

A hand holding a green pencil is positioned over a green landscape. The landscape features a grid of lines, some of which are highlighted in a vibrant green. In the background, there are white outlines of buildings and wind turbines, suggesting a sustainable city or industrial park. The overall color palette is dominated by various shades of green, from light to dark, creating a fresh and eco-friendly atmosphere.

EU Taxonomy Classification for Sustainability Reporting

Navigating the EU Taxonomy
to Access Green Financing and
Promote Continuous Growth



Transitioning to green sourcing, clean manufacturing and strategic product design for a resilient, sustainable business model is essential for companies aiming to reduce environmental impact, enhance brand reputation and meet consumer demand for responsible business practices. This transformation can lead to company savings through energy efficiency, waste reduction and the use of sustainable materials to ultimately foster innovation and long-term competitiveness. Regulatory compliance and the lack of standardised metrics for measuring and reporting sustainable activities, however, can result in uncertainty. The EU Taxonomy Regulation helps bridge the gap between sustainability and financial performance, serving as a vital tool for companies seeking to successfully integrate and accurately report sustainability efforts so they can continue to grow in a greener economy.

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1 Purpose of the EU Taxonomy Regulation

Coming into force on July 12, 2020, the EU Taxonomy Regulation provides a standard classification system categorising environmentally sustainable economic activities to be used in sustainability reporting. The system defines criteria for economic activities that contribute to environmental objectives and are aligned with the EU Green Deal and a net-zero trajectory by 2050.

As the European Union strives to become the first climate-neutral continent through green growth, it looks to steer financial support primarily toward sustainable endeavors. Companies reporting according to the EU Taxonomy must adhere to specific requirements that align with the European Union's goals for sustainable finance. For financial undertakings, disclosures must detail the extent of efforts associated with environmentally sustainable economic activities.

The EU Taxonomy helps companies and investors understand whether an economic activity is environmentally sustainable to expedite the transition to a low-carbon economy. Key takeaways include:

- ▶ Building trust with stakeholders, investors, consumers and regulatory bodies who prioritise sustainability principles by enhancing company reputation with proven credibility
- ▶ Enabling stakeholders to adopt and understand practices that align with sustainability goals with clear definitions of what constitutes environmentally sustainable activities
- ▶ Helping companies effectively track and communicate environmental performance through standardised reporting requirements encouraging transparent and consistent disclosures
- ▶ Guiding companies and investors toward greener projects to encourage investment in sustainable initiatives and technologies by deeming economic activities sustainable
- ▶ Facilitating the identification, assessment and mitigation of environmental risks, enabling companies to better adapt to regulatory changes and market shifts related to sustainability
- ▶ Driving long-term growth by encouraging innovation and promoting the development of new technologies and business models aligned with defined environmental objectives



2 Advantages of the EU Taxonomy

The EU Taxonomy aims to boost sustainable investment and guide companies in transforming to a low-carbon, sustainable economy. It offers a clear framework for companies to report their environmentally sustainable activities, which can significantly enhance their reputation and strengthen their credibility. Applying taxonomy metrics when selecting suppliers enables companies to positively impact their own value chain and potentially influence others. Taxonomy-compliant companies can better access green financing and potentially benefit from public funding and investment programs. Moreover, the regulation provides a common language for sustainability performance, enabling businesses to easily compare, measure and communicate their progress. Compliance-driven transparency can make companies more attractive to modern stakeholders who are increasingly prioritising sustainable practices.

Understanding and integrating the EU Taxonomy into business strategies can therefore unlock considerable opportunities for growth and innovation within the European market.

Companies implementing EU Taxonomy Regulation standards also benefit from:

- ▶ Accelerated financing for projects
- ▶ Increased efficiency and innovation
- ▶ A strategically developed business portfolio
- ▶ Stronger company reputation and enhanced brand image
- ▶ Reduced incidents of green washing
- ▶ Minimised risk and ensured regulatory conformity



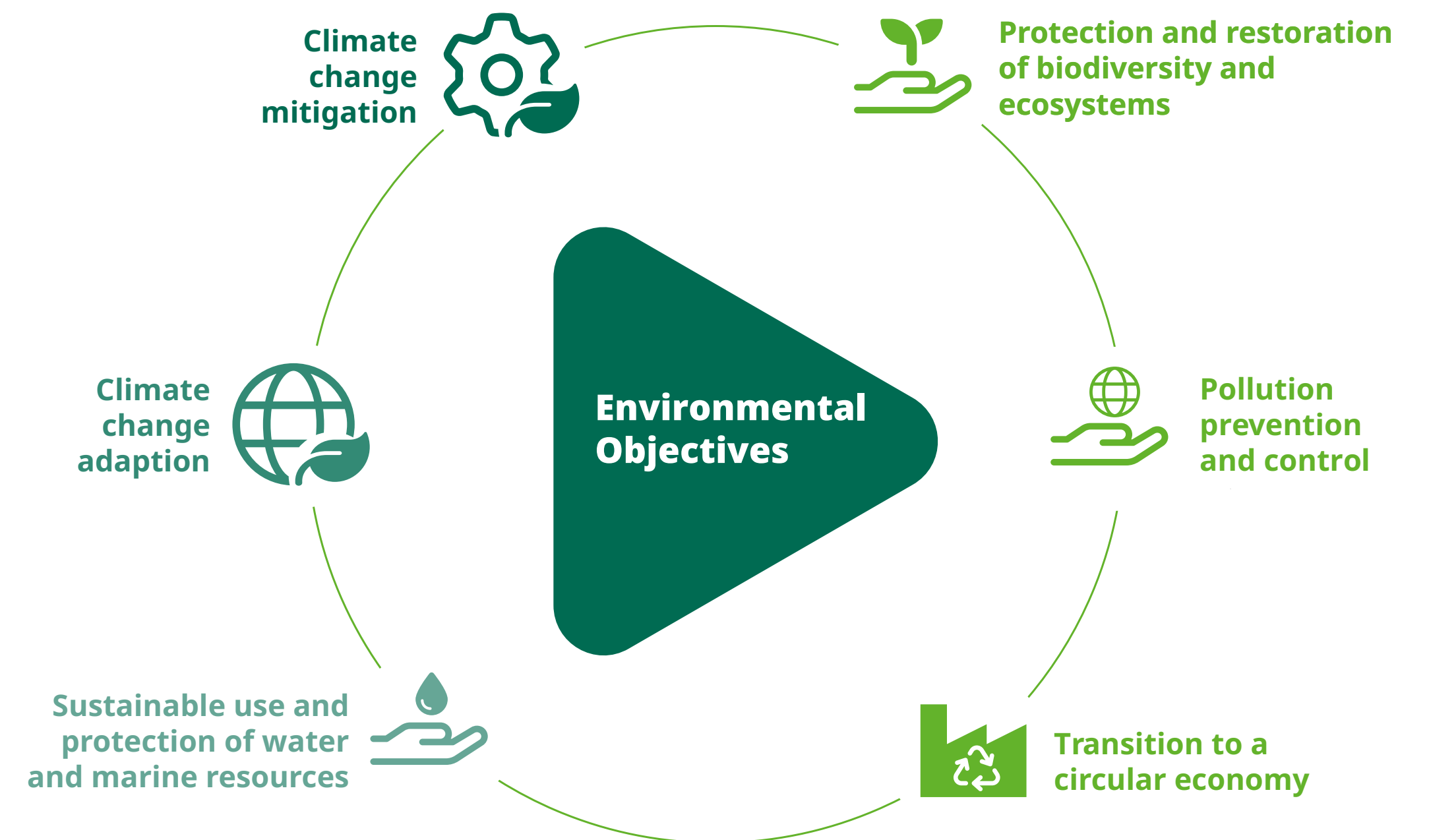


3 Environmental Objectives

The EU Taxonomy regulation determines the point at which an economic activity is considered sustainable based on the following six environmental objectives:

- ▶ **Climate change mitigation**
Aiming to stabilise greenhouse gas concentrations in the atmosphere
- ▶ **Climate change adaptation**
Focusing on adjusting to current and future climate impacts
- ▶ **Sustainable use and protection of water and marine resources**
Ensuring the long-term viability of aquatic and marine eco-systems
- ▶ **Transition to a circular economy**
Promoting waste reduction and the continual use of resources
- ▶ **Pollution prevention and control**
Seeking to reduce the contamination of air, water and land
- ▶ **Protection and restoration of biodiversity and ecosystems**
Supporting the health of ecosystems and the variety of life therein

In addition to being part of the classification system defining what constitutes an environmentally sustainable economic activity within the European Union, these objectives are applied to channel investments into economic activities which are in line with the European Green Deal and lead towards a more sustainable and environmentally friendly future.





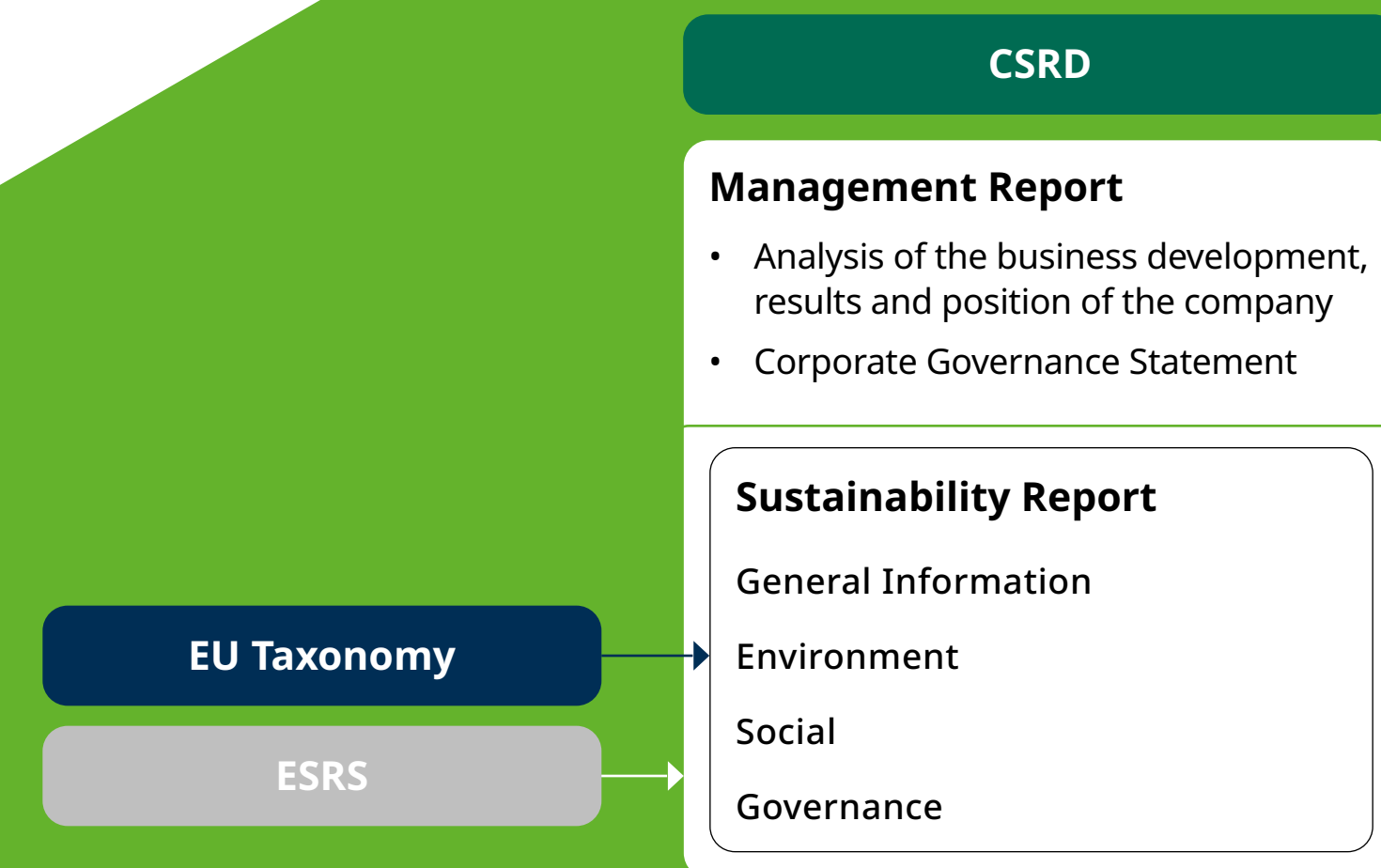
4 Relationship With the Corporate Sustainability Reporting Directive (CSRD)

Although, the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD) are two separate stand-alone processes each with their own unique contingencies, the CSRD does require the submission of reporting according to the EU Taxonomy Regulation.

Approved in November 2022, the CSRD mandates a broad range of companies to comprehensively disclose both environmental and social impacts of their business. Companies meeting more than two of the three criteria - having more than 250 employees, total assets of least 25 million euros, or net sales of least 50 million euros – will be obliged to report on activities conducted in the previous calendar year from 2026 onward, making 2025 a pivotal time period for compliance with the CSRD requirement to include EU Taxonomy reporting. Those affected are also expected to have their sustainability statements as well as their taxonomy reporting independently audited.

In accordance with the European Sustainability Reporting Standards (ESRS), EU Taxonomy environmental information (ESRS E1-5) disclosures must be listed on the CSRD Sustainability Statement as part of the management report. Information provided by the EU Taxonomy is subject to the same verification obligations required by the CSRD. Non-compliance with the EU Taxonomy disqualifies the CSRD Sustainability Statement and may result in sanctions being imposed.

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EU Taxonomy
Classification





5 Taxonomy-Eligibility and Taxonomy-Alignment Requirements

Companies in the scope of the CSRD are obliged to report all taxonomy-eligible economic activities. Aiming to assist company leaders to comply as well as benefit from all their sustainable efforts, the EU Taxonomy is still under development and constantly being supplemented with new economic activities.

The EU Taxonomy formulates its own criteria for each economic activity. If the predefined criteria are met, the economic activity is considered taxonomy-aligned and thus sustainable.

As soon as an economic activity is included in the EU Taxonomy classification system, it is regarded as taxonomy-eligible (Taxonomy-Eligibility). Once included, the following Technical Screening Criteria are used to assess the environmental sustainability of the economic activity (Taxonomy-Alignment):

- 1. Substantial Contribution**
Must substantially add to at least one of the six EU environmental objectives
- 2. Do No Significant Harm**
Must not have a significant negative impact on any of the six EU environmental objectives
- 3. Social Minimum Safeguards**
Must not violate human or labour rights





6 Linking Sustainability to Financial Metrics

The EU Taxonomy relies on performance indicators to measure the impact of financial activities and gives investors concrete data on which to assess the viability and sustainability of their investments. It provides a clear, standardised framework that connects environmental objectives with financial decision-making. By establishing technical criteria for evaluating the sustainability of economic activities, the regulation allows investors, companies and institutions to integrate sustainability into their own financial metrics. Transparent and consistent reporting according to the EU Taxonomy Regulation is essential for driving sustainable investment.

Whether classified as non-taxonomy eligible, taxonomy-eligible, or taxonomy-aligned, companies subject to the Non-Financial Reporting Directive (NFRD) must report on the financial value of their economic activities. In accordance with the Disclosure Delegated Act (EU) 2021/2178 requirements, taxonomy-eligible and taxonomy-aligned activities must be expressed using the following key performance indicators (KPIs): Revenue, capital expenditure (CAPEX) and operating expenditure (OPEX).

The management report must include separate forms linking the absolute and proportional amounts of each KPI with the corresponding (taxonomy-eligible, -aligned) economic activity. This provides investors with a transparent, comparable overview of how much revenue each taxonomy-aligned activity generates versus how much is invested and spent on that particular undertaking – in relation to total revenue, CAPEX and OPEX.

DEKRA EU Taxonomy Classification

EU Taxonomy Report

I. THE EU TAXONOMY

Political background

With the European Green Deal, the EU has set itself the goal of becoming the first climate-neutral continent through green growth. To finance this transformation, financial flows are to flow primarily into sustainable economic activities in the future. To this end, companies must indicate the extent to which the economic activities they carry out are sustainable.

The point at which an economic activity is considered sustainable is determined by the EU Taxonomy on the basis of 6 environmental objectives.

The EU's 6 environmental objectives:

1. Climate protection
2. Adaptation to climate change
3. Sustainable use of water or marine resources
4. Transition to a circular economy
5. Pollution prevention or control
6. Protection and restoration of biodiversity and ecosystems.

How the EU Taxonomy works

The EU Taxonomy (Regulation (EU) 2020/852) is, on the one hand, a legal regulation that applies to companies in the scope of the Non-Financial Reporting Directive (NFRD) and/or Corporate Sustainability Reporting Directive (CSRD). On the other hand, the EU Taxonomy is a classification system that helps to classify an economic activity as environmentally sustainable.

The classification system is based on NACE - an existing classification system for categorising economic activities and activities in the EU.

Taxonomy-Eligibility und Taxonomy-Alignment:
Companies in the scope of the CSRD are obliged to report all taxonomy-eligible economic activities.

1. Taxonomy-Eligibility:
An economic activity is considered taxonomy-eligible as soon as it is included in the Taxonomy's classification system. The Taxonomy is currently still under development and is constantly being supplemented by other economic activities.

2. Taxonomy-Alignment:
If an economic activity is included in the EU Taxonomy, the Taxonomy specifies criteria for that economic activity that can be used to assess the environmental sustainability of that activity. These so-called technical screening criteria are structured as follows:

1. **Substantial Contribution:**
An economic activity must contribute substantially to at least one of the six environmental objectives of the EU.
2. **Do No Significant Harm:**
Economic activity must not have a negative impact on any of the EU's six environmental objectives.
3. **Minimum social protection:**
Economic activity must not result in human rights and labor rights violations.

For each economic activity, the EU Taxonomy formulates its own criteria. If an economic activity meets the criteria, it is considered **taxonomy-aligned** and thus sustainable.

Reporting Templates

OPEX

CAPEX

Revenue



7 Overcoming Challenges

While the EU Taxonomy provides a framework for sustainable investment, the road to compliance can be fraught with challenges that require careful navigation. Here are some of the important issues companies might encounter:

Comprehending the underlying logic: Companies must understand which economic activities are taxonomy-eligible for Taxonomy-Alignment and link these with financial key performance indicators.

Complexity of Criteria: Companies need to understand how to precisely apply and demonstrably document alignment to each unique set of Technical Screening Criteria for each economic activity.

Data Availability and Quality: Quantitative data on EU Taxonomy KPIs revenue, CAPEX and OPEX as well as qualitative data on processes and sustainability practices may not be readily available or standardised.

Integration into Business Strategy: Adapting cross-departmental collaboration can necessitate significant changes in business strategy and operational processes which can be resource intensive.

Reporting Obligations: Companies must have robust systems to collect, analyse, and report transparent and comprehensive data often in conjunction with other regulations.

Stakeholder Expectations: Balancing investor, customer and regulator expectations while maintaining business objectives and demonstrating compliance can be difficult.

Costs of Compliance: The financial commitment to compliance may require investment in adapting or introducing new IT solutions, training, or the hiring of specialised personnel.

Dynamic Regulatory Environment: Companies must continuously adapt to new or amended requirements, which can create uncertainty and require ongoing investment.

Understanding of Greenwashing Risks: Achieving genuine compliance with rigorous internal processes helps companies avoid accusations of misrepresenting sustainability efforts.

While challenges can be intimidating, there are things you can do to better prepare for EU Taxonomy compliance.



8 Recommendations for Successful Implementation

It is crucial to have a clear understanding of the EU Taxonomy and its objectives. For an even smoother transition, you can:

- ▶ **Bring people with the right skills together**
Build interdisciplinary cooperation linking sustainability experts with controlling and business portfolio professionals from the beginning to save a lot of time and effort in the long run.
- ▶ **Start the KPI process as soon as possible**
Adapt accounting and controlling processes, making it possible to report KPIs in accordance with EU Taxonomy standards from the very start.
- ▶ **Align with the six environmental objectives**
Focus first on economic activities most likely to align with the Technical Screening Criteria as it can still be quite time-consuming to gather required evidential documentation.
- ▶ **Utilise educational tools**
Gain a deeper understanding of the EU Taxonomy's underlying logic with the EU Taxonomy Navigator, the EU Taxonomy Compass and the EU Taxonomy Calculator.
- ▶ **Stay informed**
Keep up-to-date with the latest EU Taxonomy developments and modifications found on the EU Taxonomy Navigator as the regulation is subject to change and expansion over time.

- ▶ **Engage with stakeholders**
Collaborate with investors and industry partners to share insights and best practices for EU Taxonomy implementation.
- ▶ **Seek expert advice if you need more support**
Consult recognised sustainability experts to help you navigate the complexities of the EU Taxonomy and ensure correct implementation.



9 The Pathway to Sustainable Business Practices and Future Growth

DEKRA EU Taxonomy Classification

Working in tandem with CSRD requirements to enhance transparent sustainability reporting, the EU Taxonomy provides a clear classification system aligning corporate economic activities with the EU environmental objectives. Moving forward, the EU Taxonomy is likely to lay the groundwork for sustainable EU business practices, gaining a competitive edge for compliant, aligned companies by:

- ▶ Providing a standardised and rigorous framework for sustainability reporting designed to mitigate the risk of greenwashing to strengthen trust and enhance brand image
- ▶ Increasing the quality and scope of data available to investors, bankers, policymakers and other stakeholders for boosted confidence and maximum transparency
- ▶ Unlocking access to potential green financing, sustainable investment and public funding for stakeholders looking to support environmentally responsible options
- ▶ Encouraging revolutionary innovation and optimal transformation to more sustainable operations supporting the broader goals of the European Green Deal and fostering growth

In conclusion, the standardised EU Taxonomy regulation offers significant benefits for businesses, investors, and the broader economy. By providing a clear framework for what constitutes environmentally sustainable activities, it enhances transparency and accountability, making it easier for companies to align their operations with sustainability goals. This consistency not only bolsters investor confidence but also encourages businesses to innovate and invest in green technologies. Ultimately, the EU Taxonomy serves as a critical tool for driving the transition to a more sustainable economy, enabling organisations to contribute positively to environmental objectives while positioning themselves for long-term success in an increasingly eco-conscious market.



10 DEKRA's Sustainability Solutions

DEKRA, a global provider of recognised safety and sustainability services, provides critical, comprehensive support for companies and financial stakeholders navigating classification of their sustainable economic activities according to the EU Taxonomy. DEKRA conducts detailed analysis of your products and services to determine their contribution to the six environmental objectives. Our experts assist you in implementing strong sustainability management within the company and throughout the supply chain.

Sustainability training preparing for the latest regulations and customer requirements, individually tailored strategies, in-depth gap assessments and seamless implementation of reliable and effective measures developed by DEKRA specialists help you to ensure environmental, social and legal compliance. We provide extensive guidance through the complexities of disclosure requirements and sustainability reporting according to the EU Taxonomy. At DEKRA, we make sure you are compliant and competitive so you can contribute to a more sustainable future, access green financing and expand your business while achieving lasting environmental excellence.

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A photograph of two men in a meeting, partially obscured by a dark green diagonal overlay. One man is in the foreground, looking towards the other man who is seated at a desk with a laptop. They are in a bright, modern office setting with greenery in the background.

DEKRA Sustainability Advisory & Training

Supporting your efforts to ensure a safe workplace, a healthy workforce and environmentally sustainable operations, our training and advisory services help you to develop, implement and maintain effective management and reporting strategies. Experts in modern teaching techniques pick the best fitting learning approach to provide the knowledge you need to successfully integrate efficient procedures. Consultants with years of experience are on hand to guide you when targeting your unique corporate sustainability and carbon footprint goals by using appropriate digital tools and databases.

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