Please note that, in October 2022, the Platform of Sustainable Finance published a report with additional guidelines with regards to the minimum safeguards checks. This report provides further guidance by clarifying the regulatory landscape surrounding Article 18, providing existing market examples of compliance with minimum safeguards, and by making concrete recommendations on which criteria may signal that a company is not complying with minimum safeguards as per Article 18 of the EU Taxonomy regulation.

Please refer to page 21 for further information on OECD Guidelines regarding minimum safeguards.

Chapter new to 2023

# 5 Sustainable use and protection of water and marine resources

## 5.1 Eligibility

As described in prior pages, an economic activity is considered as EU Taxonomy eligible when it is in the scope of the EU Taxonomy's TSC criteria. In order to verify the eligibility of its economic activities for sustainable use and protection of water and marine resources, a company needs to check if their economic activities are in the EU Taxonomy list of eligible activities for each of the objectives. One way to do it would be to start through the NACE codes as supportive descriptions of the different activities, to have a first understanding of the activities in scope. Afterwards, the next step would be to review the description of the eligible activity in the TSC to check if it applies.

Our understanding is that, from the current regulation, there are no eligible activities from the construction and real estate sector perspectives, and therefore this objective is not reviewed in detail.

## 5. 2 Substantial Contribution

As explained in Chapter 2, an economic activity is making a "substantial contribution" to an environmentally-sustainable objective, when it complies with specific TSC which consist in a set of conditions that the activity needs to respect for being qualified as substantially contributing to that objective.

In the case of Sustainable use and protection of water and marine resources, the TSC reflect the need to avoid water leakage, preserve water quality and avoid water stress, implement water metering at customer level, have compliant waste water treatment system, retain rainwater and the need to quantify flood risk reduction and environmental degradation risks.

## 5.3 DNSH

DNSH checks may be required for five other objectives: climate change mitigation, climate change adaptation; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems.

The Environmental Delegated Regulation sets out, per economic activity, what DNSH checks are required for each of the five objectives.

## 5.4 Minimum Safeguards

To align an economic activity with the EU Taxonomy, the activity should be carried out in compliance with minimum safeguards, as indicated by Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

1. The OECD Guidelines for multinational enterprises.
2. The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Chapter new to 2023

# 6 Pollution prevention and control

## 6.1 Eligibility

As described in prior pages, an economic activity is considered as EU Taxonomy eligible when it is in the scope of the EU Taxonomy's TSC criteria. To confirm the eligibility of its economic activities for pollution prevention and control, a company needs to check if their economic activities are in the EU Taxonomy list of eligible activities for each of the objectives. One way to do it would be to start through the NACE codes as supportive descriptions of the different activities, to have a first understanding of the activities in scope. Afterwards, the next step would be to review the description of the eligible activity in the TSC to check if it applies.

From the current regulation, there are no eligible activities from the construction and real estate sector perspectives, and therefore this objective is not reviewed in detail.

## 6. 2 Substantial Contribution

As explained in Chapter 2, an economic activity is making a "substantial contribution" to an environmentally-sustainable objective, when it complies with specific TSC which consist in a set of conditions that the activity needs to respect for being qualified as substantially contributing to that objective.

In the case of Pollution prevention and control, the TSC reflect the need for the economic activities to comply with requirements related to product substitution, with the best available techniques to limit the emission of pollutants, as well as the careful handling of hazardous waste and contaminated area, amongst others.

## 6.3 DNSH

DNSH checks may be required for all of the five other objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; and restoration of biodiversity and ecosystems.

The Environmental Delegated Regulation sets out, per economic activity, what DNSH checks are required for each of the five objectives.

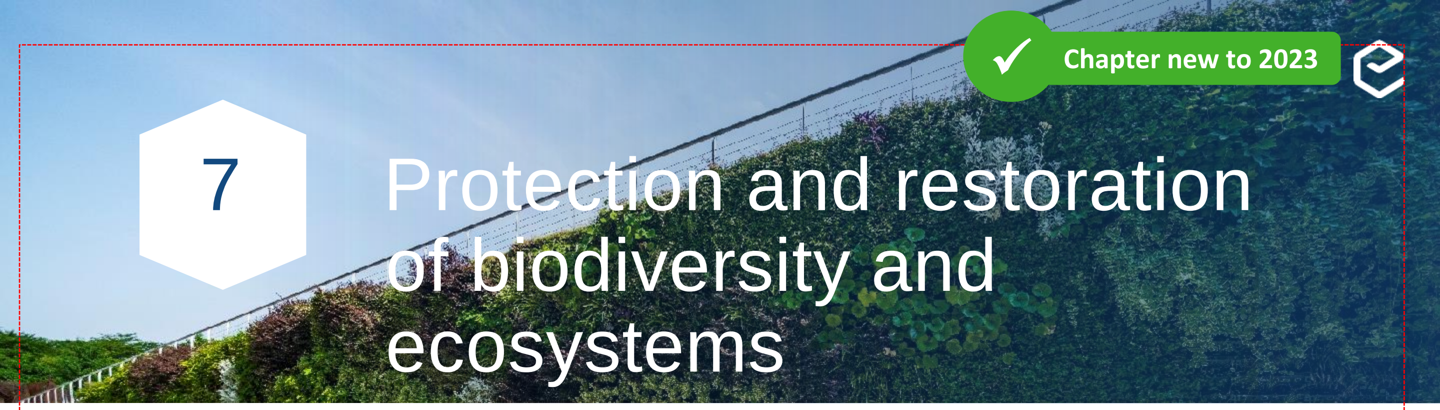
## 6.4 Minimum Safeguards

In order to align an economic activity with the EU Taxonomy, the activity should be carried out in compliance with minimum safeguards, as indicated by Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

1. The OECD Guidelines for multinational enterprises.

2. The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.



Chapter new to 2023

# 7 Protection and restoration of biodiversity and ecosystems

## 7.1 Eligibility

As described in prior pages, an economic activity is considered as EU Taxonomy-eligible when it is in the scope of the EU Taxonomy's TSC criteria. In order to verify the eligibility of its economic activities for the protection and restoration of biodiversity and ecosystem, a company needs to check if their economic activities are in the EU Taxonomy list of eligible activities for each of the objectives. One way to do it would be to start through the NACE codes as supportive descriptions of the different activities, to have a first understanding of the activities in scope. Afterwards, the next step would be to review the description of the eligible activity in the TSC to check if it applies.

From the current regulation, we believe there are no eligible activities from the construction and real estate sector perspectives, and therefore this objective is not reviewed in detail.

## 7. 2 Substantial Contribution

As explained in Chapter 2, an economic activity is making a "substantial contribution" to an environmentally sustainable objective, when it complies with specific TSC which consist in a set of conditions that the activity needs to respect for being qualified as substantially contributing to that objective.

In the case of protection and restoration of biodiversity and ecosystems, the TSC reflect the need for the economic activities to maintain a good condition of ecosystems, species and habitats; to include a strong management or restoration plan with a guarantee of permanence and to have independent verification amongst others.

## 7.3 DNSH

DNSH checks may be required for all of the five other objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; and pollution prevention and control.

The Environmental Delegated Regulation sets out, per economic activity, what DNSH checks are required for each of the five objectives.

## 7.4 Minimum Safeguards

To align an economic activity with the EU Taxonomy, the activity should be carried out in compliance with minimum safeguards, as indicated by Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

1. The OECD Guidelines for multinational enterprises.

2. The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Changed since 2022

# 8 Reporting on Taxonomy

## 8.1 The context of Taxonomy reporting for companies

The aim of Article 8 disclosures of the Delegated Act is to increase the space for green finance through transparency about companies' environmental performance.

The Taxonomy framework addresses, as of 1 January 2022, disclosures for large public-interest companies with more than 500 employees.

**As of 1st January 2024, both financial and non-financial undertakings** will need to disclose:

- EU Taxonomy-*eligibility* for the four remaining objectives

Furthermore, as of 1 January 2025, the scope is extended to companies that meet at least 2 out of the 3 criteria: having more than 250 employees, their turnover being €50 million or their balance sheet exceeding €25 million. Additionally, SMEs matching certain criteria will be included in the scope as of 1 January 2026 (please refer to CSRD and the Accounting Directive for further details).

The reporting requirements related to the EU Taxonomy as set in the Article 8 Delegated Act, will affect both financial and non-financial undertakings. With a focus on the real estate sector, real estate companies being non-financial undertakings, will be required to communicate the degree of environmental performance of their economic activities and assets to their stakeholders and financial institutions.

The key insights on Taxonomy alignment reporting for companies are summarised in Figure 14.


**Figure 14 – Taxonomy reporting under Article 8 delegated act**

# 8.2 How shall I report the EU Taxonomy eligibility and alignment?

Changed since 2022

The Delegated Act to the Article 8 of the EU Taxonomy specifies the content and presentation of information to be disclosed by undertakings subject to the conditions outlined on page 8 concerning environmentally sustainable Economic activities.

Both financial undertakings (e.g., credit institutions, asset managers, insurers etc.) and non-financial undertakings (e.g., manufacturing, transportation, construction and real estate etc.) will need to disclose the proportion of environmentally sustainable economic activities that align with the EU Taxonomy criteria.

Listed property companies and REITs are non-financial undertakings and therefore we will focus on non-financial undertaking reporting for the rest of the chapter.

Overall, these companies need to address the following questions;

**1. Are my activities eligible under the EU Taxonomy?** Companies need to identify whether activities are part of the scope of the TSC. To do so, they will need to read the activities description in the TSC to assess whether the NACE code related to the activity is included within such description. Please note, activities eligible for one objective may not be eligible for the other five objectives.

**2.Are my eligible activities aligned with the EU Taxonomy?** As described in Chapter 1 of this document, for each eligible economic activity (and per objective), companies need to check substantial contribution, DNSH and minimum safeguards.

**3.For those aligned, what is the proportion of my business that corresponds to these activities?** Once we know what activities are Taxonomy aligned, the percentage of alignment needs to be disclosed based on the proportion of Turnover, CapEx and OpEx that the activity represents. Companies are required to complete a set of templates, reporting on their eligibility and alignment. Figure 15 shows part of a template to be used to report on this information.

x3 3 Tables to be reported: Taxonomy eligibility and alignment against Turnover, CapEx and OpEx

Activities breakdown and total turnover that they represent

% of the turnover that is eligible (in scope of the EU Taxonomy Technical Screening Criteria)

Technical screening criteria checks for each objective

Minimum safeguards checks

Final % of alignment and % of transitional and enabling activities

| Financial year N | Year | | | Substantial Contribution Criteria | | | | | | DNSH criteria ('Does Not Significantly Harm')(h) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Economic Activities (1) | Code (a) (2) | Turnover (3) | Proportion of Turnover, year N (4) | Climate Change Mitigation (5) | Climate Change Adaptation (6) | Water (7) | Pollution (8) | Circular Economy (9) | Biodiversity (10) | Climate Change Mitigation (11) | Climate Change Adaptation (12) | Water (13) | Pollution (14) | Circular Economy (15) | Biodiversity (16) | Minimum Safeguards (17) | Proportion of Taxonomy aligned (A.1.) or eligible (A.2.) turnover, year N-1 (18) | Category enabling activity (19) | Category transitional activity (20) |
| Text | | Currency | % | Y; N; N/EL (b) (c) | Y; N; N/EL (b) (c) | Y; N; N/EL (b) (c) | Y; N; N/EL (b) (c) | Y; N; N/EL (b) (c) | Y; N; N/EL (b) (c) | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | % | E | T |
| A. TAXONOMY-ELIGIBLE ACTIVITIES | | | | | | | | | | | | | | | | | | | |
| A.1. Environmentally sustainable activities (Taxonomy-aligned) | | | | | | | | | | | | | | | | | | | |
| Activity 1 | | | % | | | | | | | Y | Y | Y | Y | Y | Y | Y | % | | |
| Activity 1 (d) | | | % | | | | | | | Y | Y | Y | Y | Y | Y | Y | % | E | |
| Activity 2 | | | % | | | | | | | Y | Y | Y | Y | Y | Y | Y | % | | T |
| **Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)** | | | **%** | **%** | **%** | **%** | **%** | **%** | **%** | **Y** | **Y** | **Y** | **Y** | **Y** | **Y** | **Y** | **%** | | |
| **Of which Enabling** | | | % | % | % | % | % | % | % | Y | Y | Y | Y | Y | Y | Y | % | E | |
| **Of which Transitional** | | | % | % | | | | | | Y | Y | Y | Y | Y | Y | Y | % | | T |
| **A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)** (g) | | | | | | | | | | | | | | | | | | | |
| | | | | EL; N/EL (f) | EL; N/EL (f) | EL; N/EL (f) | EL; N/EL (f) | EL; N/EL (f) | EL; N/EL (f) | | | | | | | | | | |
| Activity 1 (e) | | | % | EL | EL | | | EL | | | | | | | | | % | | |

Non-financial undertakings scope of reporting for four remaining objectives for 2024 (eligibility only)

Non-financial undertakings scope of reporting for four remaining objectives for 2025 (eligibility and alignment)

**Figure 15 – Proportion of turnover from the products or services associated with Taxonomy-aligned economic activities – disclosure covering year N for non-financial undertakings**

# 8.3 How do I calculate the percentages?

Non-financial undertakings will need to disclose the proportion of environmentally sustainable economic activities that align with the EU Taxonomy criteria. The main KPIs for the aligned assets are the following:

The Turnover KPI represents the proportion of the net turnover derived from products or services that are EU Taxonomy-aligned. The Turnover KPI gives a static view of the companies' contribution to environmental goals.

The CapEx KPI represents the proportion of the capital expenditure of an activity that is either already EU Taxonomy-aligned or is part of a credible plan to extend or reach taxonomy-alignment. CapEx provides a dynamic and forward-looking view of companies' plans to transform their business activities.

The OpEx KPI represents the proportion of the operating expenditure associated with EU Taxonomy-aligned activities. The operating expenditure covers direct non-capitalised costs relating to research & development, renovation measures, short-term lease, maintenance and other direct expenditures relating to the day-to-day servicing of property assets, plant & equipment that are necessary to ensure the continued and effective use of such assets.

For non-aligned assets, if there are CapEx or OpEx plans, the annual part of those plans can be included in the percentage of aligned CapEx or OpEx KPIs. For these plans, the following conditions have to be met :

- it shall aim to extend the scope of EU Taxonomy-aligned economic activities or it shall aim for economic activities to become EU Taxonomy-aligned within a period of maximum 5 years;
- it shall be approved by the management board of non-financial undertakings or another body to which this task has been delegated.

## 8.3.1 Turnover alignment percentage

**Additional informationon Turnover KPI may be found in AnnexI**

The KPI to obtain the percentage of turnover aligned with the EU Taxonomy is shown in Figure 16.

$$\text{KPI Turnover (\%)} = \frac{\text{Net turnover aligned with the EU Taxonomy}}{\text{Total net turnover}}$$

**Figure 16 – KPI Turnover[1]**

**Net turnover aligned with the EU Taxonomy**

Net turnover derived from products or services associated with Taxonomy-aligned economic activities.

**Total net turnover**

Total net turnover (or absolute turnover) of both EU Taxonomy-aligned, EU Taxonomy not-aligned activities and of activities which are not eligible under the EU Taxonomy

***The total net turnover (or absolute turnover) shall cover the revenue recognised pursuant to International Accounting Standard (IAS) 1,paragraph 82(a), as adopted by Commission Regulation (EC) No 1126/2008. Although IFRS15 and IFRS16 are also commonly used for "turnover", these are not explicitly mentioned by the regulation and therefore are not added here.***

[1]Please note that the formula is included in the EU Taxonomy article 8 Delegated Act annex I, section 1.1.1, and available here: taxonomy-regulation-delegated-act-2022-environmental-annex-5_en_1.pdf (europa.eu)

# 8.3.2 CapEx alignment percentage

**Additional information on CapEx KPIs may be found in Annex II**

The calculation of the percentage of capital expenditure that is aligned with the EU Taxonomy shall be performed as indicated in Figure 17.

- *Leases that do not lead to the recognition of a right-of-use over the asset shall not be counted as CapEx.*
- *As there is regulatory uncertainty around the planned CapEx over multiple years, only the planned CapEx of the reporting year shall be added in the formula to avoid double counting in future years.*

**CapEx associated with EU Taxonomy-aligned activities**
\+
**CapEx plan to expand EU Taxonomy-alignment**
\+
**CapEx related to the purchase of output from Taxonomy-aligned economic activities**

---

**Total CapEx**

=

**KPI CapEx (%)**

**Figure 17 – KPI CapEx[1]**

**CapEx associated with EU Taxonomy-aligned activities**

Capital expenditure related to assets or processes that are associated with EU Taxonomy-aligned economic activities.

**CapEx plan to expand EU Taxonomy-alignment**

Capital expenditure that is part of a plan to expand EU Taxonomy-aligned economic activities or to allow EU Taxonomy-eligible economic activities to become EU Taxonomy-aligned (‘CapEx plan’).

**CapEx related to the purchase of output from Taxonomy-aligned economic activities**

Capital expenditure related to the purchase of output (acquired output) from EU Taxonomy-aligned economic activities and individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions.

**Total CapEx**

Additions of tangible and intangible assets during the financial year (considered before depreciation, amortisation and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes). This shall include planned CapEx over the reported period to avoid double-counting as per the inclusion of planned CapEx in the numerator.

For non-financial undertakings applying IFRS as adopted by Regulation (EC) No 1126/2008, CapEx shall cover costs that are accounted based on the relevant IAS and IFRS standards. For example, capitalised interests should be taken in the computation, based on IAS23 paragraph 1 and 8, as well as IAS40 paragraph 76(a).

For non-financial undertakings applying GAAP, CapEx shall cover the costs accounted under the applicable GAAP that correspond to the costs included in the capital expenditure by non financial undertakings applying IFRS. Regarding the CapEx plan, details are shown in Figure 18.

(a) The plan aims at either to expand the undertaking’s EU Taxonomy-aligned economic activities or to upgrade EU Taxonomy eligible.
(b) Economic activities to render them EU Taxonomy aligned within a period of five years.

The plan shall be disclosed at economic activity aggregated level and be approved by the management body of non-financial undertakings either directly or by Delegation.

**Figure 18 - CapEx plan**

[1] Please note that the formula is included in the EU Taxonomy article 8 Delegated Act annex I, section 1.1.2, and available here: [taxonomy-regulation-delegated-act-2022-environmental-annex-5_en_1.pdf (europa.eu)](taxonomy-regulation-delegated-act-2022-environmental-annex-5_en_1.pdf)

## 8.3.3 OpEx alignment percentage

The calculation of the percentage of operational expenditure that is aligned with the EU Taxonomy shall be performed as described in Figure 19.

**Additional Information on OpEx KPIs may be found in Annex III**

***Research and development costs already accounted for in the CapEx KPI shall not be counted as OpEx. e.g. development costs for intangible assets, IAS 38.***

**KPI OpEx (%)** = (**OpEx associated with EU Taxonomy-aligned activities** + **OpEx plan to expand EU Taxonomy-alignment** + **OpEx related to the purchase of output from EU Taxonomy-aligned economic activities**) / **Total OpEx**

**OpEx associated with EU Taxonomy-aligned activities**

Operational expenditure related to assets or processes associated with EU Taxonomy-aligned economic activities, including training and other human resources adaptation needs, and direct non-capitalized costs of research and development.

**OpEx plan to expand EU Taxonomy-alignment**

Operational expenditure that is part of the CapEx plan to expand EU Taxonomy aligned economic activities or allow EU Taxonomy-eligible economic activities to become Taxonomy-aligned within a predefined timeframe.

**OpEx related to the purchase of output from Taxonomy-aligned economic activities**

Operational expenditure related to the purchase of output (acquired output) from Taxonomy-aligned economic activities and to individual measures enabling the target activities to become low-carbon or lead to greenhouse gas reductions as well as individual building renovation measures.

**Total OpEx**

Direct non-capitalized costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of property assets, plant & equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets. This shall include planned CapEx over the reported period to avoid double-counting as per the inclusion of planned CapEx in the numerator.

Figure 19 – KPI OpEx[1]

Where the operational expenditure is not material for the business model of non-financial undertakings, those undertakings shall fulfill the following criteria: (a) be exempted from the calculation of the numerator of the OpEx KPI in accordance with point 1.1.3.2 of the regulation and disclose that numerator as being equal to zero; (b) disclose the total value of the OpEx denominator calculated in accordance with point 1.1.3.1 of the regulation; and (c) explain the absence of materiality of operational expenditure in their business model.

[1] Please note that the formula is included in the EU Taxonomy article 8 Delegated Act annex I, section 1.1.3, and available here: [taxonomy-regulation-delegated-act-2022-environmental-annex-5_en_1.pdf (europa.eu)]

# 8.4 EU Taxonomy Reporting Example

The following pages aims at presenting a proposed example of how a company should proceed to:

1. Define if its economic activities are EU Taxonomy eligible
2. Define if its economic activities are EU Taxonomy aligned
3. Report on the three KPIs (Turnover, CapEx and OpEx)

We will use as an example a company that is buying real estate and exercising ownership of that real estate.

We will firstly provide a view of the steps to define the eligibility of the assets under the EU Taxonomy and we will perform the steps to define if they are compliant with the TSC for "substantial contribution" and "do no significant harm" both for CCA and CCM, including minimum safeguards.

Finally, we will provide an example of reporting, filling the templates related to the activity eligibility and alignment.

## Use case: RE Company

**Economic activities of the Company**

- The Real Estate Company buys real estate and exercises ownership of that real estate. 97% of the revenue is coming from this activity.
- Additionally, the company performs landscape service activities as well, including planting, care & maintenance of parks and gardens. 3% of the turnover is coming from this activity.
- The first activity is linked to NACE code L68 and the second to N81.3.

**EU Taxonomy Eligibility**

The first phase is about specifying the nature of business and checking those parts which would be eligible under the Taxonomy requirements.

**1 Are my economic activities eligible?**

To understand if my economic activities are eligible, I need to check if they appear in the technical screening criteria.

***« 7.7 Acquisition and ownership of buildings***

*Description of the activity :*

*Bying real estate and exercising ownership of that real estate »*

Buying real estate and exercising ownership of that real estate (L68)

I can find the eligible activity "7.7 Acquisition and ownership of buildings", and the description is consistent with my economic activity → **This economic activity is eligible to make a substantial contribution to climate change.**

Planting, care and maintenance of parks and gardens (N81.3)

I cannot find this activity in the technical screening criteria nor any similar description to match it → **This economic activity is not in the scope to make a substantial contribution to climate change, and therefore, it is not eligible.**

*Note: NACE codes can be used as a reference, but it is necessary to check the description of the activity.*

https://ec.europa.eu/sustainable-finance-taxonomy/taxonomy-compass

# 8.4 EU Taxonomy Reporting example

**2** **How do I report on my eligible activities?**

The proportion of Turnover, CapEx and OpEx that is linked to the eligible activities will determine my percentage of eligibility as a company. In this particular case, I will need to identify the proportion of Turnover, CapEx and OpEx which is linked to my eligible activity, i.e. buying real estate and exercising ownership of that real estate (L68).

$$\text{KPI eligibility (\% Turnover)} = \frac{\text{Net Turnover linked to eligible activities}}{\text{Total net Turnover}}$$

$$\text{KPI eligibility (\% CapEx)} = \frac{\text{CapEx linked to eligible activities}}{\text{Total CapEx}}$$

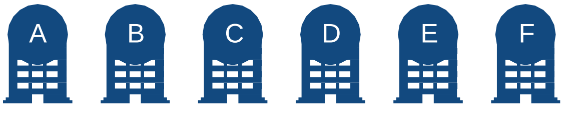
$$\text{KPI eligibility (\% OpEx)} = \frac{\text{OpEx linked to eligible activities}}{\text{Total OpEx}}$$

**3** **Are my economic activities aligned?**

For this step we will focus on the eligible activity only. The activity which is not eligible is already out of scope, not eligible = not aligned.

Buying real estate and exercising ownership of that real estate (L68)

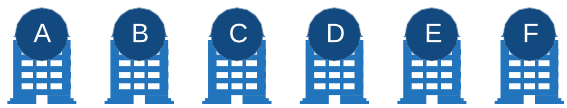
For this example, the company is exercising ownership of 6 buildings:



# 8.4 EU Taxonomy Reporting example (cont.)

**4** **Do the buildings meet the criteria for substantial contribution to CCM?**

The company verifies whether the buildings substantially contribute to CCM and CCA through the assessment of the TSC. We start with CCM, and for those assets not meeting the CCM criteria, we can check CCA.




### Substantial Contribution check for Climate Change Mitigation

The company first checks when the buildings were built. All six buildings were built before 31 December 2020, therefore, it consequently verifies the EPC class of the six buildings.

A B

Two buildings are non-residential and own an EPC class A.

They comply with "Substantial Contribution" check, we can proceed to the "DNSH" check.

C D

These buildings own an EPC class C and are not within 15% of the national or regional building stock in terms of PED.

They are not aligned.

E F

These buildings own an EPC class D and are not within 15% of the national or regional building stock in terms of PED.

They are not aligned.

Buildings A,B **comply** with the Substantial Contribution criteria for CCM, we can proceed with DNSH checks.

Buildings C, D, E, F **do not comply** with the Substantial Contribution criteria for CCM.

**For this buildings, we can still check if they comply with the requirements to make a substantial contribution to CCA.**

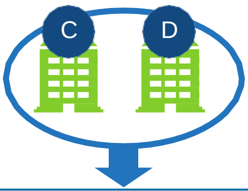
**5** **Do the buildings meet the criteria for substantial contribution to CCA?**

### Substantial Contribution check for Climate Change Adaptation

Consequently, the company checks whether the buildings substantially contribute to the CCA goal, as they are not able to meet the criteria for CCM (which is more restrictive).
To verify the compliance with TSC, the company performs a vulnerability assessment of the buildings against the climate hazards as shown on Page 13 of this document and discovers that the most "material" hazard is linked to the rise of sea level, therefore, it analyses whether adaptation measures were put in place at buildings level.

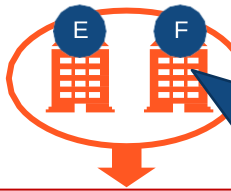
# 8.4 EU Taxonomy Reporting example (cont.)

### Substantial Contribution check for Climate Change Adaptation




The two buildings put in place adequate adaptation solutions, and complies with all the TSC for substantial contribution.

They comply with "Substantial Contribution" check for CCA, we can proceed to the "DNSH" check.




Building F has a CapEx plan to put in place the necessary adaptation solutions, but it is not in place yet.

The buildings does not have any adaptation solutions in place to tackle the material climate hazards.

They are not aligned.

***It is possible for buildings to qualify to under CCM and CCA objectives. However, they will only be counted once in for the financial KPIs.***

## 6 Do the buildings meet the criteria DNSH?

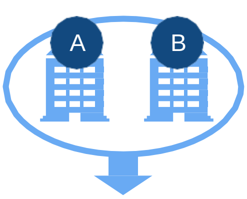
As a third step, the company verifies for the assets that complied with the "Substantial Contribution" TSC check for Climate Change Mitigation and Adaptation if they comply with the respective "DNSH" checks.

- For assets making a substantial contribution to CCM, the DNSH is performed for CCA.
- For assets making a substantial contribution to CCA, the DNSH is performed for CCM.

### DNSH check for alignment with CCM (Substantial contribution to CCM)

(Substantial contribution to CCM)

DNSH check is linked to CCA




The two buildings have put in place adequate adaptation solutions to tackle the climate hazards that resulted to be "material" from the vulnerability assessment performed by the company.

They comply with "DNSH" check, they can proceed to the Minimum safeguards check.

| Do no significant harm ('DNSH') | |
|---|---|
| (2) Climate change adaptation | The activity complies with the criteria set out in Appendix A to this Annex. |
| (3) Sustainable use and protection of water and marine resources | N/A |
| (4) Transition to a circular economy | N/A |
| (5) Pollution prevention and control | N/A |
| (6) Protection and restoration of biodiversity and ecosystems | N/A |

*Appendix A*

GENERIC CRITERIA FOR DNSH TO CLIMATE CHANGE ADAPTATION

I. **Criteria**

The physical climate risks that are material to the activity have been identified from those listed in the table in Section II of this Appendix by performing a robust climate risk and vulnerability assessment with the following steps:

(a) screening of the activity to identify which physical climate risks from the list in Section II of this Appendix may affect the performance of the economic activity during its expected lifetime;

(b) where the activity is assessed to be at risk from one or more of the physical climate risks listed in Section II of this Appendix, a climate risk and vulnerability assessment to assess the materiality of the physical climate risks on the economic activity;

(c) an assessment of adaptation solutions that can reduce the identified physical climate risk.

The climate risk and vulnerability assessment is proportionate to the scale of the activity and its expected lifespan, such that:

(a) for activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using climate projections at the smallest appropriate scale;

***For the 7.7 activity, the only DNSH defined when you make a substantial contribution to CCM, is linked to CCA. There are no additional DNSH linked to the other environmental objectives.***

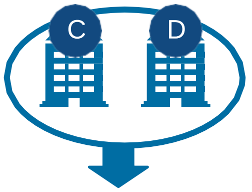
# 8.4 EU Taxonomy Reporting example (cont.)

Changed since 2022

## DNSH check for alignment with CCA (Substantial contribution to CCA)

**(Substantial contribution to CCA)**

**DNSH check is linked to CCM**

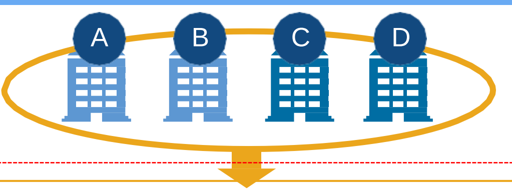



The two buildings are not dedicated to extraction, storage, transport or manufacture of fossil fuels and they have an EPC class C.

The assets comply with “DNSH” check, they can proceed to the Minimum safeguards check.

| Do no significant harm ('DNSH') | |
|---|---|
| (1) Climate change mitigation | The building is not dedicated to extraction, storage, transport or manufacture of fossil fuels.<br><br>For buildings built before 31 December 2020, the building has at least an Energy Performance Certificate (EPC) class C. As an alternative, the building is within the top 30 % of the national or regional building stock expressed as operational Primary Energy Demand (PED) and demonstrated by adequate evidence, which at least compares the performance of the relevant asset to the performance of the national or regional stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings.<br><br>For buildings built after 31 December 2020, the Primary Energy Demand (PED) ([617]) defining the energy performance of the building resulting from the construction does not exceed the threshold set for the nearly zero-energy building (NZEB) requirements in national regulation implementing Directive 2010/31/EU. The energy performance is certified using an as built Energy Performance Certificate (EPC). |

**7** **Is my economic activity (7.7. acquisition and ownership of buildings) complying with minimum safeguards?**

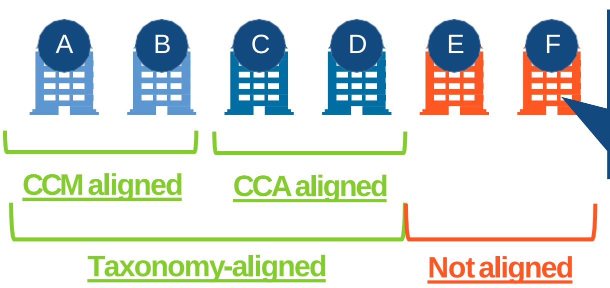



For the activity of acquisition and ownership of these assets, the company is aligned with the minimum safeguards as defined on Pages 21 (for OECD) and in a specific section for each objective of this report.

The economic activity 7.7 linked to these assets is EU Taxonomy-Aligned as the company respects business ethics, human rights and required guidelines.

***Minimum safeguards needs to be checked per economic activity but apply at entity level i.e. this exercise is easily scalable under the same company.***

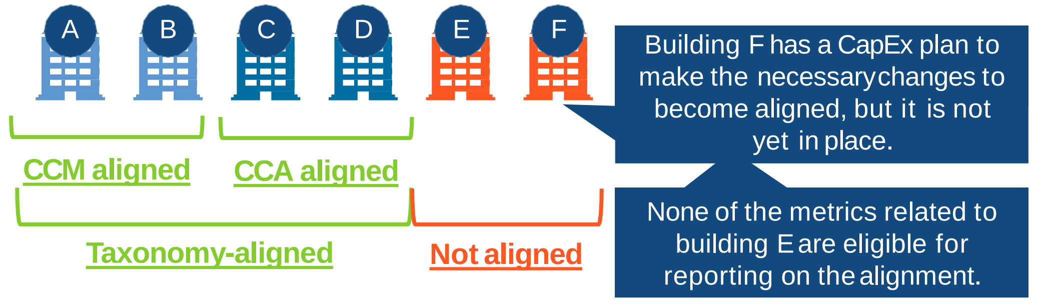
**8** **What is my final taxonomy-alignment?**




Building F has a CapEx plan to make the necessary changes to become aligned, but it is not yet in place.

# 8.4 EU Taxonomy Reporting example (cont.)

**9** **Once I know my alignment… how can I report?**




For this example, the company is exercising ownership of 6 buildings, with the following associated Turnover, CapEx, and OpEx. Please kindly note the metrics below are just indicative and for the purpose of this exercise only.

| Building | Turnover (M€) | CapEx (M€) | OpEx (M€) |
|---|---|---|---|
| A | 10 | 20 | 1 |
| B | 20 | 20 | 2 |
| C | 30 | 10 | 3 |
| D | 40 | 10 | 4 |
| E | 50 | 20 | 5 |
| F | 60 | 20 million CapEx plan | 10 |

**Turnover KPI calculation**

$$\text{KPI Turnover (\%)} = \frac{\text{Net turnover aligned with the EU Taxonomy}}{\text{Total net turnover}}$$

Turnover of buildings A, B, C and D

**Example of calculation for this use case:**

$$\text{KPI Turnover (\%)} = \frac{10 + 20 + 30 + 40}{10 + 20 + 30 + 40 + 50 + 60} = 47.6\%$$

*For a CapEx or OpEx plan that can be counted as Taxonomy-aligned, there is still regulatory uncertainty around the disclosure and accounting principles that shall be applied when the plan covers multiple years. Nonetheless, a common market practice can be observed which is only counting the realised CapEx or OpEx while a narrative explanatory note is added to disclose the additional planned CapEx or OpEx for the coming years. This is also done in the objective of reconciling with accounting systems and avoid any discrepancies. At the same time shareholders and future investors will be aware of the full CapEx or Opex plan for the coming years.*

# 8.4 EU Taxonomy Reporting example (cont.)

**10** Once I know my alignment… how can I report?

### CapEx KPI calculation

$$\text{KPI CapEx (\%)} = \frac{\text{CapEx associated with Taxonomy-aligned activities} + \text{CapEx plan to expand Taxonomy-alignment} + \text{CapEx related to the purchase of output from Taxonomy-aligned economic activities}}{\text{Total CapEx}}$$

CapEx associated with Taxonomy-aligned activities: CapEx of buildings A, B, C and D

### Example of calculation for this use case:

$$\text{KPI CapEx (\%)} = \frac{(20 + 20 + 10 + 10) + 0 + 0}{100} = 60.0\%$$

### OpEx KPI calculation

$$\text{KPI OpEx (\%)} = \frac{\text{OpEx associated with EU Taxonomy-aligned activities} + \text{OpEx plan to expand EU Taxonomy-alignment} + \text{OpEx related to the purchase of output from EU Taxonomy-aligned economic activities}}{\text{Total OpEx}}$$

OpEx associated with EU Taxonomy-aligned activities: OpEx of buildings A, B, C and D

Changed since 2022

# 8.4 EU Taxonomy Reporting example (cont.)

## 11 Once I know my alignment… how can I report?

**Example of calculation for this use case:**

$$\text{KPI OpEx (\%)} = \frac{(1+2+3+4) + 0 + 0}{1+2+3+4+5+10} = 40.0\%$$

## 12 In what format do I disclose these KPIs?

The disclosure of the KPIs for the purpose of reporting needs to follow the specific templates set out in the Taxonomy Art.8 delegated acts.

**Example of Turnover KPI calculation:**

### Table 9 – Disclosure covering year N for non-financial undertakings

| **Financial year N** | ***Year*** | | | **Substantial contribution** | | | | | | **Do no significant harm** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Economic activities (1) | Codes | Turnover | Proportion of turnover, year N | Climate Change Mitigation | Climate Change Adaptation | Water | Pollution | Circular Economy | Biodiversity | Climate Change Mitigation | Climate Change Adaptation | Water | Pollution | Circular Economy | Biodiversity | Minimum Safeguards | Proportion of Taxonomy Aligned or Eligible turnover, year N-1 | Category enabling activity | Category Transitional activity |
| **A. Taxonomy Eligible activities: 97%** | | | | | | | | | | | | | | | | | | | |
| **A.1 Environmentally sustainable activities (Taxonomy Aligned)** | | | | | | | | | | | | | | | | | | | |
| Activity 1 – Acquisition and ownership of buildings | L68 | 216 | 100% | 14.3% | 33.3% | 0% | 0% | 0% | 0% | Y | Y | N | N | N | N | Y | 47.6% | 0% | 0% |

x3 3 Tables in total to be reported for each of the KPIs: Turnover, CapEx and OpEx

# 8.5 Double counting in EU Taxonomy reporting

## 13 Double counting considerations

As stated in the Disclosure Delegated Regulation (EU) 2021/2178, non-financial undertakings shall explain their approach to avoiding any double counting in the allocation in the numerator of turnover, CapEx, and OpEx KPIs across economic activities.

This is extremely relevant for activities contributing to multiple environmental objectives.

For example, the economic activity “Construction of new buildings” has the potential to bring substantial contribution to the three environmental objectives: CCM, CCA and CE (see page 49).

If double counting is not taken into account, the total CapEx of environmentally-sustainable activities could be reported with errors.

There is an opinion on the market of CCM being the most ‘valuable’ objective, which is of specific interest and concern of financial institutions. This is also supported by the common view that CCA is a more complicated objective of the climate ones. CE being a relatively new objective is not yet assessed widely.

At the same time, there is an alternative opinion on the market, that despite the difficult pathway to validate CCA alignment, once the exercise is performed, it can be distributed across various assets, thus bringing additional savings.

### Approach: attempt to distribute CapEx costs between different EU Taxonomy objectives

Some market players would prefer to assess the amounts of CapEx for activities that contribute to various EU Taxonomy objectives.

For example, having passed the required checks (TSC for substantial contribution, DNSH, Minimum safeguards checks) for CCM and CE, some of the market participants try to identify CapEx that refers to:

- Waste management – to allocate it to the transition to circular economy objective;
- Energy efficiency – to allocate it to the climate change mitigation objective.

### Approach: assess the overall target of the building to allocate all costs to a single EU Taxonomy objective

Another approach observed on the market is to identify what is the key goal of the real estate asset – whether the building / restoration will target climate change or other environmental objectives.

Thus, for example, if the upgrades expected aim at improving the overall energy performance of the building, market players assess TSC and minimum safeguards applicable for CCM.

Also, the current market trend is that some real estate actors have a specific prioritization of EU Taxonomy objectives. Market players target CCM as the most desired objective, followed by CCA and CE being the last one (probably due to being new).

Changed since 2022

# Process overview – activity 7.1 'Construction of new Buildings':

For alignment, we will first check the following for each building:

## Does the building meet the criteria for substantial contribution to CCM?

**Yes**

If it meets the criteria for substantial contribution to CCM, we will check that DNSH requirements + minimum safeguards are met. If they are all met ***the economic activity linked to the buildings is aligned with the CCM objective***.

**No**

If it does not meet the criteria for substantial contribution to CCM, we will check CCA.

## Does it meet the criteria for substantial contribution to CCA?

**Yes**

If it meets the criteria for substantial contribution to CCA, we will check that DNSH requirements + minimum safeguards are met. If they are all met, ***the economic activity linked to the buildings is aligned with the CCA objective***

**No**

If the building does not meet the criteria for substantial contribution neither to CCM nor to CCA, we will check the CE objective

## Does it meet the criteria for substantial contribution to CE?

**Yes**

If it meets the criteria for substantial contribution to CE, we will check that DNSH requirements + minimum safeguards are met. If they are all met, ***the economic activity linked to the buildings is aligned with the CE objective***

**No**

If the building does not meet the criteria for substantial contribution to CE, the activity cannot be referred to as EU taxonomy aligned

**Note:** *Regardless of the environmental objective, we need to check compliance with minimum social safeguards. If there is no compliance with minimum safeguards, none of the economic activities linked to the buildings are Taxonomy-aligned.*

Changed since 2022

# 9 Key Challenges and Market Examples

## 9.1 Classification under Taxonomy activities

Considering the regulatory timeline as presented on Page 11 of this report, the market actors should embrace key implementation steps, to keep up with the upcoming reporting requirements.

Figure 20 displays the key areas on which market participants need to focus for the EU Taxonomy implementation and prepare to comply with related reporting obligations.

**FY 2022**

- Entry into force of Climate Change Mitigation and Climate Change Adaptation EU Taxonomy objectives
- Financial and non-financial undertakings to disclose EU Taxonomy eligibility for the two objectives
- Non-financial undertakings to prepare for the 1 January 2023 requirement to disclosure EU Taxonomy alignment for CAA and CCM

**FY 2023**

- Non-financial undertakings to disclose EU Taxonomy alignment for the Climate Delegated Regulation objectives (CCA and CCM)
- Discovery of the 4 new environmental objectives published 27 June 2023
  - Sustainable use of water and marine resources
  - Transition to a circular economy
  - Pollution prevention and control
  - Protection and restoration of biodiversity and ecosystems

**Figure 20 - EU Taxonomy implementation timeline**

From 1 January 2024, financial and non-financial undertakings need to disclose their EU Taxonomy eligibility for the four remaining objectives. From this point on, financial undertakings must also disclose their alignment with the EU Taxonomy objectives of CCA and CCM.

Furthermore, companies should focus on the role of the audit especially for these coming obligations, since the introduction of CSRD means that the market players will not only make effort to report on EU Taxonomy KPIs, but they will also have to pass external assurance and ensure that they can provide the sufficient evidence for the calculations they performed.

In addition to actions to be taken in the context of the EU Taxonomy, companies should also start to consider the application of the Corporate Sustainability Reporting Directive (CSRD) to their activities in order to anticipate potential upcoming reporting requirements.

The implementation of the EU Taxonomy comes with several challenges for companies, some of them are mainly related to:

1. Reviewing the EU Taxonomy eligibility framework and developing an efficient framework for the alignment of the economic activities;
2. Updating the reporting process in order to include current EU Taxonomy reporting requirements and also future regulatory obligations (e.g. CSRD reporting requirements);
3. Ensuring transparent and effective communication following disclosure regulatory requirements;
4. Anticipating the evolution of upcoming Taxonomies (e.g. Social Taxonomy).

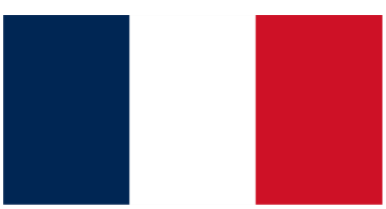
Overall, the main objectives on which companies need to focus in order to overcome these challenges consist of:

1. Preparing their organisations and their communication means;
2. Developing eligibility and alignment frameworks that are simple and workable;
3. Adapt internal means and processes to the above mentioned challenges.

The following pages will focus on examples of best market practices for EU Taxonomy alignment in the real estate sector acquisition and ownership of existing building activity, especially focusing on the approaches and benchmarks adopted in different countries to ensure the compliance with EU Taxonomy TSC for "substantial contribution" and "do no significant harm".

# 9.2 Market examples

For the Acquisition and ownership of existing buildings activity, the European Taxonomy has established consumption thresholds of primary energy to determine whether an asset contributes substantially (Top15%) or does no significant harm (Top30%) climate change mitigation. Despite the installation of safeguards and directives derived from the EU Taxonomy, there is not yet a common approach across all countries to determine that a building is within the top 15% of the national building stock. Instead, the EU Taxonomy gives to individual countries the freedom to decide on the exact criteria themselves. The following list of examples is not exhaustive and only shows some early market examples which were noted at the time of producing these guidelines. Once the Taxonomy reporting requirements apply and more examples surface, more clarity will become available on this.



## Example 1: France

In France, two entities are working separately to establish Benchmarks and best practices. On the one hand, the OID (Observatoire de l'immobilier Durable) is an association uniting public and private stakeholders in the French Real Estate Industry.

The OID, through its annual work of collecting energy and environmental performance data within the framework of the Energy Performance Barometer[1], constitutes a reference database in France, and is therefore able to provide the EU Taxonomy thresholds for France. The Building stock analysed includes several types of assets including offices, residential, shopping centers and large food surfaces for a total area of 18,522,057 m².

The thresholds are as follows:
Offices 161 kWh/m².year, Residential houses 135 kWh/m².year, General shopping centres 105 kWh/m².year, High-rise office buildings 185 kWh/m².year.

***When it comes to the top 15% definition of the building stock, the OID study is starting to be used as reference in France, at least until other studies are published or more guidance is provided by the regulatory authorities.***

***Please note this report has not been endorsed by the French auditor's organisation CNCC or the French Treasury. Such an approach should be confirmed with your external auditors in advance.***

Source: [1]https://resources.taloen.fr/resources/documents/8683_OID_2023_Infographics_TOP15_TOP30_2023_EN.pdf

## Example 1: France (cont'd)

On the other hand, the National Observatory for Energy Renovation (ONRE) is a public Government entity which aims to improve knowledge of the energy renovation dynamics of all residential and tertiary buildings. In their July 2022 study[1], they classify as Top 15% buildings all buildings that belong to EPC A, EPC B and part of EPC C. EPC A includes buildings consuming up to 70 kWh/m².year, EPC B between 70 and 110 kWh/m².year and EPC C between 110 and 180 kWh/m².year.

## Example 2: Sweden

In Sweden, Fastighetsägarna, a trade association that works to find solutions for sustainable and functioning real estate challenges, is the entity that made a benchmark for the Top 15% of buildings. According to a December 2021 Fastighetsagarna's investigation, the threshold to be in the top 15% of the most energy-efficient buildings in Sweden depends on the nature of the building. Below a number of examples expressed in kWh/m2.year1:

Apartment buildings 75; Hotels, guest houses and dormitories 98; Restaurants 94; Office and administration 89; Food retail and warehouse premises 83; Other retail and warehouse premises 85; Shopping centers 98; Medical (24/7) 96; Medical (daytime) 92; Schools 98.
The whole valuation process will be continued and re-assessed throughout the lifecycles of the building.

## Example 3: Germany

The phenomenon of two associations paving the way was also the case in the German real estate market. The Association of German PfandbriefBanks (vdp) together with the consulting firm Drees & Sommer have presented benchmarking that supports credit institutions in providing evidence of conformity with the EU taxonomy for real estate financing. Specifically, benchmarks are derived to meet the so-called top 15% criterion.
Energy efficiency classes A+ or A are required for apartment buildings. If there is no energy certificate for residential buildings, their belonging in the top 15% can also be proven by an energy consumption, which should be less than 74 kWh or 70 kWh per square meter.
For commercial properties a proof of the Energy Saving Ordinance (EnEV), applicable at the time the building was constructed, must be provided. Drees & Sommer came to the conclusion that office and retail properties belong to the top 15% of their property class if they at least meet the requirements of EnEV 2009. In the case of logistics properties, it can be assumed that they belong to the top 15% if they were built in accordance with the specifications of the EnEV 2014 or a more recent regulation.

On the other hand the German association on sustainable building ("DGNB") already created in 2009 a certificate for sustainability. The certification system proved to be sophisticated as it covers most of the EU Taxonomy criteria (the remaining criteria are covered by the minimal requirements of the German law) and is therefore used today most frequently in the German real estate market and also accredited world-wide.

Source:
[1] document_travail_60_parc_logements_dpe_juillet2022.pdf (developpement-durable.gouv.fr)
[2] https://www.dgnb-system.de
[3] www.dgnb.de/de/aktuell/positionspapiere-stellungnahmen/hintergrundinformation-eu-taxonomie/index.php

## **Example 3: Germany** (cont'd)

At the beginning of the evaluation process for the certification, an internal DGNB auditor is assigned to the project as to assess up to 37 sub-criteria, depending on the status of the building and across the domains: ecology, economy, social cultural aspects, construction, processes and location. The status can be a new building, an active building or a renovation. The building type (commercial, private etc.) determines the different weights of each criteria.[2]

The whole valuation process will be continued and re-assessed throughout the lifecycle of the building. Subject to the assessment of each main criteria the auditor will award the building with a certificate in either bronze, silver, gold or platinum depending on the average completion rate of the criteria (e.g. platinum will be awarded at 80% general completion rate, if each criteria has at minimum 65%).[3]

If the DGNB system is further developed to match the Taxonomy, this may be used in a similar approach as the aforementioned example of Fastighetsägarna in Sweden.

***Similarly to the case in France, the DGNB has become a market reference to determine the top 15% of building stock until further clarification or guidance is provided by regulators.***

Source:
[1]Gränsvärden för hållbara byggnader enligt EU:s taxonomi klara - Fastighetsägarna (fastighetsagarna.se)

# FINAL WORDS

The Real Estate sector, given its high environmental impact, is in the spotlight of EU Regulations aimed at redirecting financial flows towards more environmentally sustainable investments, to achieve carbon- neutrality by 2050 or other interim targets.

The EU Taxonomy provides specific rules to be able to classify activities as being "sustainable" from an environmental point of view, which provide a common ground for all actors to communicate on their sustainability-related information as well as the level of sustainability integration.

The sustainability shift in the European regulations aims for transparency over the sustainability readiness and significantly impacts organisations' strategy and operations within the real estate sector. Actors under the current scope (as per page 11) will need to screen and to monitor the percentage of their activities that classify as environmentally "sustainable" and to take actions towards a better sustainability integration. The process requires extensive resources to demonstrate eligibility and alignment with the EU Taxonomy, and also integration within the existing reporting processes. The level of transparency and readiness will impact the market on one hand by reducing risks and enhancing long term sustainable returns, on the other hand the enhanced due diligence procedures following the EU Taxonomy requirements for alignments. Given that clear industry standards for reporting have not yet been developed, there will be difference in interpretations and comparability between sustainability performances might still be difficult. Nevertheless, conservative approaches and auditor's confirmations in advance of reporting are strongly recommended to avoid any risk of greenwashing.

Adding to these complex requirements, the differences observed in the interpretation of criteria to comply with the EU Taxonomy across European countries adds another level of complexity for organisations that operate in several markets, as they will have to calculate the EU Taxonomy eligibility and alignment of their investments using the approach or set of criteria defined in each specific country.

In this context, and with other upcoming regulatory obligations (i.e. CSRD) in the pipeline, organisations must remain in-tune with market practices and guidelines being published in order to continuously address the regulatory expectations at its highest level.

***Disclaimer:*** *For the preparation of these guidelines we have based ourselves on the EU Taxonomy's text, public information and on exchanges with market participants. We do not take responsibility for the results from applying these guidelines, as they should be adapted to local regulations, your business model and the methodologies should be confirmed with an external auditor in advance. In these guidelines we have not sought to establish the reliability of sources and we do not accept any responsibility for the text presented nor the results from applying the methodologies herein.*

[1]European Union, *"In focus: Energy Efficiency in buildings"*, available at: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-lut-17_en

# **Annex I** – KPI Numerators

| Turnover |
|---|
| • Part of the net turnover derived from products or services, including intangibles, associated with Taxonomy-aligned activities.<br>• Exclude part of the net turnover derived from products and services associated with economic activities that have been adapted to climate change in line with Article 11(1)(a) of the Taxonomy Regulation and in accordance with Annex II to Delegated Regulation (EU) unless those activities:<br>a) qualify as enabling activities in accordance with Article 11(1), point (b) of Regulation 2020/852, or<br>b) are themselves Taxonomy-aligned. |

| CapEx |
|---|
| The numerator shall include the part of the capital expenditure included in the denominator that is:<br>• related to assets or processes that are associated with Taxonomy-aligned economic activities, or<br>• part of a plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned ('CapEx plan') within a predefined timeframe, or<br>• related to the purchase of output from Taxonomy-aligned economic activities and individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions, , notably activities listed in sections 7.3* to 7.6** of Annex I of the [Climate Delegated Act], as well as other economic activities listed in the delegated acts referred to in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of Regulation (EU) 2020/852 and provided that such measures are implemented and operational within 18 months. |

| OpEx |
|---|
| The numerator shall include the part of the operating expenditure included in the denominator that is:<br>• related to assets or processes associated with Taxonomy-aligned economic activities, including training and other human resources adaptation needs, and direct non-capitalised costs that present research and development, or<br>• part of the CapEx plan to expand Taxonomy-aligned economic activities or allow Taxonomy-eligible economic activities to become Taxonomy-aligned within a predefined timeframe (see previous slide); or<br>• related to the purchase of output from Taxonomy-aligned economic activities and to individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions as well as individual building renovation measures as identified in the delegated acts adopted pursuant to in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of Regulation (EU) 2020/852 and provided that such measures are implemented and operational within 18 months.<br>***Note:*** *Research and development costs already accounted for in the CapEx KPI shall not be counted as OpEx (for instance development costs for intangible assets, IAS 38).* |

[1] European Union, "*In focus: Energy Efficiency in buildings*", available at: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-lut-17_en

# **Annex II** – KPI Denominators

| Turnover |
|---|
| The denominator is net turnover, and:<br>• For applying IFRS: The amounts that are presented as “revenue” according to IAS 1paragraph 82(a) should becount.<br>• For applying national GAAP: The amounts that are accounted for under the corresponding provision in national GAAP should be count. |

| CapEx |
|---|
| The denominator shall cover additions to tangible and intangible assets during the financial year considered before depreciation, amortisation and any remeasurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from businesscombinations.<br><br>For applying IFRS: CapEx shall cover costs that are accounted based on:<br>• IAS 16 Property, Plant and Equipment, paragraphs 73, (e), point (i) and point (iii);<br>• IAS 38 Intangible Assets, paragraph 118, (e), point (i);<br>• IAS 40 Investment Property, paragraphs 76, points (a) and (b) (for the fair value model);<br>• IAS 40 Investment Property, paragraph 79(d), points (i) and (ii) (for the cost model);<br>• IAS 41 Agriculture, paragraph 50, points (b) and (e);<br>• IFRS 16 Leases, paragraph 53, point (h).<br><br>For applying national GAAP:<br>• Costs that correspond to the costs included in the capital expenditure by non-financial undertakings applying IFRS<br>• Leases that do not lead to the recognition of a right-of-use over the asset shall not be counted as CapEx. |

| OpEx |
|---|
| The denominator shall cover direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party outsourced that are necessary to ensure the continued and effective functioning of such assets.<br>When applying national GAAP and not capitalising right-of-use assets lease costs shall be included in the OpEx in addition to the costs mentioned above. |

[1] European Union, *“In focus: Energy Efficiency inbuildings”*, available at: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-lut-17_en

# **Annex III** – Contextual Information

| Turnover |
|---|
| Explain the figures of Turnover KPI and the reasons for any changes in those figures in the reporting period.<br>Provide the complete set of the following information:<br>• a quantitative breakdown of the numerator in order to illustrate the key drivers of change in the turnover KPI during the reporting period;<br>• information about amounts related to Taxonomy-aligned activities pursued for non-financial undertakings' own internal consumption;<br>• a qualitative explanation of key elements of change in the turnover KPI during the reporting period.<br>Non-financial undertakings that have issued environmentally sustainable bonds or debt securities with the purpose of financing specific identified Taxonomy-aligned activities shall also disclose the turnover KPI adjusted to avoid double counting. |

## CapEx

Explain the figures of CapEx KPI and the reasons for any changes in those figures in the reporting period.

Provide all of the following information:

- a quantitative breakdown of the numerator:
    - additions to
        - property, plant and equipment,
        - to internally generated intangible assets, including in a business combination or acquired,
        - to investment properties acquired or recognised in the carrying amount and,
        - where applicable, to capitalised right-of-use assets;
    - additions related to acquisitions through business combinations;
    - expenses incurred in relation to Taxonomy-aligned economic activities and expenses incurred as part of a CapEx plan referred to in Chapter 1.1.2;
- a qualitative explanation of key elements of change in the CapEx KPI during the reporting period.
- Disclosing the key information about each of their CapEx plans, including all of the following:
    - the environmental objectives pursued;
    - the economic activities concerned;
    - research, development and innovation activities concerned (where relevant);
    - The timeframe during which each Taxonomy-aligned economic activity is expected to be expanded or whereby each economic activity is expected to become Taxonomy- aligned, including, in the latter case and where the timeframe exceeds five years, an objective justification based on the specific features of the economic activity and the upgrade concerned;
    - the total capital expense expected to be incurred for that purpose during the reporting period and during the timeframe of the CapEx plans.

Non-financial undertaking that have issued environmentally sustainable bonds or debt securities with the purpose of financing specific identified Taxonomy-aligned activities shall also disclose the CapEx KPI adjusted for the Taxonomy-aligned capital expenditure financed by such bonds or debt securities.

# Annex III
# – Contextual Information (Cont.)

| OpEx |
| --- |
| Explain the figures of OpEx KPI and the reasons for any changes in those figures in the reporting period.<br><br>Provide all of the following information:<br>• a quantitative breakdown of the numerator;<br>• a qualitative explanation of the key elements of change in the turnover KPI during the reporting period;<br>• an explanation of the other expenditures relating to the day-to-day servicing of items of property plant and equipment that are included in the calculation of OpEx for both the numerator and denominator;<br>• Where OpEx is part of a CapEx plan as referred to in Chapters 1.1.2.2. and 1.1.3.2., non-financial undertakings shall disclose the key information about each of their CapEx plans in line with the requirements of Chapter 1.2.3.2. |

# GLOSSARY

**Commission Delegated Regulation of 4.6.2021:** Delegated regulation supplementing Taxonomy Regulation by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

**Commission Delegated Regulation of 6.7.2021:** Delegated regulation supplementing Taxonomy Regulation by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation.

**Commission Delegated Regulation of 15.7.2022:** Complementary Climate Delegated regulation in the Official Journal, including, under strict conditions, specific nuclear and gas energy activities in the list of economic activities covered by the EU Taxonomy.

**Commission Delegated Regulation of 27.6.2023:** Delegated regulation supplementing Taxonomy Regulation by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the four remaining objectives of the: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control and; protection and restoration of biodiversity and ecosystems, as well as for determining whether that economic activity causes no significant harm to any of the other objectives. The regulation is not in force until the publication in the Official Journal.

**CSRD (Corporate Sustainability Reporting Directive):** European directive on non-financial reporting published in in June 2022. It aims to extend the requirements of the NFRD by expanding the scope of companies subject to extra-financial reporting obligations and detailing a common reporting methodology.

**DGNB (Deutsche Gesellschaft für Nachhaltiges Bauen):** The German Association of Sustainable Buildings promotes the development of sustainable real estate and aims at raising public awareness on the necessity and feasibility of greener buildings.

**DNSH (Do No Significant Harm)**: concept introduced in the Regulation of the European Taxonomy to ensure that an activity contributing to one of the environmental objectives (e.g. climate change mitigation), does not cause harm to any of the other environmental objectives (for example: biodiversity).

**EU Taxonomy:** The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. It could play an important role helping the EU scale up sustainable investment and implement the European green deal. The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for economic activities which can be considered environmentally sustainable.

**NFRD (Non-Financial Reporting Directive)**: European Directive 2014/95/EU which obliges large companies to publish non-financial information, relating to environmental matters, social, respect for human rights, the fight against corruption and diversity on boards administration. This directive exempts subsidiaries from their disclosure obligations if their parent undertaking publishes information for the entire group, including subsidiaries.

# GLOSSARY

**NZEB (Nearly Zero Energy Building):** concept of "building with almost zero energy consumption" defined by Directive 2010/31/EU, known as the EPBD (Energy) Directive Performance Building Directive). These are the buildings that have energy consumption low enough to may be covered by energy produced from renewable sources, including renewable sources on place or nearby.

**OID (Observatoire De l' Immobilier Durable):** The French-based Green Building Observatory is an independent space for exchanges between actors of the Real Estate industry on sustainable development, contributing to the rise of ESG topics in France and abroad.

**Platform of Sustainable Finance:** The Platform is an advisory body that has been established under Article 20 of the EU Taxonomy Regulation and is subject to the EU Commission's horizontal rules for expert groups.

**SFDR (Sustainable Finance Disclosure Regulation):** Regulation 2019/2088/EU on the publication of information in sustainability in the financial services sector, says "SFDR". This transparency obligation applies to financial markets actors and financial investment advisors at two levels: entity level and financial products.

**VDP (Verband Deutscher Pfandbriefbanken):** The Association of German Pfandbriefbanks represents the interests of the mortgage banks emitting pfandbriefs - covered bonds collateralised by long term assets – in front of national and European decision-making bodies and a broader public.

# ACRONYMS

**CapEx**: Capital Expenditure

**CSRD:** Corporate Sustainability Reporting Directive

**CCA**: Climate Change Adaptation

**CCM:** Climate Change Mitigation

**DNSH:** Do No Significant Harm

**DGNB:** Deutsche Gesellschaft für Nachhaltiges Bauen – German Association of Sustainable Buildings

**DWMP:** Demolition Waste Management Protocol

**EC:** European Commission

**EnEV:** Energieeinsparverordnung –Energy Saving Ordinance

**EPC:** Energy Performance Certificate

**EPRA**: European Public Real Estate Association

**ESG**: Environmental, Social and Governance

**EU:** European Union

**GBS:** Green Bond Standard

**GAAP:** General Accepted Accounting Principles

**GWP:** Global Warming Potential

**KPI**: Key Performance Indicators

**IAS**: International Accounting Standard

**IFRS:** International Financial Reporting Standard

**IPCC:** Intergovernmental Panel on Climate Change

**NACE**: Nomenclature of Economic Activities

**NFRD**: Non-Financial Reporting Directive

**NZEB:** Nearly Zero Energy Buildings

**PED:** Primary Energy Demand

**OECD:** Organisation for Economic Co-operation and Development

**OID:** Observatoire De l' Immobilier Durable

**ONRE:** National Observatory For Energy Renovations

**OpEx**: Operational Expenditure

**REIT:** Real Estate Investment Trust

**RTS:** Regulatory Technical Standards

**SFDR:** Sustainable Finance Disclosure Regulation

**SMEs:** Small and Medium Enterprises

**S&T:** Science and Technology

**TSC**: Technical Screening Criteria

**UN**: United Nations

**VDP:** Verband Deutscher Pfandbriefbanken– Association of German Pfandbriefbanks

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European Real Estate sector. With more than 290 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 840 billion of real estate assets and 95% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

EPRA's mission is to promote, develop and represent the European public Real Estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, promotion of best practices and the cohesion and strengthening of the industry.

**Find out more about our activities on www.epra.com**

## EU Taxonomy Working Group:

For the purpose of formulating these guidelines, EPRA relied on the expert guidance and advice of a specially formed working group: alstria, Aroundtown, Cofinimmo, Gecina, Grainger, Icade, Inmobiliaria Colonial, Klépierre, Pandox, SEGRO, Swiss Prime Site, TAG, Vonovia

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