

## ESG Viewpoint: Energias de Portugal (EDP)

The EDP Group is a Portuguese utilities company that produces, distributes, and commercializes electricity, gas and energy services. The company is listed on the NYSE Euronext Lisbon, and on the Sao Paulo Bovespa. In Europe, EDP carries out business operations in Portugal, Spain, France, the United Kingdom, Belgium, Italy, Poland and Romania. In the Americas, the company has operations in Canada, the United States and Brazil.

EDP has 12,179 employees from 31 nationalities, works with 19,000 suppliers, and provides 9.9 million clients with electricity, and 1.2 million clients with gas. The company had a consolidated business volume of EUR 16,1 billion in the year 2013.



### **RepRisk: What are the major challenges EDP sees in the energy sector for the near future?**

Energias de Portugal: There is a vast difference between what the industry looks like today and what it was ten years ago. The expansion of wind farms, the current cost efficiency of photovoltaics, the emergence of the electric car sector, bi-directional distribution networks, the impact of shale gas, energy consumption in China and India, the negative price evolution of CO<sub>2</sub>, and the Fukushima and Deep Water Horizon accidents, are just a few of the new challenges. In addition, investments in traditional OECD markets, with low risk, have become more challenging due to current regulation policies, while investments in emerging economies still encompass high-risk levels. The challenges of the energy sector are complex, and very sensitive to geo-political and macro-economic dynamics, as well as scientific and technological advances. Therefore, knowing what the energy sector will look like in ten years' time, and what challenges the future will bring is a constant task, which does not provide forward answers, but instead compels us to adopt clear strategies in a highly uncertain and insecure environment.

### **RR: What are the main areas of action for EDP in terms of global exposure to ESG risk factors?**

EDP: EDP's strategy is based on systematically controlling risk, increasing efficiency in all business areas, and focusing growth in renewable energies. This strategy, which requires international investment, is reinforced by a strong partnership between EDP and China Three Gorges. Approximately 60 percent of EDP's electricity production comes from renewable sources, and the new projects being developed by the company will also help reinforce the importance of renewable energy. Through this strategy, the EDP Group is growing towards a more sustainable future, although the company recognizes the need for balancing this growth with the social and environmental issues posed by new technologies. The dependence on water in water-scarce environments, the continuing degradation of biodiversity, or the social license to operate achieved by respecting and developing local communities, are among the main potential ESG challenges

for the business today. These risks are already being strategically considered with corporate policies and internal action plans in place.

**RR: What kind of processes do you have in place to identify and manage ESG risks?**

EDP: It is crucial to use a mix of international and regional frameworks in order to consistently identify ESG risk factors. At EDP, we place particular emphasis on the Global Reporting Initiative (GRI) methodology, and the Dow Jones Sustainability Indices (DSJI). GRI profoundly contributes to the concept of materiality, and to a detailed identification of sustainability indicators. The DJSI is crucial for sector benchmarking and establishing operational goals. A dozen or so other important frameworks complete our approach: for instance, CDP, FTSE4Good or ISE frameworks and platforms like Achilles or RepRisk.

Regarding the management of risk, EDP has published principles and action policies that set the parameters for decision-making and everyday management. In order to sustain these policies, one of our board members is responsible for ESG risk, and sustainability and the function of Chief Risk Officer are core elements in the structure of each of the business units.

At the corporate level, a Sustainability Committee, with the participation of the executive board members of EDP companies, meets periodically to discuss and approve sustainability action plans. Since the nineties, EDP also has an external corporate environment and sustainability board to advise the executive board of directors and support their strategy concerning sustainability issues. Furthermore, an Ethical Ombudsman is responsible for receiving and managing complaints concerning ethical matters either internal or external, and an Ethics Committee was set up to work together with the General and Supervisory Board's Corporate Governance and Sustainability Committee to support EDP policies regarding the company's code of conduct and to ensure the proper regulation of ethical matters within the companies of the Group.

Our company understands that in a global world, international cooperation is crucial to achieving a sustainable society. Therefore EDP has been an active participant of Global Compact since 2004 and is a WBCSD member, integrating the Vision 2050 and Action 2020 into its strategic plans. But also at the ground level, EDP meets the challenges posed by exposure to ESG risk, and has joined the Bettercoal Initiative to deal with the issues facing the coal supply chain.

**RR: What are the major commitments the company has made to shareholders and other stakeholders with regards to improvements in sustainability?**

EDP: For EDP, the management of sustainability is a pro-active form of management. Our first tasks are to anticipate problems, actively consult with stakeholders, and to constantly improve and strive to become leaders in sustainability. EDP Group's ranking on the DSJI reflects this commitment. In 2013, the DJSI awarded EDP 90 points, the highest score it has ever received, and the highest position in the utilities sector. For 2014, the company aims to maintain its leadership position and improve its performance. That goal will be achieved through detailed plans that encompass every EDP work department.