

# EU Taxonomy in Equinor

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## EU taxonomy for sustainable activities

What the EU is doing to create an EU-wide classification system for sustainable activities

# The purpose of the EU Taxonomy

	<b>Agriculture and forestry</b>
	<b>Manufacturing</b>
	<b>Electricity, gas, steam and air conditioning supply</b>
	<b>Water, sewerage, waste and remediation</b>
	<b>Transport</b>
	<b>Information and Communication Technologies (ICT)</b>
	<b>Buildings</b>

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## Sustainable finance

The EU is examining how to make sustainability considerations an integral part of its financial policy in order to support the European green deal

**Overview of sustainable finance**

A Commission workstream that supports the European green deal aim of channelling private investment towards the transition to a climate-neutral economy.

**Corporate disclosure of climate-related information**

Guidance for companies on how to report on the impacts of their business on the climate and on the impacts of climate change on their business.

**International Platform on Sustainable Finance**

Forum for dialogue between policymakers, with the aim of increasing the amount of private capital being invested in environmentally sustainable investments

**EU taxonomy for sustainable activities**

What the EU is doing to create an EU-wide classification system for sustainable activities.

**European green bond standard**

How an EU-wide standard could encourage market participants to issue & invest in EU green bonds and improve the effectiveness & credibility of the market.

**Sustainability-related disclosure in the financial services sector**

What the obligations are for manufacturers of financial products and financial advisers towards consumers and investors.

**EU climate benchmarks and benchmarks' ESG disclosures**

Make benchmark methodologies more transparent when it comes to ESG factors, put forward standards for the new benchmarks, and how to benchmark

# Outline of the EU Taxonomy

The Taxonomy sets performance thresholds for economic activities which:

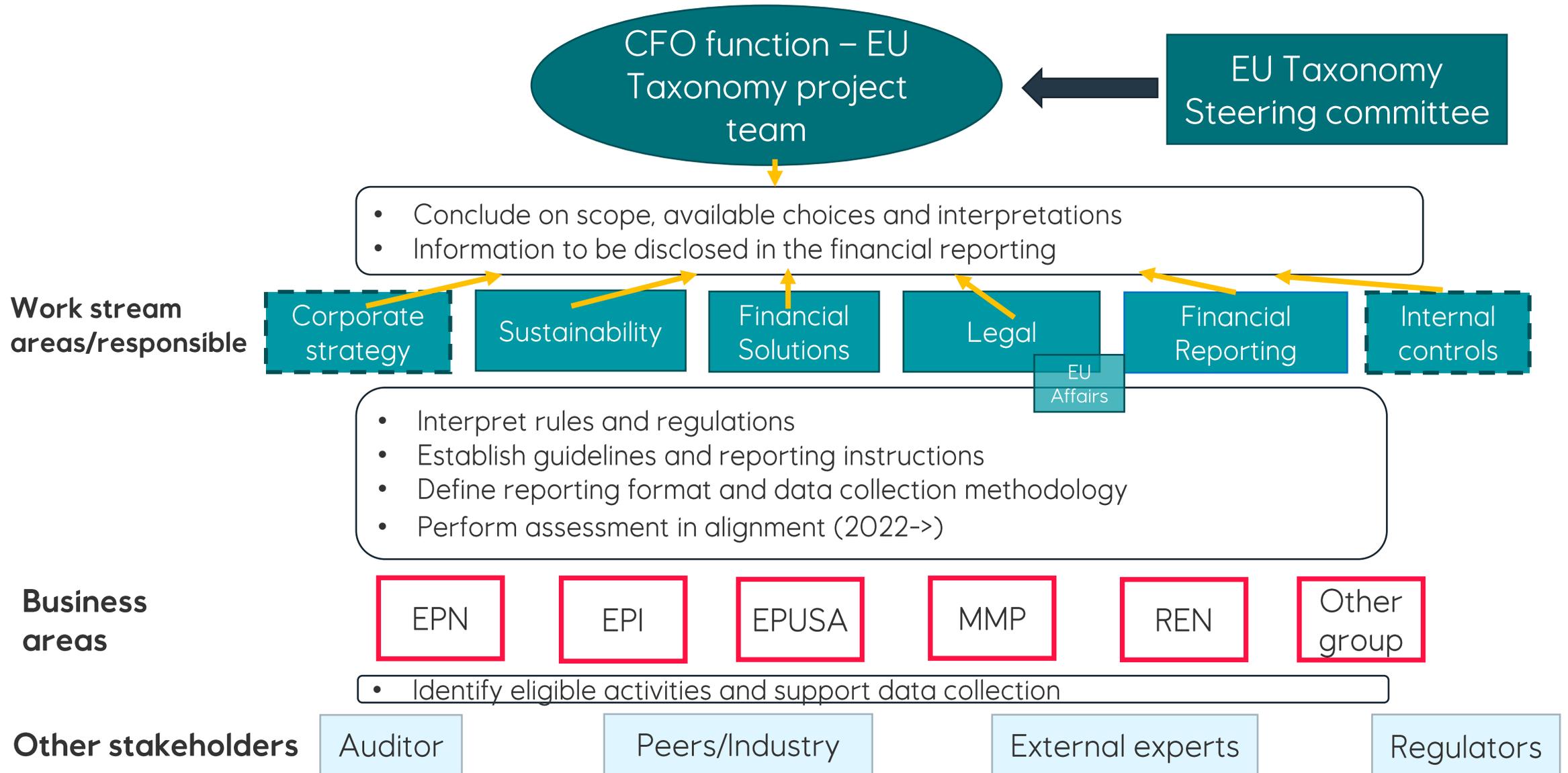


Large companies who are already required to provide a non-financial statement under the Non-Financial Reporting Directive; and



Financial market participants<sup>i</sup> offering financial products<sup>ii</sup> in the EU, including occupational pension providers;

# Project structure



# Understanding the requirements - Where are we and where are we going?

- Establishment and education of project team and steering committee
- Interactions with regulators
- Initiated and participated in peer group working groups / discussions
- Information meetings with expected stakeholders and different functions
- Identifying eligible activities and potential eligible activities
- Working on how to extract required data and methodology choices needed to be made



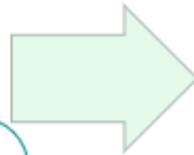
# Reporting requirements

## Delegated Act on Taxonomy Disclosures (Article 8)

2022 – Financial year 2021

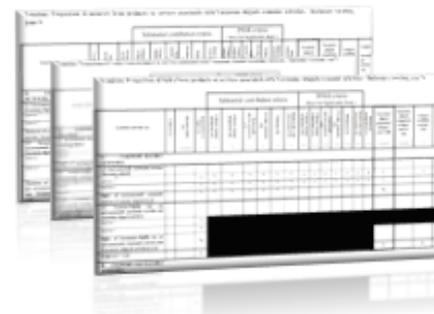
- For climate change mitigation and adaptation activities
- Disclose the **share** of Taxonomy-eligible and Taxonomy non-eligible activities in total activities and **related qualitative information**

2021	Revenue	Capex	Opex
<b>EU Taxonomy</b>			
Eligible activities	xx	xx	xx
Non-eligible activities	xx	xx	xx
<b>Total</b>	<b>xx</b>	<b>xx</b>	<b>xx</b>



2023 – Financial year 2022

- All six environmental objectives
- **Tabular form (template)**
- Granular information
- **KPIs**
  - Turnover
  - CapEx
  - OpEx
- Disclosure accompanying KPIs
  - Accounting policy
  - Contextual information of KPI



### REVENUE



■ Aligned ■ Not aligned ■ Not categorised

### CAPEX



■ Aligned ■ Not aligned ■ Not categorised

### OPEX

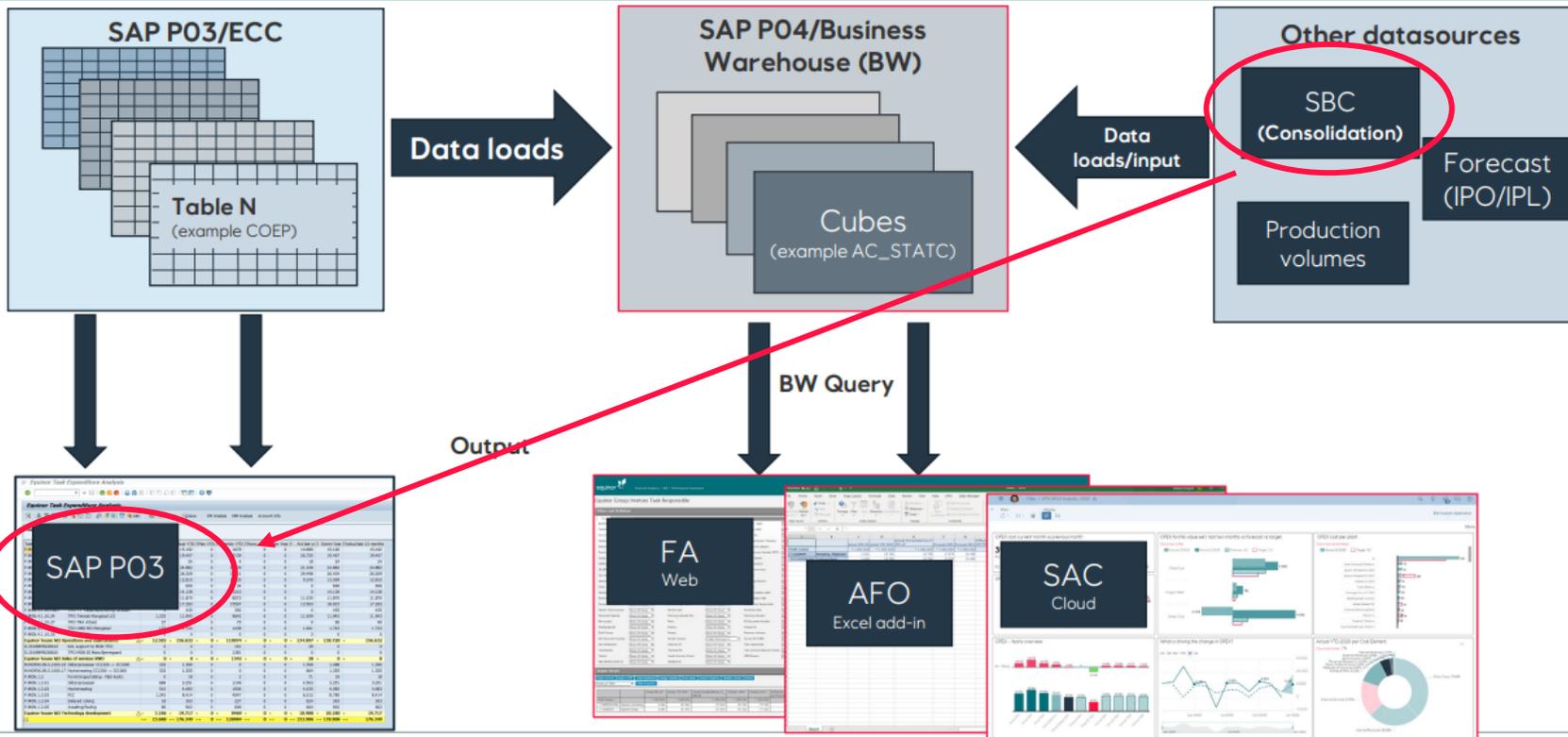


■ Aligned ■ Not aligned ■ Not categorised

# Data flows in the reporting systems

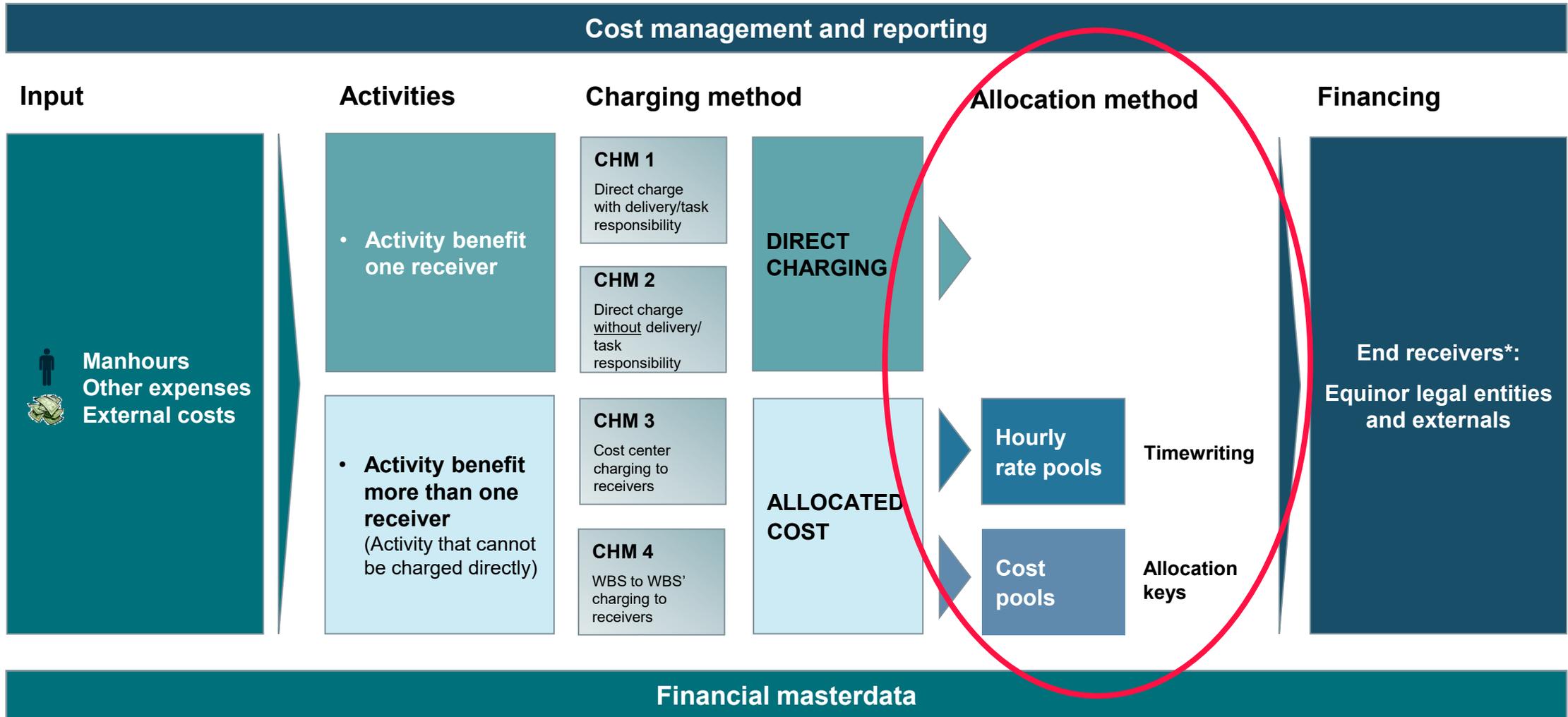


## Data flow (Simplified)



How to link turnover/CapEx/Opex to EU Taxonomy activities?

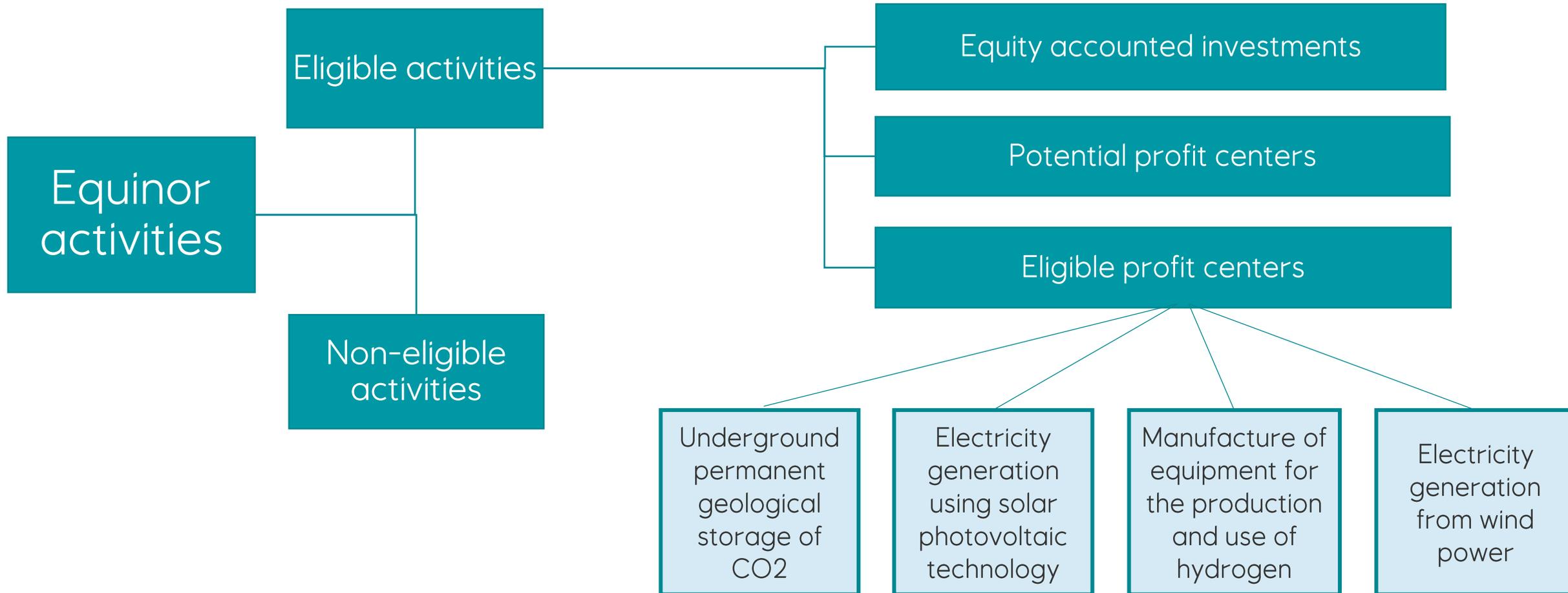
# Equinor's charging and allocation model



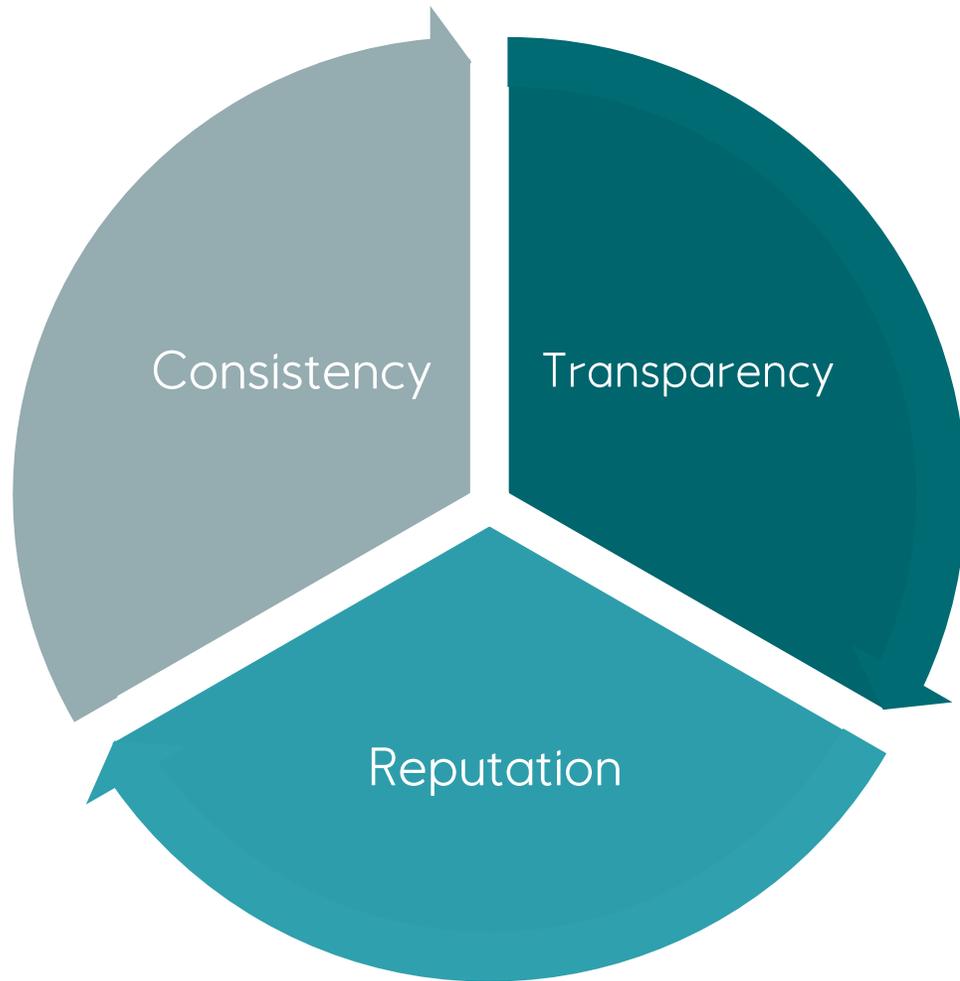
\*) If receiver wbs (cost center) is an allocation wbs (C.) the cost will be included in further allocation of cost to final end-receiver



# Equinor's eligible activities



## Methodology challenges



- Enabling or transitional activities counted as eligible activities or not
- Equity accounted investments
- Exemption to not disclose Opex KPI
- Non-GAAP KPI
- Eligible natural gas activities to be included in KPI?

# Example: Electrification of oil & gas activities



- The EU Taxonomy Regulation recognizes three types of activities (Art 10-11, 16 of Regulation 2020/852)
  - Activities that directly contribute to EU environmental objectives
    - Transitional activities
    - Enabling activities
- Lock-in effect: “does not lead to a lock-in of carbon-intensive assets, considering the lifetime of those assets” Article 10.2(c) (transitional activities) and 16(a) (enabling activities)
  - For certain activities (in the delegated acts) it is specifically detailed that in order to meet the DNSH criteria, the activity can't be dedicated to fossil fuels

**Sea and coastal freight water transport, vessels for port operations and auxiliary activities**

Do no significant harm criteria ^

Climate mitigation ^

The vessels are not dedicated to the transport of fossil fuels.

**Electricity generation from wind power**

Contributing to climate mitigation v

Contributing to climate adaptation v

The delegated act has for the activity «electricity generation from wind power» no such exemption

There are views that electrification of oil & gas production may not be regarded as a green activity based on the Taxonomy objective

# How to define the Opex KPI

## NUMERATOR

Direct non-capitalized costs that relate to:

- **Assets/processes associated with Taxonomy activities**
  - **CapEx-plan**
- **Purchase of output/individual measures to reduce GHG emissions...**

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Direct non-capitalized costs that relate to:

- **R&D**
- **Building renovation measures/short-term lease**
  - **Maintenance and repair**
- **Any other direct expenses relating to the day-today servicing of PPE**

## DENOMINATOR

### Alternative 1: Broad approach

- All expenses included in Earnings before interest and tax (EBIT)

### Alternative 2: Narrow approach: Subset of operating expenses

- Categories based on types of expenses as listed by the delegated acts
  - Need to link to cost categories in the reporting system (SAP, SBC etc)
- GL account level

### How to allocate cost that support several activities or go into different cost allocation pools?

- Allocation keys

# Way forward



## Links to relevant sites

### **EU Taxonomy Climate Delegated Act**

[Annex I: technical screening criteria – climate change mitigation](#)

[Annex II: technical screening criteria – climate change adaptation](#)

[Final report of the Technical Expert Group on Sustainable Finance](#)

[Technical Annex: Updated methodology & Updated Technical Screening Criteria](#)

### **Text of the final EU Taxonomy Article 8 Delegated Act**

[Text of the Annexes 1-5 to EU Taxonomy Article 8 Delegated Act](#)

[Frequently asked questions](#)

[Text of the proposal for a Corporate Sustainability Reporting Directive](#)

[EU Taxonomy Compass](#)

[Technical Expert Group \(TEG\) resources](#)