Challenging road ahead*

*Analysis of EU Taxonomy reporting reveals the vast majority of companies remain unaligned to sustainable outcomes.

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In a comprehensive analysis of companies' alignment with the EU taxonomy, ESG Book reveals that the majority of businesses today are struggling to meet these new sustainability standards. Across turnover, capex, and opex segments, the findings reveal lacklustre corporate performance. With an average turnover alignment of just 8%, it is clear that companies have a long way to go in terms of embracing more sustainable business models.

While a select few, comprising 6 out of 683 companies[a], have achieved 100% aligned turnover, the numbers remain dishearteningly low.

Merely 12 of the analysed companies have surpassed the 90% threshold, and a mere 34 companies boast a turnover alignment above 50%.

The situation is not much better for capex alignment, with an average of 13% alignment. While a few companies have demonstrated 100% aligned capex, only 2% have achieved alignment above 90%, and 10% have reached alignment above 50%.

Opex alignment follows a similar pattern, with 10% average alignment. Though a handful of companies have shown complete opex alignment, the numbers remain starkly low, with less than 2% achieving alignment above 90% and 8% surpassing 50%.

Figure 1. Most Taxonomy-aligned companies

Company	Turnover - Eligible %	Turnover - Aligned %	CapEx - Eligible %	CapEx - Aligned %	OpEx - Eligible %	OpEx - Aligned %
ERG S.p.A.	100%	100%	100%	100%	100%	100%
va-Q-tec AG	100%	100%	100%	100%	100%	100%
Soltec Power Holdings S.A.	100%	100%	97%	97%	84%	84%
Nordex SE	100%	100%	98%	75%	93%	93%
Elia Group SA/NV	100%	100%	100%	100%	100%	99%
EDP Renováveis SA	100%	100%	100%	100%	98%	98%
Alfen N.V.	99%	99%	80%	80%	100%	100%

These statistics paint a sobering picture, underscoring the urgent need for businesses to prioritize sustainable practices and embrace the EU taxonomy standards. Greater efforts and incentives must be put in place to drive widespread and meaningful change, as the current alignment levels fall far short of what is necessary for a sustainable future.

Looking ahead, it is expected that the taxonomy reporting landscape will undergo significant changes and evolution in the future.
As sustainability becomes an increasingly prominent part of the global standard-setting agenda, regulatory bodies and governing authorities are likely to tighten reporting requirements and enhance the enforcement of the EU taxonomy over time.

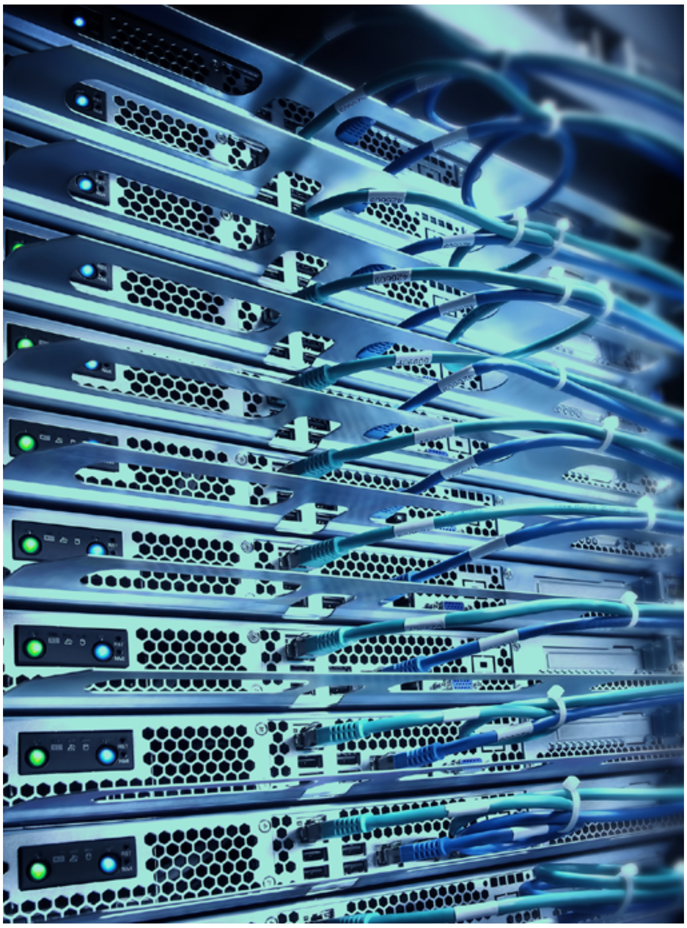
[a] The analysed 683 companies represent nearly 40% of European market capitalization.

Companies are likely to face mounting pressure to disclose their alignment with sustainability criteria, not just in terms of turnover, capex, and opex, but across a broader set of environmental, social, and governance (ESG) factors. As a result, companies will need to adapt
their reporting practices and disclose more comprehensive and transparent information.

Moreover, the taxonomy reporting landscape is expected to witness greater standardization and harmonization efforts across the globe. In order to facilitate comparability and consistency, global initiatives such as the International Platform on Sustainable Finance will continue to emerge and establish more unified, inter-operable reporting standards. This would streamline the process for companies operating across multiple jurisdictions, reducing the burden of compliance and enhancing transparency for investors and stakeholders.

Furthermore, advancements in technology may play a role in transforming taxonomy reporting. Next generation reporting software such as ESG Book can automate data collection, verification, and reporting processes, improving efficiency and accuracy while reducing costs. Technology may also enable real-time monitoring and reporting, providing stakeholders with up-to-date information on a company's sustainability performance.

The analysis on EU Taxonomy alignment can be carried out only for reporting companies already subject to the Taxonomy Regulation. However, a global perspective on revenue from sustainable activities is also needed. To fill that gap and more, ESG Book is currently building a proprietary module to record 'Sustainable and Unsustainable Revenues' of companies by segregating products and services into low and high carbon respectively. The module focusses on carbon equivalent emissions and helps provide enhanced perspective to the Scope emissions disclosures. The dataset is designed to enable the allocation of investment towards low carbon/ sustainable solutions is support of a Net-Zero future.



Conclusion

In summary, the future of the taxonomy and sustainable revenues reporting landscape is likely to witness an expansion of national and regional reporting frameworks, increased standardization, and the integration of advanced technologies. As sustainability becomes an integral part of business operations, companies will need to adapt and embrace these changes to meet evolving reporting requirements and contribute to a more sustainable future.

Summary Analysis of Companies' Alignment with the EU Taxonomy

The ESG Book analysis provides insights into companies' alignment with the EU taxonomy, segmented across turnover, capex (capital expenditure), and opex (operating expenditure). Here is a breakdown of the statistics:

Turnover Alignment:

- The average level of turnover alignment with the EU taxonomy is 8%.
- Out of the total 683 companies analysed, 6 companies (1% of the sample) have 100% aligned turnover.
- Only 12 out of 683 companies (1.7% of the sample) have turnover alignment above 90%.
- Merely 34 companies (5% of the sample) have turnover alignment above 50%.
- 68 companies (10% of the sample) have turnover alignment above 30%.
- A majority of companies, 537 out of 683 (78.6% of the sample), have turnover alignment under 10%.

A total of 427 companies (62.5% of the sample) have 0% aligned turnover.

Capex Alignment:

- On average, companies exhibit a higher alignment with the EU taxonomy in terms of capex, with an average of 13% aligned.
- Among the 677 companies analysed, 4 companies (0.7% of the sample) have 100% aligned capex.
- 13 out of 677 companies (2% of the sample) have capex alignment above 90%.
- 64 companies (9% of the sample) have capex alignment above 50%.
- 106 companies (15% of the sample) have capex alignment above 30%.
- A significant proportion of companies, 487 out of 677 (71.9% of the sample), have capex alignment below 10%.

A total of 340 companies (50.2% of the sample) have 0% aligned capex.

Opex Alignment:

- The average level of opex alignment with the EU taxonomy is 10%.
- Out of the 669 companies analysed, 3 companies (0.7% of the sample) have 100% aligned opex.
- 12 out of 669 companies (1.8% of the sample) have opex alignment above 90%.
- 52 companies (7.9% of the sample) have opex alignment above 50%.
- 76 companies (11% of the sample) have opex alignment above 30%.
- The majority of companies, 525 out of 669 (78.4% of the sample), have opex alignment below 10%.

A total of 411 companies (60% of the sample) have 0% aligned opex.

Overall, the analysis indicates that companies, on average, have relatively low levels of alignment with the EU taxonomy across turnover, capex, and opex. However, there are a small number of companies that exhibit high levels of alignment in each category. Most companies have alignment levels below 10%, and a significant portion of them have no alignment at all. These statistics highlight the need for increased efforts and incentives to encourage companies to align with the EU taxonomy and transition towards more sustainable practices.

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