

EU Taxonomy

Sustainable finance is critical for the transition into a low carbon economy and a more just society. The EU taxonomy established a classification system with criteria for which economic activities can be considered sustainable. It is considered an important tool to channel capital into sustainable economic activities.

Background and objectives

As part of the European Green Deal, the European Union (EU) has placed the topics of climate protection, the environment and sustainability at the heart of its political agenda in order to achieve climate neutrality by the year 2050. To this end, the EU Action Plan on financing sustainable growth was developed that aims to reorient capital flows towards sustainable investment, to mainstream sustainability in risk management and to foster transparency and long-termism in financial and economic activity. The Action Plan comprises ten measures and centers around the EU taxonomy (Regulation (EU) 2020/852 and associated delegated acts).

The EU taxonomy is a classification system for sustainable economic activities. An economic activity is considered taxonomy-eligible if it is

listed in Article 8 of the EU Taxonomy Regulation and can potentially contribute to realizing at least one 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
- Protection and restoration of biodiversity and ecosystems

As per year end 2022, it is only the first two environmental objectives (climate change mitigation and climate change adaptation) which are finalized and published, and thus subject to eligibility assessments.

An activity is only considered environmentally sustainable, i.e., taxonomy-aligned, if it meets all three of the following conditions:

- The activity makes a substantial contribution to one of the environmental objectives by meeting the screening criteria defined for this economic activity, e.g., level of CO₂ emissions for the climate change mitigation environmental objective.
- The activity meets the Do-No-Significant-Harm (DNSH) criteria defined for this economic activity. These are designed to prevent significant harm to one or more of the other environmental objectives, e.g., from the production process or by the product.
- The activity is carried out in compliance with the minimum safeguards, which apply to all economic activities and relate primarily to human rights and social and labor standards.

Voluntary reporting in 2022

The EU taxonomy regulation entered into force in Norway on 1 January 2023, and Norwegian companies are not required by law to report on the taxonomy in its 2022 annual reports. Hexagon has decided to include taxonomy related information

and disclose quantitative measures on eligible revenues on a voluntary basis for 2022, as can be found in the following sections.

Economic activities in the Hexagon Group

As a world-leading composite cylinder technology developer and manufacturer, and with our purpose of "Driving Energy Transformation", we enable the safe delivery of clean energy in gaseous form to homes and industries, and we decarbonize transportation. The majority of Hexagon's activities are related to the production of composite cylinders. To date we have delivered more than 600 000 high pressure composite cylinders, more than 70 000 fuel systems and more than 20+ million LPG cylinders.

In 2021, Hexagon made a focused effort to interpret the EU Taxonomy criteria and apply it to its operations – identifying and assessing the eligibility of each of its activities. In this process, we found that Hexagon contributes to the first environmental objective, "Climate change mitigation". We also found that the cylinder testing and monitoring services and products offered by Hexagon Digital Wave will become eligible under

the “Transition to a circular economy” objective, which is yet to be finalized and published. Hexagon Digital Wave’s products and services are thus currently reported as non-eligible.

In 2022, Hexagon continued its efforts on interpreting the EU Taxonomy and performed a technical screening criterion of all our products and services within Hexagon Agility, Hexagon Ragasco and Hexagon Purus. These products are summarized in the following table and shows each product/service’s link to the Taxonomy-eligible economic activities. Taxonomy-eligible economic activity means an economic activity that is described in the delegated acts supplementing the Regulation, irrespective of whether that economic activity meets any or all of the technical screening criteria laid down in those delegated acts.

The assessment found that Hexagon’s products and services are well-positioned to meet the criteria for substantial contribution. 8 of 11 product and service lines assessed met the “*Substantial Contribution*” criteria for climate change mitigation. The remaining three products are expected to meet the criteria when further assessments and documentations are carried out in 2023.

To be fully aligned with the EU Taxonomy framework, and in addition to the “Substantial Contribution” criteria, Hexagon also needs to qualify on the basis of i) “*Do no Significant Harm*” (DNSH) to other sustainability objectives and ii) “*Minimum safeguards*”.

During 2022, Hexagon assessed the *DNSH* criteria and the *Minimum safeguards* criteria for all products and services listed above. The assessment demonstrated that the *DNSH* is a key area to focus efforts on, to ensure taxonomy alignment.

Business area	Taxonomy-eligible economic activity	#	Description of product / service
Hexagon Agility	3.3	1	Manufacture of low carbon technologies for transport Fuel system for commercial vehicles
	3.6	2	Manufacture of other low carbon technologies Mobile Pipeline (distribution business)
		3	Type 4 composite cylinders for commercial vehicles and the automotive industry
Hexagon Ragasco	3.6	4	Manufacture of other low carbon technologies Composite cylinders for cooking & heating
		5	Composite cylinders for leisure
Hexagon Purus	3.2	6	Manufacture of equipment for the production and use of hydrogen Type 4 composite hydrogen cylinders
		7	Hydrogen distribution system
		8	Fuel cell electric vehicle system
		9	Hydrogen fuel storage system
	3.4	10	Manufacture of batteries Battery electric vehicle system
	3.6	11	Manufacture of other low carbon technologies Industrial gas bundles and stationary gas storage systems
6.15	9	Infrastructure enabling low-carbon road transport and public transport Hydrogen fuel storage system	

Eligible revenues

The below table sets forth the overview of eligible revenues per segment and for the Group for 2022.

Segment / Group	Economic activities	Revenues (external)		Revenues (internal)	Total revenues
		NOK million	% ¹	NOK million	NOK million
Hexagon Agility	Total	3 217	100%	261	3 478
	A) Eligible activities	3 170	99%		
	3.3 Manufacture of low carbon technologies for transport	2 291			
	3.6. Manufacture of other low carbon technologies	880			
	B) Non-eligible activities	46	1%		
	C) Revenues from other group companies			261	
Hexagon Ragasco	Total	701	100%	5	706
	A) Eligible activities	700	100%		
	3.6. Manufacture of other low carbon technologies	700			
	B) Non-eligible activities	1	-		
	C) Revenues from other group companies			5	
Hexagon Digital Wave	Total	91	100%	25	116
	A) Eligible activities	0	0%		
	B) Non-eligible activities	91	100%		
	C) Revenues from other group companies			25	

Segment / Group	Economic activities	Revenues (external)		Revenues (internal)	Total revenues
		NOK million	% ¹	NOK million	NOK million
Hexagon Purus	Total	920	100%	44	964
	A) Eligible activities	888	96%		
	3.2. Manufacture of equipment for the production and use of hydrogen	569			
	3.4. Manufacture of batteries	59			
	3.6. Manufacture of other low carbon technologies	198			
	6.15 Infrastructure enabling low-carbon road transport and public transport	62			
	B) Non-eligible activities	33	4%		
	C) Revenues from other group companies			44	
Hexagon Group	Total	4 932		-	4 932
	A) Eligible activities	4 758	96%		
	3.2. Manufacture of equipment for the production and use of hydrogen	569			
	3.3 Manufacture of low carbon technologies for transport	2 291			
	3.4. Manufacture of batteries	59			
	3.6. Manufacture of other low carbon technologies	1 778			
	6.15 Infrastructure enabling low-carbon road transport and public transport	62			
	B) Non-eligible activities	174	4%		

¹ All percentages relate to the external revenues for the business areas and the Group's total revenues

The definition of turnover in the EU Taxonomy corresponds to the revenues as reported in the IFRS consolidated financial statements, which amounted to NOK 4 932 million for the fiscal year 2022. Of this total, NOK 4 758 million, or 96% of group revenues, was attributed to taxonomy-eligible activities. For segment reporting purposes, Hexagon has derived the eligible revenues on the basis of external revenues (see [note 4](#) in the notes to the consolidated financial statements).

Taxonomy alignment in 2023 and the work ahead

Hexagon supports the EU's work on sustainable finance and other sustainable initiatives. Having a common and consistent standard of climate-related disclosure provides a common language for measuring sustainability performance and focuses corporations on investing and delivering returns from these activities. We view the EU taxonomy as providing valuable information for our internal risk management, financial planning, and strategy processes.

In the course of 2023, the Company will calculate the proportion of aligned activities, by total turnover, capital expenditure and operating expenditure and report in line with the EU taxonomy requirements. The Company will continue its work to ensure that as many as possible of the DNSH criteria are met for all economic activities.

For the *"Climate change adaptation objective"*, the Company will perform and document physical climate risk assessments with the target of all the manufacturing sites to meet this DNSH criteria and continue to build a management system that ensures governance of physical climate risk.

For the *"Sustainable use and protection of water and marine resources objective"*, the Company will perform and document an Environmental degradation risks assessment.

For the *"Transition to a circular economy objective"*, the Company will develop clear governing documents and checklists that encourage the development of a circular business model and products.

For the *"Pollution prevention and control objective"*, the Company will ensure that all manufacturing sites comply with the REACH Regulation (which is implemented in the EU and EEA) or comparable regulations at manufacturing sites outside the EU.

For the *"Protection and restoration of biodiversity and ecosystems objective"*, the Company will work to ensure that the Environmental impact assessments (EIA) performed at all manufacturing sites are completed. For manufacturing sites and assets located in the EU, having an EIA is required for a permit/license to operate, and the Company is confident this objective will be met in the EU as well as outside EU.

As all of Hexagon's current economic activities have the potential to be taxonomy aligned, Hexagon regards the potential for close to full alignment with the EU Taxonomy over time, as high. However, as the EU Taxonomy requirements are challenging, we can expect that not all DNSH criteria may be fulfilled within 2023.