Scatec

EU Taxonomy report

2022

Contents

1. Introduction to the EU Taxonomy

To meet the European Union's (EU's) climate and energy targets for 2030 and reach the objectives of the European green deal, it is vital that investments are directed towards sustainable projects and activities.

The EU Taxonomy (the "Taxonomy") is a green classification system that translates the EU's climate and environmental objectives into criteria for specific eligible economic activities. The Taxonomy Regulation lays out six EU environmental objectives:

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

To contribute to one of the objectives and qualify as green, 'environmentally sustainable', economic activities must meet four rounds of different conditions. Economic activities that fulfil the criteria of all four rounds are also recognised as Taxonomy aligned:

1. Making a substantial contribution to at least one environmental objective
2. Doing no significant harm (DNSH) to any other environmental objective
3. Complying with minimum social safeguards
4. Comply with the technical screening criteria[1]

The Taxonomy Delegated Acts will establish and maintain clear criteria for activities to define what it means to make a substantial contribution and what it means to do no significant harm.

Scatec is not yet obliged to report Taxonomy information. The Norwegian Act on Disclosure of Sustainability Information, implementing the Taxonomy Regulation, entered into force on 1 January 2023. It provides that disclosure obligation shall first apply to annual reports containing accounts with balance sheet date of 31 December 2023. However, Norwegian corporates are encouraged to include this information for financial year 2022 on a voluntary basis.

Therefore, this year Scatec has chosen to voluntarily disclose information regarding the EU Taxonomy based on our current understanding and interpretation of the regulation. The current regulation includes only the two climate change objectives. When criteria for the other four objectives are in place, Scatec has the ambition to comply with them where relevant.

[1] The EU Taxonomy technical screening criteria (4.) comprises the substantial contribution (1.) and DNSH (2.) criteria.

2. Scatec's assessments and reporting

2.1 About Scatec

As a leading renewable energy provider, Scatec is dedicated to accelerating access to reliable and affordable clean energy in emerging markets. In September 2022, we released our updated strategy that puts Scatec on a course to capture even more value in the green transition in the period towards 2027. At the heart of this strategy is our role as a long-term player in the markets where we operate – developing, constructing, financing, owning and operating renewable energy plants with 4.6 GW in operation and under construction across four continents.

2.2 Eligibility and alignment

To identify the contribution of Scatec's economic activities to the objectives of the EU Taxonomy, as a first step, Scatec had to identify economic activities that have the potential to be assessed against the EU Taxonomy criteria (Taxonomy eligible). In a second step, Scatec could then perform assessments to confirm fulfilment with the criteria (Taxonomy aligned).

Identification of eligible economic activities

Scatec carries out different economic activities related to renewable energy technologies and solutions across a range of markets. Based on the assessment, current eligible activities carried out by Scatec are:

1. Electricity generation, construction and development of solar photovoltaic (PV) technology, including construction and lease of portable solar PV through Release

2. Electricity generation, construction and development of wind power

3. Electricity generation, construction and development of hydropower

4. Construction and development of new technologies such as green hydrogen, storage, floating solar PV and floating wind

All the activities listed above are Taxonomy eligible as they have the potential to contribute to the environmental objective of climate change mitigation.

Assessment of Taxonomy alignment

Scatec and our third parties carried out multiple assessments over the last few years to confirm alignment of our economic activities with the Taxonomy criteria and identify potential gaps. We have completed the following actions to assess and ensure alignment of our economic activities.

1. Making a substantial contribution to at least one environmental objective

Most of Scatec's economic activities are outside of the EU, thus not directly aligned with EU requirements. However, Scatec follows the IFC Performance Standards, Equator Principles and OECD Guidelines for Multinational Enterprises for new projects. In addition, the Company has robust processes in place through its environmental and social management system (ESMS) to minimise environmental and social impacts.

Technology	Substantial contribution criteria
Solar photovoltaic (PV) technology	In 2020, an assessment was made of Scatec's existing solar power portfolio by an independent third party. All solar projects were deemed aligned with the substantial contribution criteria in the preliminary Taxonomy standard. In 2022, internal and third-party assessments confirmed substantial contribution alignment with the latest version of the Taxonomy, namely "the activity generates electricity using solar PV technology".
Wind	Following Scatec's acquisition of SN Power, a major hydropower player in 2021, including a wind power project, Taxonomy alignment was assessed for these economic activities. In 2022, internal and third-party assessments confirmed substantial contribution alignment with the latest version of the Taxonomy, namely "the activity generates electricity from wind power".
Hydro	Following Scatec's acquisition of SN Power, a major hydropower player in 2021, Taxonomy alignment was assessed for these economic activities. In 2021, an internal assessment was conducted followed by a detailed assessment per project by an independent third party. As hydropower has requirements for greenhouse gas (GHG) emissions under 100 gCO2e/kWh, independent GHG assessments were made for all Scatec's hydropower investments. The results reflected that all hydropower projects were well below the 100 gCO2e/kWh threshold.
Construction and lease of portable solar PV through Release	Release includes the same solar technology as in the solar photovoltaic (PV) technology reported above, and are as such covered by the same substantial contribution criteria. Release projects are, however, portable energy equipment leased on site to customers. As such, the economic activity is part of an onsite installation, maintenance and repair of renewable energy technologies, which is an enabling activity in the Taxonomy.
Green hydrogen	Not yet assessed. In 2023, we will complete substantial contribution assessments for our green hydrogen facility, currently under development.

Given Scatec's 2027 strategy, focus areas and key markets, we do not foresee any alignment risk to current early-stage development activities that may materialise into renewable energy projects and solutions.

2. Doing no significant harm (DNSH) to any other environmental objective

Technology	Doing no significant harm (DNSH) criteria
Solar photovoltaic (PV) technology	The third-party assessment conducted in 2020 included a high-level assessment of the DNSH criteria, and found that our solar assets aligned with such criteria. During a 2021 review, it was identified that Scatec lacked detailed climate risk assessments per project. Therefore, in 2022, an internal climate risk and risk mitigation assessment was performed for each solar site.
Wind	During a 2021 review, it was identified that Scatec lacked detailed climate risk assessments per project. Therefore, in 2022, an internal climate risk and risk mitigation assessment was performed for our wind project site.
Hydro	Assessments of the DNSH criteria found the existing hydropower project sites to be aligned based on available documentation, such as environmental and social impact assessments (ESIAs). Site specific climate risk assessments were initially lacking. In 2022, we engaged an independent third-party to conduct detailed climate risk assessments for its hydropower investments, of which all work was completed by year end.
Construction and lease of portable solar PV through Release	To ensure that our Release activities do not lead to lock in of assets that undermine the long-term environmental goals (as required by article 16), Scatec has reviewed the intended use of Release assets in our customer portfolio. Our Release projects are not intended to be used to directly enable fossil fuel production or other activities directly harmful to environmental goals.
Green hydrogen	Not yet assessed. In 2023, we will complete DNSH assessments for our green hydrogen facility, currently under development.

3. Complying with minimum social safeguards

We assessed our economic activities according to the minimum social safeguards in the Taxonomy. This entails ensuring that certain minimum governance standards are adhered, such as anti-corruption and fair competition; and that social norms are not violated, including human and labour rights.

Across all economic activities, Scatec operates in line with the following:

- We respect all internationally recognised human rights including the International Bill of Human Rights and the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work
- Our human rights policy is aligned with the United Nations (UN) Guiding Principles on Business and Human Rights to prevent, address, and remedy human rights abuses committed in business operations
- Scatec is opposed to all forms of corruption and strives to meet the highest ethical standards across our business activities
- Our Code of Conduct embodies our fundamental values and commitment to ethical conduct and safeguards our company's integrity. It is the bedrock of how we build our business
- The Code prohibits corruption, and we implement internal controls to prevent, detect and remedy improper conduct through our Anti-Corruption Compliance Programme

The above considerations are embedded into our operating system and governing documents. Therefore Scatec does not foresee any alignment risk to current early-stage development activities that may materialise into renewable energy projects and solutions.

Expected to be aligned

Scatec's current solar projects in construction were developed in a similar manner to our operational solar portfolio, assessed as aligned, thus we regard our construction activities to be aligned. In addition, physical climate risk assessments for all projects in construction we carried out to meet the climate adaptation requirements.

Development cost capitalised on solar projects in backlog and pipeline are assessed as associated with Taxonomy aligned activities, since the future operational projects are expected to be well within required thresholds.

2.3 Revenue, capex and opex reporting

Under the EU Taxonomy regulation, companies shall disclose to what extent the economic activities they carry out meet the criteria set out in the Taxonomy. This is quantified through the key performance indicators (KPI's) of revenue, capital expenditure (capex) and operating expenditure (opex).

According to the Taxonomy, the KPI's shall be reported based on a company's International Financial Reporting Standards (IFRS) consolidated figures. This implies that revenue, capex and opex shall be disclosed for economic activities in companies that Scatec ASA controls. These KPI's do not include figures from joint ventures (JVs) and associated companies, such as the hydropower producing companies[2].

	Revenue		Capex		Opex	
	NOK mill	Percentage	NOK mill	Percentage	NOK mill	Percentage
Eligible	3,002	100%	1,941	98%	483	100%
Aligned	3,002	100%	1,769	91%	417	86%
Expected to be aligned	-	-	172	9%	66	14%
Non eligible	-	-	44	2%	-	-

Scatec's revenue gives a clear picture of where the company is relative to the Taxonomy. The revenue generated reflects the economic activities currently carried out by the Group and it allows investors to report the percentage of their funds invested in Taxonomy-aligned activities. 100% of Scatec's revenue is derived from eligible activities that are aligned with the Taxonomy.

Scatec's capex gives investors a perception of the company's strategic direction. The capital expenditure reflects which activities that will generate future revenue. Capex is 98% associated with Taxonomy eligible activities. Non-eligible capex is related to office leases, purchase of office fixtures and equipment and capitalisation on internal projects. Of the eligible capex, 91% relates to aligned activities while 9% is associated with capital expenditure related to new technologies and projects that are expected to generate Taxonomy aligned revenue when reaching production.

Opex shall cover direct non-capitalised costs that relate to research and development and direct expenditures relating to the day-to-day servicing of assets used to generate eligible revenue. Opex gives information about maintenance and repair costs incurred to ensure the efficiency of the projects. The operating expenses included per the definition of the Taxonomy is 100% related to activities that are Taxonomy aligned, or associated with development of technologies and projects that are expected to generate Taxonomy aligned revenue.

The proportion of aligned revenue

Net revenues for the purpose of Taxonomy reporting align with the financial statement caption 'Revenues' reported in the consolidated statement of profit and loss. Scatec's consolidated revenues are primarily generated from sale of renewable electricity from solar and wind to third parties. A smaller portion of the revenues are generated from sale of power-plant maintenance-services and lease of portable solar PV to third parties.

Scatec is further developing a green hydrogen facility in Egypt in partnership with Fertiglobe, the Sovereign Fund of Egypt and Orascom construction. The green hydrogen will be used as feedstock for production of green ammonia in Fertiglobe's existing ammonia production. The green hydrogen facility is not yet in operation generating revenue, therefore not reflected in the revenue figures.

[2] Refer to the separate section "Equity consolidated entities" below for disclosure on hydropower entities and other equity consolidated entities.

Revenue Economic activities	Aligned	%	Amount (NOK mill)
Eligible activities		100%	3,002
Service and production of electricity from solar PV	Yes	95%	2,872
Production of electricity from wind power	Yes	3%	83
Construction and lease of portable solar PV through Release	Yes	2%	47
Non eligible activities		0%	-

The proportion of aligned Capex

Capex for the purpose of Taxonomy reporting aligns to additions as presented in note 9 'Property, plant and equipment' in the Group's annual report, and cover additions to tangible and intangible assets during the financial year. Capex aligned with the Taxonomy includes additions to existing and planned assets or processes that are associated with Taxonomy aligned economic activities.

For Scatec, additions mainly relate to development and construction of solar projects, where solar projects under construction in South Africa and Pakistan are the main contributors in 2022. Other capex relates to development and construction of portable solar panels to be leased to third parties. Development cost capitalised on solar projects in backlog and pipeline are assessed as associated with Taxonomy aligned activities.

Scatec has further capitalised cost on projects in backlog and pipeline related to new technologies such as green hydrogen, green ammonia and storage. These business development costs and investments are related to early-stage activities, where technical screening is not carried out. When technical screening and DNSH assessment is carried out in 2023, we expect to reclassify opex and capex related to these technologies to Taxonomy aligned activities. Hydro technology is subject to stringent technical screening criteria and capex related to hydro projects under development is therefore classified as expected to be aligned until full alignment assessment is carried out on the specific projects.

Capex Economic activities	Aligned	%	Amount (NOK mill)
Eligible activities		98%	1,941
Development and construction of solar PV	Yes	74%	1,437
Development and construction of wind power	Yes	-	1
Construction and lease of portable solar PV through Release	Yes	17%	331
Development and construction of green hydrogen technologies	Expected to be aligned	7%	140
Development and construction of hydropower	Expected to be aligned	2%	32
Non eligible activities		2%	44

The proportion of aligned Opex

Opex covers costs reported in the financial statement captions ‘personnel expenses’ and ‘other operating expenses’ in consolidated statement of profit loss, but excludes certain costs such as overhead costs and costs of operating the plant[3].

All of Scatec’s revenue is derived from eligible economic activities aligned to the Taxonomy and the operating expenses are incurred in relation to the same activities. In addition, costs are incurred in relation to development of new projects with activities expected to generate Taxonomy aligned revenue. Operating expenses incurred on solar and wind projects in development are assessed as associated with Taxonomy aligned activities. Costs associated with new technologies are expected to be aligned once such assessments and technical screening are completed when the projects mature.

Opex Economic activities	Aligned	%	Amount (NOK mill)
Eligible activities		100%	483
Development and construction of solar PV	Yes	75%	361
Development and construction of wind power	Yes	7%	35
Construction and lease of portable solar PV through Release	Yes	4%	21
Development and construction of green hydrogen technologies	Expected to be aligned	3%	14
Development and construction of hydropower	Expected to be aligned	11%	52
Non eligible activities		0%	-

Equity consolidated entities

Joint ventures and associated companies are equity consolidated in the group consolidated financials. Consequently, financials from these entities are presented only with the Group’s share of the entities’ net profit on a separate financial statement caption. The KPI’s do therefore not include figures for these entities. Scatec chose to disclose information on taxonomy alignment for these entities, mainly including hydro power entities, as we believe this gives valuable information about eligible activities carried out by Scatec entities.

100% of Scatec’s proportionate revenue is derived from eligible activities that are aligned with the Taxonomy. Refer to Q4 historical financial information 2022 for Scatec’s proportion of revenue generated from our hydro plants in 2022. Scatec’s hydropower assets were assessed against all criteria and, after the completion of site-specific climate risk assessments, were all found aligned.

Capital expenditure in JV’s is mainly related to the construction of our Mendubim solar project in Brazil, an aligned economic activity, as well as the construction of a battery energy storage system (BESS) at the Magat hydropower plant, aligned to the production of hydropower.

[3]In the consolidated statement of profit loss ‘Personnel expenses’ and ‘other operating expenses’ amount to NOK 1,196 million. Of this, NOK 483 million is included per the opex definition in the Taxonomy and NOK 713 million is not covered by definition.

3. Looking ahead

3.1 Disclosure of Scatec's capex plan

With more than 15 years of experience operating in emerging markets, we understand how to adapt amidst rapidly changing conditions. Our strategic approach takes this experience into account, coupled with our intention to achieve ambitious targets and access scale benefits in our markets. Scatec remains a selective investor. We target to invest NOK 10 billion of equity into new power plants towards 2027 that generate long-term profitable returns of 1.2 times the cost of project equity.

We aim to build stronger and longer-term positions in selected emerging markets, where we see a clear green agenda and potential to build scale and apply our integrated business model. These markets are South Africa, The Philippines, Brazil, Poland, Egypt, India and Hydro Africa. Beyond these focus markets, we will maintain our opportunistic approach, applying strict guidelines on potential projects in terms of size and value creation.

We have a history as a pioneer in the solar industry, and now we are set on being a frontrunner in Green Hydrogen as well. Our goal is to build some of the first large-scale facilities in the world. Scatec is well-positioned for growth with its solid financial platform. Our sharpened strategy is what guides us in consistently being at our strongest, driving results and remaining ready to seize emerging opportunities.

Given Scatec's sharpened strategy for 2027, and capex plan disclosure, we do not foresee any major challenges or changes to our current Taxonomy aligned economic activities. We will continue to work closely with the Taxonomy as we expand our operations and follow any developments in the regulation with keen interest.

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