



Elia Group EU Taxonomy Case Study

Implementation process,
results and recommendations

2021

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Foreword from Elia Group

The European Commission has set a binding target of achieving climate neutrality by 2050. This requires current greenhouse gas emission levels to drop substantially over the next few decades. As an intermediate step towards climate neutrality, the EU has raised its 2030 climate ambition, committing to cutting emissions by at least 55% by 2030. The EU is working on the revision of its climate, energy and transport-related legislation under the 'Fit for 55 package' in order to align current laws with its 2030 and 2050 ambitions.

Sustainable finance has a key role to play in the EU delivering on its policy objectives, which are outlined in the Green Deal and in its international commitments related to climate and sustainability. The EU Action Plan on Financing Sustainable Growth led to the creation of the 'EU Taxonomy', a classification system for sustainable economic activities. This tool aims to support the identification of companies that contribute towards climate neutrality.

Elia Group, through its two electricity system operators in Belgium and Germany, occupies a crucial position with regard to contributing to those objectives: electricity grids are key enablers of our society's decarbonisation efforts. In line with the best interests of society, we are committed to accelerate the delivery of onshore and offshore electricity transmission infrastructure, sustainably enhancing our operational practices, upgrading the market design and facilitating the digitalisation of the power sector.

A successful energy transition in a sustainable world - this is Elia Group's mission statement. To achieve our mission, we have defined a sustainable strategy that is based on three pillars of growth. The first pillar covers the regulated part of our business: we operate a sustainable power system and deliver the infrastructure of the future, integrating high levels of renewables and new types of consumption into our grid. The second pillar relates to new growth opportunities: as a company with a unique set of skills and a solid track record, we are well equipped to realise projects outside our domestic markets, such as offshore development. Finally, we want to develop new services that create value for customers across the energy value chain. By actively providing new digital interfaces and services to emerging businesses through

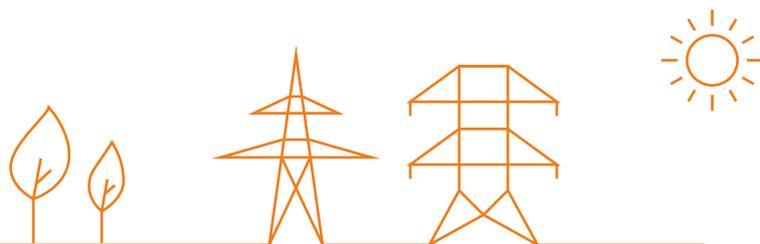
projects such as the Internet of Energy and our affiliate re.alto, we are demonstrating our leading role in the energy transition. However, growth alone is not enough.

Sustainability lies at the heart of each of our activities. It runs through the core of our vision, our societal mission and our Group strategy. We ensure sustainability is achieved via Act Now, our Group-wide programme, which is based on the United Nations' Sustainable Development Goals (SDGs). Act Now focuses on five dimensions: Climate Action; Environment and Circular Economy; Diversity, Equity and Inclusion; Health and Safety; Governance, Ethics and Compliance. Act Now defines concrete ambitions for embedding sustainability into all of our activities. It ensures that we will continue to provide a service to society and meet our ambitious goals in a truly sustainable way.

This report describes our methodology and implementation process to our stakeholders ahead of time and highlights our commitment towards operating a sustainable business. The launch of the EU Taxonomy has allowed us to fine-tune our own strategic ambitions and we are fully committed to maintain a strong alignment with the Taxonomy.

We firmly believe that the EU Taxonomy will bring transparency alongside contributing to the redirection of resources towards the delivery of the European Green Deal.

Catherine Vandendorpe
CFO, Elia Group



Foreword from Deloitte

We are currently facing the biggest social and economic challenge of our generation: addressing climate change in a way that leaves no one behind.

Now is the time for all of us to step up. We must take action and proactively address the impacts of climate change. We owe it to future generations, as it is not only the right thing to do, but also the right business thing to do. Realising the green transition will require broad collaboration from different groups across society, including the private sector, policymakers, civil society, investors, and financial institutions.

Adapting and mitigating climate change is imperative for our survival, but it also presents us with economic opportunities. For example, in the energy sector alone, the most recent report from the International Energy Agency highlighted a €23 trillion energy opportunity in the transition to net zero.

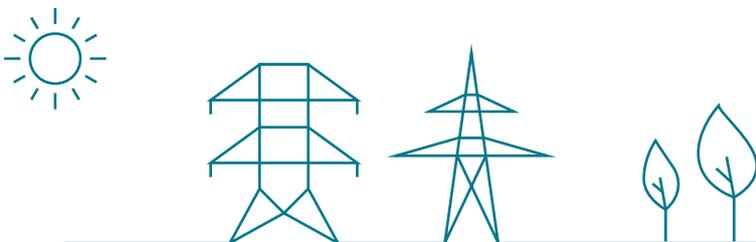
The EU Taxonomy regulation is a revolutionary piece of legislation, which, by defining what is environmentally sustainable, will help investors and companies plan and report on their efforts to transition to a sustainable economy.

We, at Deloitte Belgium, have set up clear ambitions for contributing to this transition. By 2030, 100% of our offices will be powered by renewable energy and 100% of our vehicle fleet will be hybrid and/or electric. We will also reduce our carbon footprint by 50%.

We are frontrunners in our sector and strongly advocate for integrated reporting and going beyond a (narrow) compliance perspective: a truly sustainable strategy needs to focus on unlocking the value of the green transition. It requires companies to reimagine their business models and adapt their strategies to reinvent our economy. Properly implementing the EU Taxonomy can help companies do just that; in other words, it will guide them towards the transformation they need.

As Elia Group leads the way by being an early adopter of the full-EU Taxonomy, we saw a clear opportunity to work hand in hand with a company that shares our views and values. We both share the vision of deep diving into the complexities of the EU Taxonomy and turning its challenges into opportunities. We do not just look at the tip of the iceberg, but we go beyond it to explore what changes must come from a governance, process, organisation and systems point of view.

Tom Renders
Sustainable Finance Partner



Executive summary

We are in a defining moment in human history, facing the most disruptive challenge any of us will confront: climate change and a just transition to a sustainable economy. Multiple stakeholders are asking for truthful commitments and actions. No more greenwashing. The EU has triggered many legislative initiatives to address this challenge, among them sits the EU Taxonomy¹.

In a nutshell, the EU Taxonomy is a classification system that defines which activities are environmentally sustainable ("green") and it provides a methodology to calculate the "greenness" of a company's turnover, CAPEX and OPEX.

The EU Taxonomy encompasses a four step analysis, and activities that successfully meet these steps are considered 'aligned' with the EU Taxonomy. Then, the link between such activities and related turnover, CAPEX and OPEX must be made and disclosed. The goal is to provide information to the market on how environmentally sustainable a company is, providing clear metrics to make it tangible. This, in turn, is intended to help investors make more informed decisions and improve the comparability of non-financial reporting.

Elia Group will report under the EU Taxonomy starting with the FY2021 non-financial statements, to be published in 2022. In anticipation to such disclosure, Elia Group performed an initial assessment on their full EU Taxonomy alignment for FY2020. The exercise was done in collaboration with Deloitte Belgium to validate and improve the EU Taxonomy methodology.

Elia Group has put sustainability at the center of its business strategy and the EU Taxonomy alignment results confirmed this, as Elia Group calculated an alignment percentage of 99% for its turnover and OPEX, and 100% for its CAPEX for 2020.

Together, we, **Elia Group** and **Deloitte Belgium**, decided to jointly prepare and publish this report and share our findings and views with the energy sector community, the sustainable finance community, and broader society.

A summary of such findings and views follows below:

- Information required was scattered around the group, both in different departments and geographies. At the end of the project Elia Group managed to set up a good data-flow and governance structure. Companies should be mindful of the time and resources needed to conduct the EU Taxonomy analysis.
- The more natural choice to evaluate the alignment for energy Transmission System Operators (TSO) is article (a) of Section 4.9 of the Climate Delegated Act² - the transmission system is the interconnected European system. Interconnections between energy transmission lines from different countries contribute to sustainability in the energy sector (and enable the climate transition in the general economy) by offering capacity for energy trade and increasing energy efficiency.
- As a TSO, Elia Group does not have data on GHG intensity from power plants. To verify the compliance with this requirement Elia Group relied on public information, as we believe will be the case for most TSOs.
- Following the verification process to ensure that no significant harm is done to other environmental objectives offered Elia Group the possibility to spot improvement opportunities for the adaptation of their operations and infrastructure to climate change, as well as their monitoring of waste management projects.
- The EU Taxonomy comes with a cost, but it also brings along clear opportunities. By being early adopters of the full EU Taxonomy evaluation, we believe Elia Group further position itself as a transparent and trustworthy TSO that is contributing to the sustainable transition. Also, working towards a high percentage of alignment enables Elia Group to access a wider range of investors.

We are committed to seeing and framing the EU Taxonomy as a sustainability enabler. Not as a mere regulation which imposes additional hurdles on companies, but as a tool that shows what good performance looks like in an economy that is trying to achieve climate neutrality.

1 EU Taxonomy regulation 2020/852 (EUR-Lex - 32020R0852 - EN - EUR-Lex (europa.eu) and associated Delegated Acts
2 EUR-Lex - C(2021)2800 - EN - EUR-Lex (europa.eu)

The development of the EU Taxonomy and how it fits with the EU Green Deal

The most significant and complex risk organisations face today is climate change, and “if some companies and industries fail to adjust to this new world, they will fail to exist”³. Many sectors and interest groups are reacting and are rising to the challenge: investors, regulators and civil society alike demand and expect change.

There is no question any more: we are in the midst of a sustainability revolution. Over 1,500 businesses have taken action (and continue to do so) to achieve a net-zero carbon economy⁴, over the last 5 years we, as society, have witnessed the creation of multiple alliances across different sectors to achieve the same goal⁵. It is estimated that global ESG assets may surpass €45 trillion by 2025 (the equivalent of a third of total assets under management⁶). The United Nations recently declared that access to a clean environment is a human right⁷. This trend is only accelerating, and rightly so, because the world needs it to accelerate even more.

With regard to European policy, the EU Taxonomy Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment (the “EU Taxonomy Regulation”) is one of the initiatives that serve as the cornerstone of this revolution.

A series of events and pressure from multiple stakeholders coincided and led to the EU Taxonomy being published. When looking for the origins of the EU Taxonomy we could go as far back as the increase in anthropogenic emissions of greenhouse gases which have led to climate change. More recently, the EU Taxonomy can be traced back to the 2015 Paris Agreement (the global treaty on climate change) and the EU Green Deal.

To realise its ambitions, the EU set in motion an Action Plan to Finance Sustainable Growth, with three clear objectives: (1) reorient capital flows to sustainable investment; (2) mainstream sustainability into risk management; and (3) foster transparency and long-termism in financial and economic activities.

The first measure undertaken as part of this Action Plan was the creation of an EU Taxonomy Regulation, a uniform, credible, science-based system to classify activities that are environmentally sustainable by determining (among other conditions) if they substantially contribute to one or more of six specific environmental objectives.

The EU Taxonomy:

-  helps to identify what activities qualify or not as sustainable;
-  measures how sustainable company activities are, to achieve accountability and enable comparability;
-  provides visibility over sustainable activities for investors; and,
-  assists in preventing greenwashing.

The EU Taxonomy and its disclosure requirements – i.e. green indicators – are a reality check on an organisation’s sustainability ambitions and action plan, and are an opportunity to show the market which efforts align with the transition to net zero and offer resilient and sustainable pathways to achieve it.

The broader objective of the EU Taxonomy is to help financial market participants and other relevant actors to easily identify which economic operators carry out environmentally sustainable economic activities, and make it easier for them to raise funding for these activities.

By enabling companies to access financing for economic activities and sectors that are consistent with net zero, the EU Taxonomy will help to decarbonise high-emitting sectors and grow low-carbon sectors, so contributing to the EU Green Deal.

3 Mark Carney, ex-governor of the Bank of England.

4 SBTi - <https://sciencebasedtargets.org/companies-taking-action>

5 The Principles for Responsible Investment, the Net-Zero Banking Alliance, the Net-Zero Insurance Alliance, the Net Zero Asset Managers Initiative, the UN-convened Net-Zero Asset Owner Alliance, and others.

6 Bloomberg - <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>

7 Reuters - <https://www.reuters.com/business/environment/un-passes-resolution-making-clean-environment-access-human-right-2021-10-08/>

The EU Taxonomy requirements

When does an activity qualify as environmentally sustainable?

01

Contribute substantially to one or more of the following six environmental objectives:

- Climate change mitigation;
- Climate change adaptation;
- 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 ecosystems⁸.

The 'substantial contribution' ("SC") of an activity is verified by its compliance with the Technical Screening Criteria ("TSC") established by the EU Taxonomy Climate Delegated Acts (performance thresholds and limits in relation to carbon intensity and others).

02

Does no significant harm (DNSH) to any of the environmental objectives:

The activity does no significant harm when it complies with certain laws, thresholds, performance requirements or limits in relation to the other environmental objectives, as defined for every economic activity included in the EU Taxonomy.

03

Is carried out in compliance with the Minimum Safeguards:

- The OECD Guidelines for Multinational Enterprises;
- The UN Guiding Principles on Business and Human Rights;
- The Fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work;
- The International Bill of Human Rights.



8 At the time of writing, only Delegated Acts with 'Technical Screening Criteria' for the first two environmental objectives exist. We are awaiting the publication of the Delegated Acts for the other four environmental objectives. Full disclosure against all six environmental objectives is expected to be published in 2023.

Our joint view of the EU Taxonomy

We are committed to **seeing and framing the EU Taxonomy as a sustainability enabler**, not as a mere regulation which imposes additional hurdles on companies. The EU Taxonomy comes with a cost (in terms of implementation, collecting the necessary data, etc.) but it also allows for increased visibility, which brings along benefits such as the development of new business models, improvement of an organisation's sustainability strategy, reinforcement of weak spots, etc..

The EU Taxonomy is a tool that shows what good performance looks like in an economy that is trying to achieve climate neutrality and aims to increase the allocation of funds and investments towards this good performance. It aims to facilitate investments in an economy that is trying to meet its environmental goals.

Our process

Initiation and Group structure

In line with its full commitment to support Europe's transition to climate neutrality, Elia Group decided to already undertake an assessment of its eligibility and alignment with the EU Taxonomy.

The goal of the project was to assess the eligibility and alignment of Elia Group with the EU Taxonomy for the year 2020, and establish a methodology to carry out the EU Taxonomy-alignment evaluation that Elia Group could replicate going forward. The analysis was based on the EU Taxonomy Regulation and the Climate Delegated Act and Disclosure Delegated Act⁹, formally adopted by the European Commission on 4 June and 6 July 2021, respectively (which contain the TSC for the first two environmental objectives – climate change mitigation and climate change adaptation and outline the disclosure requirements) (the “Delegated Acts”).

Elia Group is a holding company which owns Belgium's sole TSO Elia Transmission Belgium NV/SA. Elia Group also holds an 80% stake in Eurogrid GmbH, which in turn holds 100% of the shares in 50Hertz Transmission GmbH, a TSO which operates in the northeast of Germany. Elia Group SA, Elia Transmission Belgium NV/SA and Eurogrid GmbH are qualified as PIE (Public Interest Entities), subject to non-financial disclosure requirements. Consequently assessments were carried out, involving representatives and input from both TSOs and other affiliates.

Project Set up & Governance

- The project was launched at the initiative of the Elia Group's Executive Management Board;
- The project governance structure initially set up, evolved throughout the project, as our analysis and understanding of the EU Taxonomy deepened together with Deloitte Belgium;
- The internal stakeholders were heavily involved, as more than 20 different departments across the Group interacted, ensuring that the different activities could be properly covered.

Analyzing business activities

The approach of the project is based on the EU Taxonomy framework:

- Eligibility assessment: activity needs to be “Taxonomy eligible” (i.e., included in the text of the Climate Delegated Acts) to contribute to environmental objectives;
- TSC assessment: activity must make a substantial contribution based on the TSC outlined in the Climate Delegated Act;
- DNSH analysis: activity must Do No Significant Harm to the other 5 environmental objectives;
- Compliance with Minimum safeguards check;
- KPIs calculation: revenue, CAPEX and OPEX for the compliant activities are defined based on the results from the assessments from previous steps.

9 [taxonomy-regulation-delegated-act-2021-4987_en.pdf \(europa.eu\)](#)

Eligibility	TSC	DNSH	Minimum safeguards	KPIs
<ul style="list-style-type: none"> • Evaluation of eligibility on the basis of the Taxonomy Climate Delegated Act through a methodological approach including a detailed analysis of the Group's activities • Mapping correspondence table of business activities and accounting nomenclature and business activities described in Technical Expert Group (TEG) report and Taxonomy Climate Delegated Act • Calculation of the eligibility results 	<ul style="list-style-type: none"> • Analysis and selection of criteria • Data collection • Compliance assessment with performance thresholds and limits outlined in the TSC • Scenario analysis in the compliance with criteria for the coming years 	<ul style="list-style-type: none"> • Initial internal evaluation of the DNSH criteria with relevant departments • Where necessary external experts were consulted • Where gaps were identified, immediate actions have been taken in order to ensure better alignment with the criteria for next year reporting • Key findings communicated and included into the objectives of 'Act Now' program 	<ul style="list-style-type: none"> • Compliance with guidelines and standards was examined • Besides internal compliance confirmations, applicability in practice checked • Detailed questionnaire with key requirements of the main regulations submitted for sign off to the responsible departments 	<ul style="list-style-type: none"> • Based on the eligibility and alignment assessment results, KPIs were calculated using the top down approach • Exclusion rules defined • Approach differs for different countries mainly due to differences in regulatory framework • KPIs granularity on the level of the first 2 environmental objectives

Continuous assessment of materiality



Defining Taxonomy-eligible activities

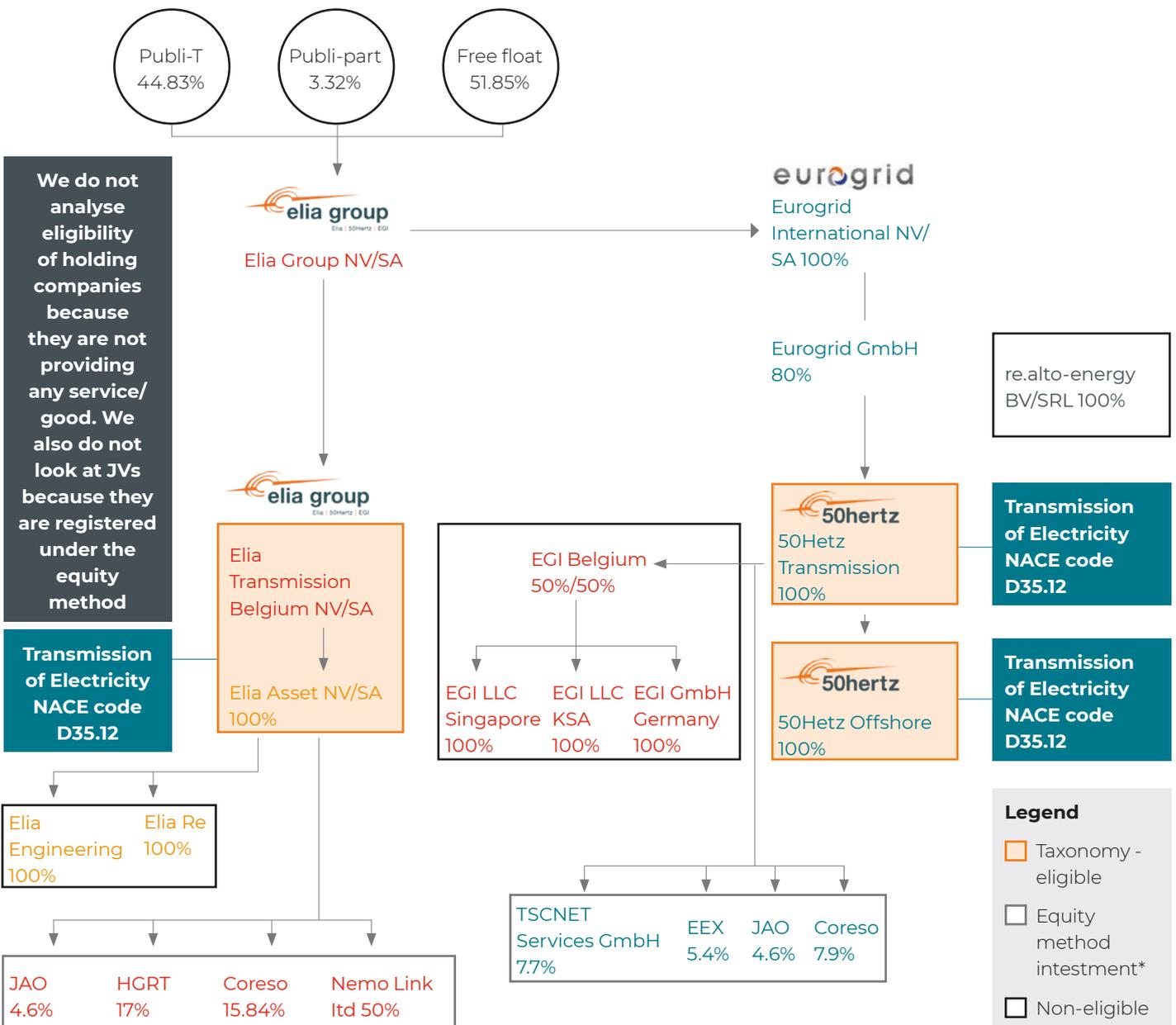
An evaluation of the eligibility of Elia Group's business activities was conducted on the basis of the EU Taxonomy Regulation and Delegated Acts. A methodological approach was adopted for the detailed analysis of the Group's activities.

The activities relating to the transmission of electricity, which are associated with NACE code D35.12, were assessed as being eligible in line with Section 4.9 Transmission and distribution of electricity of Annex I of the Climate Delegated Act.

Other Group activities were classified as 'Non-eligible', based on the fact that:

- no perfect fit was identified with Annexes I or II of the Climate Delegated Act – consultancy activity (Elia Grid International);
- the efforts required for the assessment of the activity were not justified: the resources needed for such an assessment would not outweigh the benefits of reporting the activity as Taxonomy eligible or aligned (in terms of materiality) – data processing activity (re.alto).

Based on the above, only a full analysis of electricity transmission activities (the main activity of the Group) is carried out as these activities are classified as eligible.



*Equity method - according to the definition of "net turnover" (which in turn refers to IAS 1.82(a)) turnover does not include investments register under the equity method.

The technical screening criteria for the energy transmission sector

Once we had identified the activities within scope of the EU Taxonomy, we assessed the significant contribution our activities make to climate change mitigation based on the criteria outlined in Section 4.9 of Annex I of the Climate Delegated Act.

At the time of writing, it is unclear how the European Commission will require disclosures on the contribution to several environmental objectives (namely, if it is mandatory or optional to evaluate the alignment against all environmental objectives). For the time being and until that clarification comes, Elia Group decided to only evaluate its contribution

to climate change mitigation, due to the fact that: 1) the description of the activity is the same for both objectives (mitigation and adaptation) and 2) the TSC are more strict for climate change mitigation than for adaptation, meaning that indistinctively, Elia Group meets the requirements for both objectives.

According to criteria outlined in the Climate Delegated Act, “transmission and distribution infrastructure or equipment is an electricity system that complies with at least one of the following criteria:

A

a. the system is the interconnected European system, i.e. the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems;

B

b. more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100 gCO₂e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period;

C

c. the average system grid emissions factor, calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system, is below the threshold value of 100 gCO₂e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period”.



99

Therefore, according to the TSC, in order to be considered as 'significantly contributing to climate change mitigation', our infrastructure or equipment has to be in an electricity system that complies with **at least one of** the previously mentioned criteria.

Elia Group opted for criterion (a)¹⁰, which is a direct fit for the Group's transmission activities. Interconnectors between energy transmission grids in different countries contribute to the sustainability of the energy sector (and enable the transition to a climate-neutral economy) by offering capacity for energy trade and increasing energy efficiency. Interconnectors do this by reducing the cost of meeting electricity demand while improving security of supply and facilitating the cost-effective integration of the growing amount of renewable energy sources into the system. A well-integrated energy market is considered to be a fundamental prerequisite to achieving the EU energy and climate objectives in a cost efficient way. Therefore, interconnectors are a vital physical component of Europe's energy transition¹¹.

99

¹⁰ Given that the criteria a) is a direct fit for Elia Group's transmission activities, we can confirm the alignment and do not need to go further in the analysis. Taking the criteria a) only into account is the most logical option for Elia Group given that the European energy system is an interconnected grid and does, as a system, align with criteria b) already. It should hence not be required for every country to prove its alignment with criteria b), especially in the context of nuclear phase-out in several EU countries.

¹¹ Commission Expert Group on electricity interconnection targets – Towards a sustainable and integrated Europe Report, November 2017

The TSC for transmission of energy also specify which parts of the infrastructure should be considered as 'non-aligned'.

More specifically, the TSC refer to the infrastructure dedicated to creating a direct connection or expanding an existing direct connection between a substation or network and a power production plant that is more greenhouse gas intensive than 100 gCO₂e/kWh (measured on a life cycle basis).

Following this criterion, in order to identify the parts of our infrastructure that are not aligned with the TSC, we carried out the following steps.



Step 1 – Identification of the direct connections to polluting power plants

Elia Group does not have access to specific information about the life cycle emissions of the different power plants connected to its network. Therefore, we relied on external sources, to identify which types of power plant exceed the threshold of 100 gCO₂e/kWh.

Based on this research, we came to the conclusion that connections to oil, natural gas, biomass, waste and coal production technologies produce emissions exceeding the thresholds defined in the EU Taxonomy and are therefore not aligned with the TSC.

Step 2 – Identification of the associated CAPEX, OPEX and the turnover for these connection parts

In Belgium, the connection to a power plant always consists of 3 parts:

- Part A: the first connection bay, which clearly separates the connection from the general grid. This part is always built, maintained and operated by and is the property of Elia;
- Part B: the connection cable, line or transformer between the first connection bay and the power plant;
- Part C: the power plant itself, which is invested in, operated by and is the property of the power plant.

A and B connections parts to power plants which use the aforementioned technologies have been identified. Customers pay a tariff for the use of these assets.

In Germany, 50Hertz does not own connection lines to biomass, waste or oil plants; it only has connections to gas plants for blackout prevention and as part of its defense plans. Hence, the only connections that needed to be excluded are those to thermal (coal) plants.

The associated revenues, CAPEX and OPEX to these identified connection parts have to be excluded as non-aligned both in Belgium and Germany.

Verifying that Elia Group does no significant harm to other environmental objectives

Meeting the Do No Significant Harm (DNSH) criteria means that an activity which significantly contributes to one of the environmental objectives does not significantly harm any of the other objectives. Once the electricity transmission activities were assessed against the climate change mitigation criteria for their significant contribution to it, we performed further assessments on the DNSH in relation to the five remaining objectives.

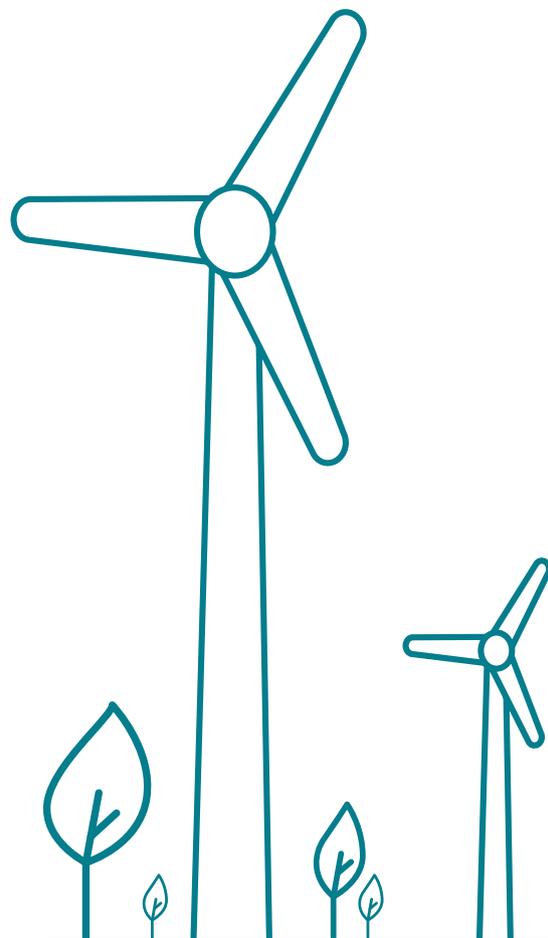
1. Climate Change Adaptation

For this objective, an in-depth Group-wide exercise was performed to identify and assess climate risks material to Elia Group's activities, derive vulnerability assessments for the major risks identified, and list and assess the adequacy of the current portfolio of adaptation measures.

Climate risks are one of the main risks the energy sector faces. Ensuring the resilience of Elia Group's infrastructure is key in terms of the reliability of the grid and is already deeply embedded in the strategic goals of the Group, which is why the EU Taxonomy criteria were thoroughly examined and followed up by the project team. Following this Group-wide assessment, heat, cold spell, storm, drought, flooding and wild fire were identified as main risks to Elia Group's activities. Some of these risks were already included in Elia Group's risk register and management process, others were added and adaptation measures for those risks have been identified.

According to the Disclosure Delegated Act, companies must provide a breakdown of CAPEX and OPEX allocated to substantial contributions to climate change adaptation

Based on this EU Taxonomy requirement and feedback we receive from our investors, we are working with our infrastructure and controlling teams to set up a process for establishing criteria and identifying projects (including the corresponding CAPEX and OPEX) which contribute to climate change adaptation.



2. Circular Economy

For this objective, Elia in Belgium applies waste hierarchy criteria to the waste flow of maintenance and infrastructure works and has established a list of guidelines for subcontractors (general technical specifications) for different types of projects. Moreover, Elia has established a waste management policy for its administrative and local technical sites (service centers), which includes contracts with authorised collectors who specialise in the collection, transport and recycling of hazardous and non-hazardous waste. Finally, when required, Elia appoints an independent expert to draw up a 'sloopopvolgingsplan'¹² in line with regulations in place.

In Germany, 50Hertz implements a waste management plan on all its buildings and projects and the disposal routes for all of its materials are checked and defined. This process is regulated through the use of internal guidelines. This process is in line with the EU Taxonomy requirements, as it ensures maximum re-use and waste separation.

3. Pollution prevention and control

For this objective, Elia in Belgium is aligned with the International Finance Cooperation guidelines for Environment, Health and Safety for the construction site activities for overhead high-voltage lines. Moreover, Elia complies with EU regulations 1999/519/EG and 2013/35/EU relating to electromagnetic fields (0-300 GHz). Moreover, Elia is committed to be ISO 14001 certified by 2023.

Finally, Elia found that less than 1% of Elia's transformers in Belgium contain PCB and Elia is currently implementing a plan to be fully PCB-free by 2024. Transformers containing PCB have therefore been excluded from its KPIs as they are not aligned with EU Taxonomy criteria.

In Germany, alignment with ISO 45001 in Health and Safety, and the ongoing steps 50Hertz is taking to become ISO 14001 certified for the Environment by 2022, enable it to state with confidence that it is aligned with the requirements, as the ISO certifications cover the IFC guidelines. Moreover, the regulations of the 26. BImSchV¹³ are fully considered for all of 50Hertz's projects. There are no known exceptions across the network in terms of existing assets with higher emissions than the 300GHz emissions threshold. 50Hertz does not have any PCB in its German assets.

4. Protection and restoration of biodiversity and ecosystems

For this objective, Elia in Belgium always realizes Environmental Impact Assessment (EIA), or screening depending on project specificities, an Appropriate Assessment (AA) where applicable in accordance with the Directive 2011/92/EU and carries out environmental assessment according to the Directive 2009/147/EC (Birds) and 92/43/EC (Habitats).

Elia goes beyond merely respecting these obligations: it engages in dialogue with local communities, non-governmental organisations and different government organisations to define how each project should be realised in the most efficient and respectful way with regard to local and nature impacts. The implementation of required (or proposed) mitigation and compensation measures for protecting the environment is followed up by Elia's teams and involves many stakeholders during the execution of a project and across the life cycle of the infrastructure.

However, the monitoring of these conditions could be improved internally; indeed, Elia has committed itself to improve its monitoring process by 2022. In view of proving our alignment with DNSH requirements, we created a database containing all the projects which underwent a permitting procedure and follow-up process in the last 5 years. The required measures have been implemented across all the projects that were included in the database. In the future, this KPI will be followed up closely to maintain Elia's alignment with these criteria.

In Germany, 50Hertz set up a tool to ensure the monitoring of the implementation of compensation and mitigation measures as per the aforementioned EU regulations. 50Hertz is following these closely and can confidently state that it is fully aligned with the requirements of the EU Taxonomy. In 2020, all measures planned for that year were effectively implemented.

To conclude, while Elia Group meet all the DNSH criteria, it has launched new initiatives in order to strengthen its position and ensure even better alignment with the EU Taxonomy. Some of these initiatives are included in the strategic KPIs of the Group.

¹² Tool for selective demolition and selective collection on site, its purpose is to provide a list of all the waste expected and generated in the course of demolition work, and to make recommendations for selective demolition its purpose is to provide a list of all the waste expected and generated in the course of demolition work, and to make recommendations for selective demolition

¹³ Sechszundzwanzigste Verordnung zur Durchführung des Bundes-Immissionsschutzgesetzes (Verordnung über elektromagnetische Felder - 26. BImSchV - 26. BImSchV - nichtamtliches Inhaltsverzeichnis (gesetze-im-internet.de))



Verifying to what extent Elia Group meets the minimum social safeguards

After assessing our significant contribution to climate change mitigation and DNSH, we examined the minimum safeguards criteria. In accordance with 'Article 18' of the Taxonomy Regulation, a process must be established to ensure compliance with the following guidelines and standards:

-  OECD Guidelines for Multinational Enterprises;
-  UN Guiding Principles on Business and Human Rights;
-  ILO Declaration on Fundamental Principles and Rights at Work;
-  International Bill of Human Rights.

Elia Group complies with international guidelines which extend beyond its collective agreements and company agreements, such as the core labour standards of the International Labour Organization (ILO: C87, C98 and C135) and worker's rights set out in the UN Global Compact.

Elia Group reports on human rights issues in the sustainability report. Other measures include: asking suppliers to commit to a common and binding code of conduct when they work with us; screening locations for human rights due diligence issues and anti-corruption issues; carrying out a risk assessment for suppliers; having a grievance mechanism for bribery and corruption, which will be extended to other human rights issues in future.

Elia Group also confirmed following good governance practices, in particular with respect to:

-  sound management structures, as described in the 'Roles & Responsibilities' pages of the Elia Group website;
-  employee relations: Elia Group is committed to freedom of association, collective bargaining and the protection of employee representatives - particular emphasis is placed on trust and constant cooperation with all trade unions;
-  remuneration of staff: Elia Group transparently discloses management team salaries in its consolidated financial statements, including fixed and variable total remuneration as well as company pensions and other benefits for management;
-  tax compliance.

Elia Group's alignment results

As part of the very last step of the analysis, Elia Group calculated the Taxonomy KPIs: Taxonomy eligible and aligned turnover, CAPEX and OPEX.

The KPIs were prepared based on the Disclosure Delegated Act published at the time of writing. The Disclosure Delegated Act also specifies the methodology needed to comply with reporting obligations.

Top down approach was applied when calculating the KPIs, meaning non-eligible and not aligned turnover, CAPEX and OPEX were excluded from the total figures disclosed in the financial statements.

More specifically, the following elements were excluded from the nominator of the 3 KPIs as a result of our analysis for 2020:

Turnover

Non-eligible:

- Revenues related to activities other than energy transmissions
- 3rd party ad hoc services turnover (Belgium)

Non aligned:

- Revenues related to the direct connections to the polluting power plants

CAPEX

Non-eligible: N/A

Non aligned:

- CAPEX related to the direct connections to the polluting power plants

OPEX

Non-eligible: N/A

Non aligned:

- OPEX related to the connecting parts to the polluting power plants. Includes maintenance, repair and personnel costs, which represents the majority of the costs
- OPEX related to transformers containing PCB (Belgium)

All other costs are not material and cannot be identified.

Elia Group's alignment results

Denominator contains total amount of turnover, CAPEX and OPEX.

Given Elia Group alignment with DNSH criteria and its compliance with the minimum social safeguards, in 2020, the KPIs are mainly impacted by (i) the non-eligibility of Group's consultancy activities and other non-energy transmission activities and (ii) connections that do not meet the TSC (connections to power plants that are too carbon intensive).

We estimated the following Taxonomy eligibility and alignment percentages for the Group for the year 2020 (see details in the Appendix):

Total Group Aligned Turnover:

99%

Total Group Aligned CAPEX:

100%

Total Group Aligned OPEX:

99%

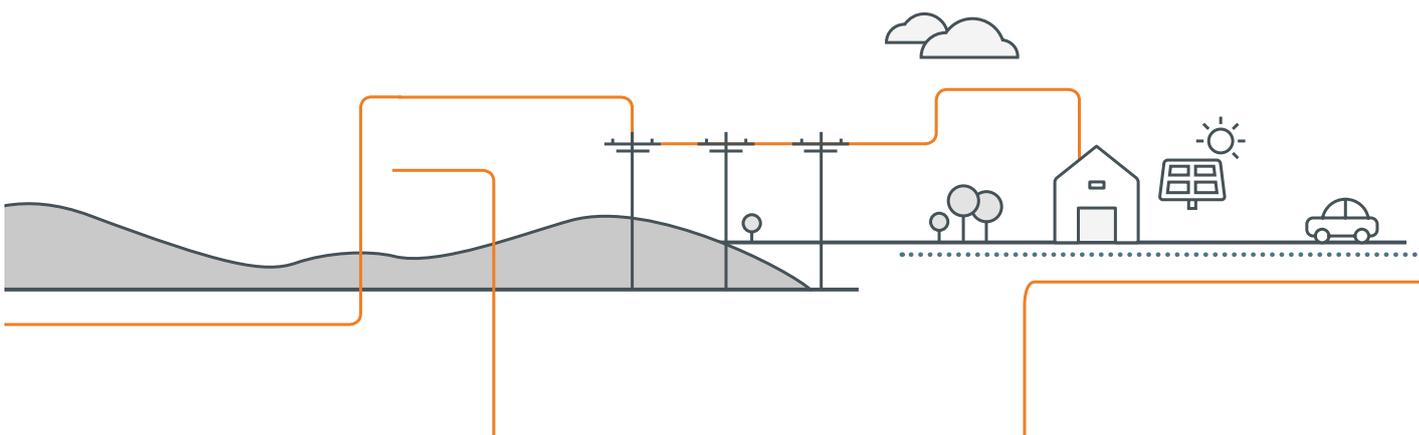


Our learning process

The amount of EU legislation, the terminology used in them and associated deadlines appeared overwhelming when we began this project. However, as the project progressed, we came to better understand the EU Taxonomy, its objectives and its impact on the business. Elia Group has moved beyond

simply using it as a regulatory compliance matter and is using it as a tool to benchmark the sustainability performance, fine-tune the strategy and spread even better awareness of the climate and social challenges Elia Group faces in this context.

Challenges encountered...	and faced...
<p>The EU Taxonomy is complex. Certain provisions still miss clarity, whilst for others there is plenty of room for interpretation. Moreover, it is a piece of legislation that is continuously evolving, and will continue to do so, since revisions to the TSC and reporting requirements are expected every three years.</p>	<p>Deloitte has set up an international EU Taxonomy community with the objective of sharing knowledge and experiences, clarifying doubts, and amplifying Deloitte's access to regulators and expert groups working on the Taxonomy. We have relied on this group to clarify areas which are unclear (in terms of the interpretation of the Taxonomy) and learn from what other players in the energy sector are doing. Elia Group felt more comfortable moving forward with adopting the present interpretation of the EU Taxonomy given that a group of experts supported it.</p>
<p>The final results of the EU Taxonomy evaluation are 3 KPIs. Yet, to reach these, Elia Group needed and collected data that was scattered across the group: in different business lines, different departments and teams within a department, and different countries.</p>	<p>Elia Group is looking to improve the data collection process and automate the EU Taxonomy assessment and reporting steps as much as possible. Elia Group has identified single points of contact for each department involved and has set up a working group in order to review and optimise the reporting process going forward.</p>
<p>At the start of the project, Elia Group received a lot of questions from across the business and internal stakeholders, on how the EU Taxonomy could bring further value to an already ambitious sustainability strategy</p>	<p>Building on Act Now program, a Group-wide awareness campaign will be organized explaining the EU Taxonomy objectives and its impact on the business. Also, more in depth sessions for the direct departments involved in the EU Taxonomy reporting are being planned. A smoother reporting process should be achieved once employees have a deeper understanding of the regulation, its purpose, and how it relates to achieving a climate-neutral Europe.</p>



Opportunities

The EU Taxonomy comes with a cost, but it also brings along clear opportunities:

- By being early adopters of the full-alignment evaluation, Elia Group further positions itself as a transparent and trustworthy sustainable TSO;
- Going through the EU Taxonomy evaluation exercise allowed Elia Group to identify improvement areas regarding its strategy, data capturing and management, and processes (for example, on the centralization of waste management efforts, consolidation and better monitoring of all projects with Environmental Impact Assessment and Appropriate Assessment, same as with climate adaptation measures). These improvements will enhance Elia Group's sustainability strategy and efforts;
- The EU Taxonomy, namely, the TSC and DNSH criteria, can also be seen as a roadmap for companies that want to adapt to climate change. By conducting the EU Taxonomy evaluation, and working towards achieving the best alignment scenario possible for Elia Group, Elia Group enhances its resilience to climate-change risks. This resulted in adding an extra objective in Elia Group's Act Now programme. We believe the EU Taxonomy helped Elia Group being better prepared to face the changing world around us;
- The EU Taxonomy supported Elia Group to prioritise certain actions points, to achieve a high rate of alignment, therefore allowing it to access a wider investor base;
- The EU Taxonomy allowed to make definition of 'green' activities tangible. Elia Group now has a quantitative metric to show its contribution to the environmental and sustainable development.



Final thoughts and recommendations

After implementing the EU Taxonomy at Elia Group, we would like to share the following final thoughts and recommendations:

- Set a robust process and argumentations as foundation for your disclosure. The EU Taxonomy is new, “best practices” and “market interpretations” have not yet developed. During the first years of its application, it is important to conduct a robust analysis and support your own interpretations of the texts as much as possible;
- Do not underestimate the efforts and start as early as you can. The EU Taxonomy requires data at a level of granularity that might not be easily or readily available for all companies. Likewise, the verification of compliance with TSC might require additional research or identifying and using reference documents;
- Get everyone on board. Build awareness at all levels, help all internal stakeholders see how the EU Taxonomy brings value to the company and contributes to the transition to a sustainable economy and society.

We need the EU support. We are willing to contribute and support the climate ambition set out by the EU and incur in the necessary costs linked to the implementation of the EU Taxonomy. By the same token, we need EU’s support by putting together a cohesive reporting system and help align expectations between regulators, corporates and investors. Setting up a more detailed EU Taxonomy Q&A platform could solve interpretative or similar doubts and will allow financial institutions to trust the EU Taxonomy disclosures.



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Appendix: breakdown between Elia Transmission Belgium and 50Hertz

Turnover¹⁴:

Economic activities	Code(s)	Absolute turnover (€m)	Proportion of turnover (%)	Significantly contribute				DNSH							Enabling/transitional	Taxonomy aligned proportion of turnover year N-1 (%)	Taxonomy aligned proportion of turnover year N (%)	
				Climate change mitigation (%)	Climate change adaptation	Climate change mitigation (%)	Climate change adaptation	Water and marine resources	Circular economy	Pollution prevention and control	Biodiversity and ecosystems	Minimum safeguards						
A. TAXONOMY ELIGIBLE ACTIVITIES		2,304.8	99.78%															
A.1. Taxonomy-aligned		2,301.0	99.61%											99.61%				
Transmission of electricity in Belgium	35120 (4222071121)	939.8	40.68%	99.75%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y	40.69%	N.A.	E			
Transmission of electricity in German	35120	1,361.2	58.93%	99.89%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y	58.93%	N.A.	E			
A.2. Taxonomy eligible but not aligned		3.8	0.17%															
Transmission of electricity in Belgium	35120	2.3	0.11%	0.25%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y		N.A.	E			
Transmission of electricity in German	35120	1.5	0.06%	0.11%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y		N.A.	E			
B. TAXONOMY NON-ELIGIBLE ACTIVITIES		5.1	0.22%															
Power consultancy	70220	5.1	0.22%	0.00%	0.00%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	NA			
Energy platform	63110	0.0	0.00%	0.00%	0.00%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	NA			
TOTAL (A+B)		2,309.9	100%															

¹⁴ In Germany, the significant revenues from the Renewable Energy Act (Erneuerbare Energien Gesetz - EEG) scheme are part of the revenues in our consolidated financial statements. Due to the fact that they result from a governmental subsidy scheme for investing in renewable generation and we are only managing its cash flows as a trustee, we do not consider them in our calculation.

CAPEX:

Economic activities	Code(s)	Absolute Capex (€m)	Proportion of Capex (%)	Significantly contribute			DNSH			Water and marine resources	Circular economy	Pollution prevention and control	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned proportion of Capex year N (%)	Taxonomy aligned proportion of Capex year N-1 (%)	Enabling/transitional
				Climate change mitigation (%)	Climate change adaptation	Climate change mitigation (%)	Climate change adaptation	Climate change mitigation (%)									
A. TAXONOMY ELIGIBLE ACTIVITIES																	
A.1. Taxonomy-aligned		1,081.5	99.92%											100%			
Transmission of electricity in Belgium	35120 (4222071121)	365.6	33.78%	100%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y	Y	33.78%	N.A.	E	
Transmission of electricity in German	35120	715.9	66.14%	100%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y	Y	66.14%	N.A.	E	
A.2. Taxonomy eligible but not aligned		0.0	0.00%														
B. TAXONOMY NON-ELIGIBLE ACTIVITIES																	
Power consultancy	70220	0.0	0.00%	0%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	N.A.	
Energy platform	63110	0.9	0.08%	0%													
TOTAL (A+B)		1,082.4	100%														

OPEX:

Economic activities	Code(s)	Absolute Opex (€m)	Significantly contribute		DNSH		Water and marine resources	Circular economy	Pollution prevention and control	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned proportion of Opex year N (%)	Taxonomy aligned proportion of Opex year N-1 (%)	Enabling/transitional	
			Proportion of Opex (%)	Climate change mitigation (%)	Climate change adaptation	Climate change mitigation (%)									
A. TAXONOMY ELIGIBLE ACTIVITIES		123.0	100.00%												
A.1. Taxonomy-aligned		122.2	99.4%									99.4%			
Transmission of electricity in Belgium	35120 (4222071121)	69.4	56.5%	99.29%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y	56.5%	N.A.	E
Transmission of electricity in German	35120	52.8	42.91%	99.61%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y	42.91%	N.A.	E
A.2. Taxonomy eligible but not aligned		0.8	0.6%												
Transmission of electricity in Belgium		0.6	0.46%	0.81%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y		N.A.	E
Transmission of electricity in German		0.2	0.17%	0.39%	N.A.	N.A.	Y	N.A.	Y	Y	Y	Y		N.A.	E
B. TAXONOMY NON-ELIGIBLE ACTIVITIES		0.0	0.00%												
Power consultancy	70220	0.0	0.00%	0.00%	0.00%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	N.A.
Energy platform	63110	0.0	0.00%	0.00%	0.00%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	N.A.
TOTAL (A+B)		123.0	100%												



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