

Sustainability at EDP


October 2018





EDP Sustainability Strategy 

Our Approach

More than a simple goal, continuing to grow while meeting the challenges of sustainable development is a pledge we made to our stakeholders. Sustainability is part of EDP's DNA

 **ENVIRONMENT:** We want to continue to be leaders in environmental business management, implementing the best practices and investing in renewable energy

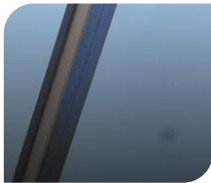
 **SOCIETY:** We are committed to creating social value and contributing to citizenship and the quality of life of populations

 **ECONOMY:** We aim to bring value to our clients, suppliers and other stakeholders

EDP Principles of Sustainable development



Economic & Social Value



Transparency and dialogue



Eco-efficiency & Environment



Human capital and diversity



Innovation



Energy access



Integrity and good governance











Social development and citizenship

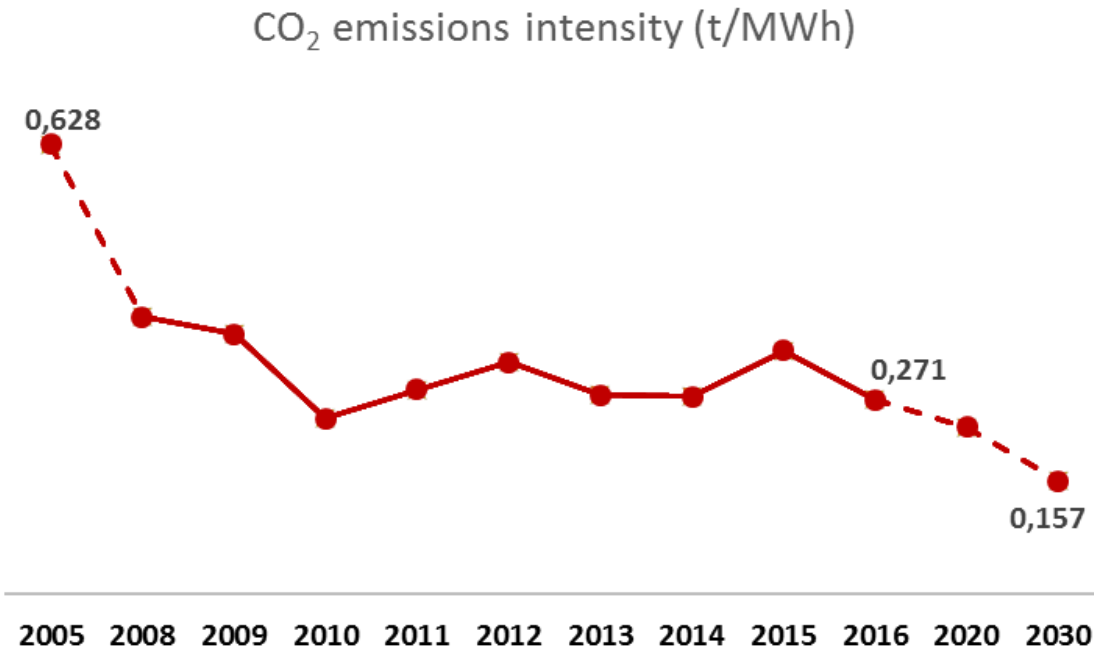
EDP Sustainability 2020/2030 targets



Our aim is for continuous growth, with a business model that fits a sustainable development

Priorities	EDP strategic objectives 2020/2030	UN Sustainable Development Goals (UN SDGs)
Generate economic value	Achieve 76% clean capacity by 2020	  
	Invest €200M in innovative projects by 2020	
	Surpass 90% installation of smart meters' in Iberia by 2030	
	Provide energy efficiency products to reduce overall consumption by 1 TWh before 2020 (vs. 2014 levels)	
Develop our people	Keep employee engagement at high level (>=75% in 2020)	 
	Promote increased diversity (27% female employees in 2020)	
	Achieve 100% Health and Safety certification (including suppliers exposed to high risks)	
	Continuously reduce accidents (employees and service providers) (Frequency index <=2,00)	
Improve trust	Achieve >80% Client satisfaction rating	
	Maintain EDP's current position as one of the world's most ethical companies (recognition by the Ethisphere Institute)	
	Implement full stakeholder sounding (covering all EDP Group stakeholder segments)	
	Develop volunteering programme, giving special emphasis to skills volunteering	
	Invest in the community, notably in promoting volunteering, social businesses and initiatives for sustainable lifestyles (€100 million investment in the community)	
	Evaluate and audit suppliers (100% critical suppliers evaluated according to ESG criteria and 100% service providers with audited ESG risks)	
Manage climate and environment	Reduce CO ₂ specific emissions in 75% by 2030 (from 2005 levels)	 
	Have 100% electrical vehicles (EV) in EDP's fleet by 2030	
	Achieve 100% environmental certification (including suppliers with high impact exposed to high risks)	
	Internalize the concept of circular economy (Variation in specific waste materials vs 2015 -20%)	

Mitigation: EDP's trajectory for decarbonization

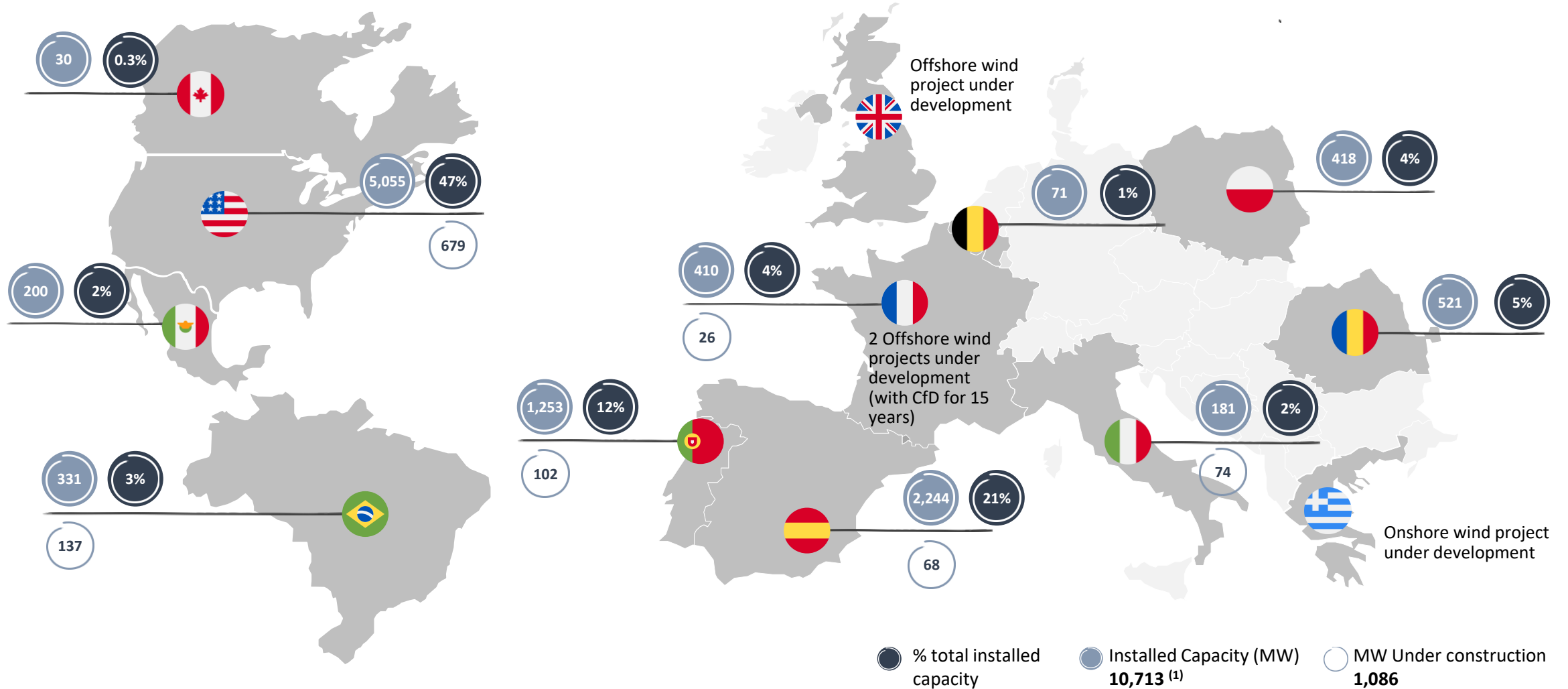


- EDP's decarbonization strategy is aligned with the publicly announced decarbonization path:
Reduce 75% CO₂ specific emissions by 2030 from 2005 levels
- EDP also committed to: (i) reduce its scope 1 and 2 emissions from electricity production by 55% per TWh by 2030, from 2015 levels; and (ii) reduce its absolute scope 3 emissions by 25% over the same time period. These targets are approved by the Science Based Targets Initiative (SBTi)



EDP is committed to address climate change, namely through the reduction of CO₂ emissions in 75% by 2030 (from 2005 levels)

EDP R: One of the largest renewable power producers in the world (wind and solar)



(1) As of Jun-18: Installed capacity does not include 331MW consolidated through the equity method (152 MW in Spain; 179 MW in the US)

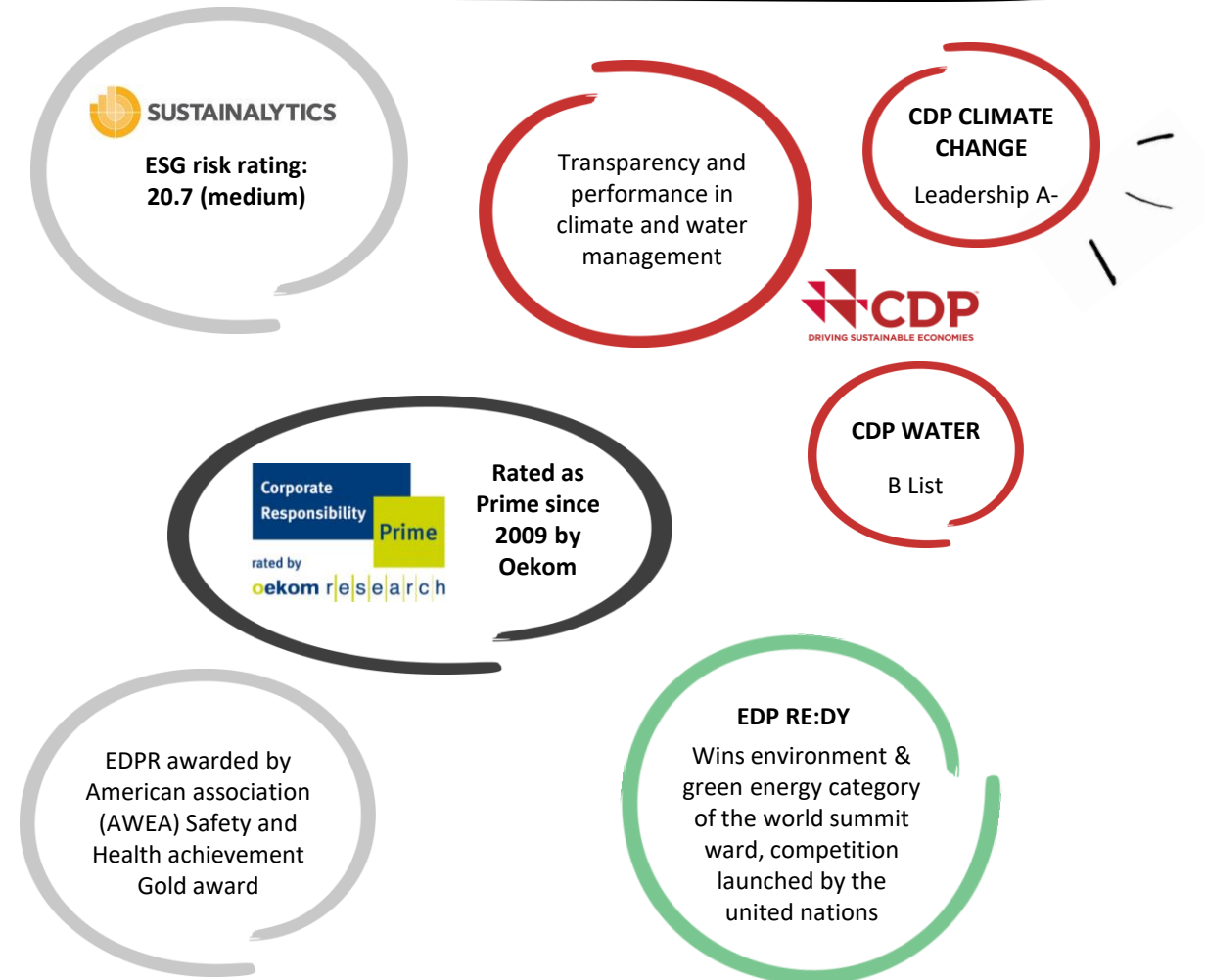
Well-established sustainability track record



Some of the sustainability Indices where EDP is a member ⁽¹⁾



Strong extra-financing ratings ⁽¹⁾



(1) For additional details, please refer to: <https://www.edp.com/en/sustainability/economic-dimension/sustainability-indexes/sustainability-indexes> and EDP Sustainability Report 2017



EDP Green Bond Framework 

Use of Proceeds



- **Eligible Green Projects** include the design, construction, installation and maintenance of renewable energy production projects, such as:
 - ✓ wind power plants (onshore and offshore)
 - ✓ solar power plants (photovoltaic or concentrated solar power - CSP)
- The net proceeds from Green Bonds issuance will be used in the financing or refinancing of existing or new assets of **EDP Renováveis (EDP R)**

Project Evaluation & Selection



- EDP's Finance and Sustainability teams, jointly with EDP R representatives will assess, at least annually, the process of evaluation and selection of eligible projects, proceeds allocation and reporting
- **Excluded sectors:** projects based on fossil fuel and hydro energy production, transmission and distribution; these are not part of EDP R's portfolio of projects.

Management of proceeds



- The net proceeds of green bonds issued by EDP will be managed on a portfolio basis
- EDP will strive, over time, to achieve a level of allocation for the Eligible Green Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding green bonds
- Whilst any green bond net proceeds remain unallocated, EDP will hold and/or invest, at its own discretion, in its treasury liquidity portfolio (in cash or cash equivalents), or in reimbursement / purchase of existing debt, the balance of net proceeds not yet allocated to the Eligible Green Project Portfolio

Reporting




- Reporting to be available on EDP's website
- The allocation report will provide, as far as practical:
 - Total amount of investments and expenditures in the Eligible Green Project Portfolio
 - Amount and percentage of new and existing projects
 - Balance of unallocated proceeds
- The impact report may provide, as far as practical:
 - Expected installed capacity (MW)
 - Estimated annual CO₂ emissions avoided (in tCO₂)
 - Projected annual net production of renewable energy (MWh)

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>



- The net proceeds from Green Bonds issuance will be channeled to finance or refinance existing or planned investments which support the transition to a low-carbon economy, especially those that help **increase the production of renewable energy**
- The Eligible Green Project Portfolio¹ consists of renewable projects – such as wind and solar plants - owned by **EDP R**
- The Eligible Green Project Portfolio is deemed to provide environmental benefits (avoidance or reduction of greenhouse gas-(GHG) - emissions) in alignment with EDP’s strategy and sustainability goals



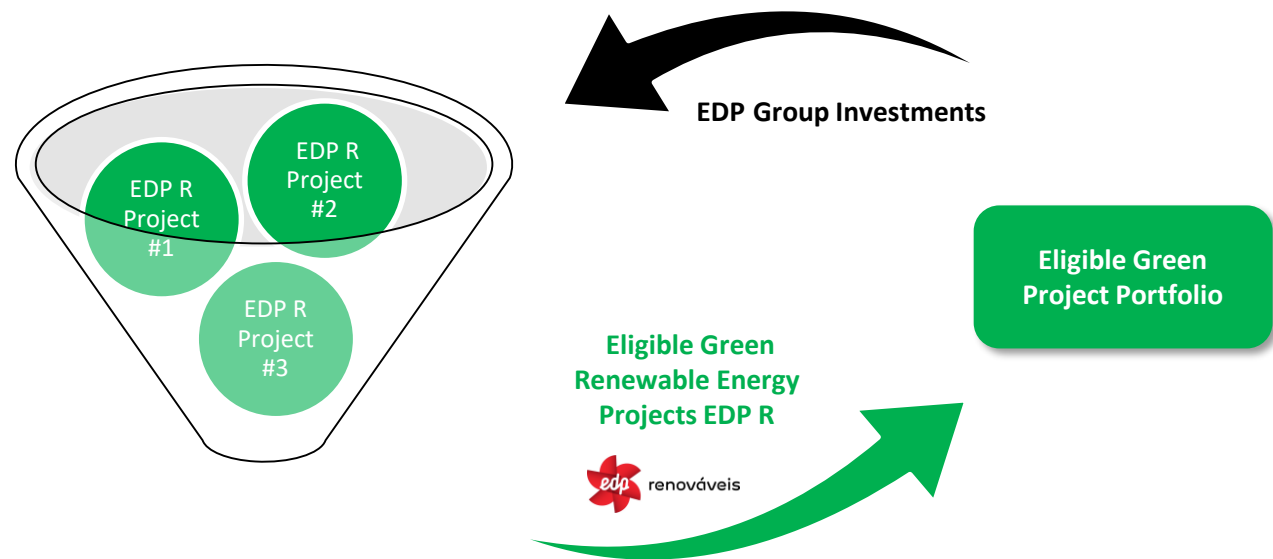
Eligible Green Projects	Sustainability Benefits	UN SDGs alignment
<ul style="list-style-type: none">• Renewable Energy Projects<ul style="list-style-type: none">✓ <u>wind power plants</u> (onshore and offshore)✓ <u>solar power plants</u> (photovoltaic or concentrated solar power - CSP)	<ul style="list-style-type: none">• Increase renewable energy production• Avoidance/reduction of GHG emissions	



¹ The Eligible Green Project Portfolio excludes any projects based on fossil fuel and hydro energy production, transmission and distribution



- Alongside the application of the Green Bond Principles and its own sustainability goals, EDP R’s projects are subject to Environmental, Social and Governance (ESG) standards which are defined in EDP’s Environmental and Social Policies¹
- EDP’s Finance and Sustainability teams, jointly with EDP R representatives, will be responsible for the governance of EDP’s Green Bond Framework and will assess, at least annually, the process of evaluation and selection of eligible projects, proceeds allocation and reporting



Exclusionary criteria: projects based on fossil fuel and hydro energy production, transmission and distribution

Eligible Green Projects	ESG Criteria
• Renewable Energy Projects	• <u>Environmental</u> : environmental management of the project, climate change mitigation, protection of biodiversity and natural resource
	• <u>Social</u> : respect of human and labor rights, health and safety, stakeholders dialogue and community involvement
	• <u>Governance</u> : including business ethics and responsible procurement

¹ All projects of EDP R are subject to EDP’s social and environmental standards. EDP’s Environmental and Social Policies can be found at: <https://www.edp.com/en/edp/about-us/principles-and-policies>

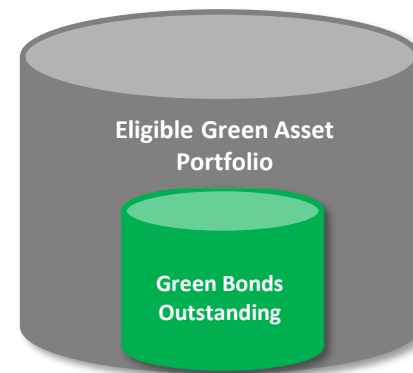
Use of Proceeds

Project Evaluation & Selection

Management of proceeds

Reporting

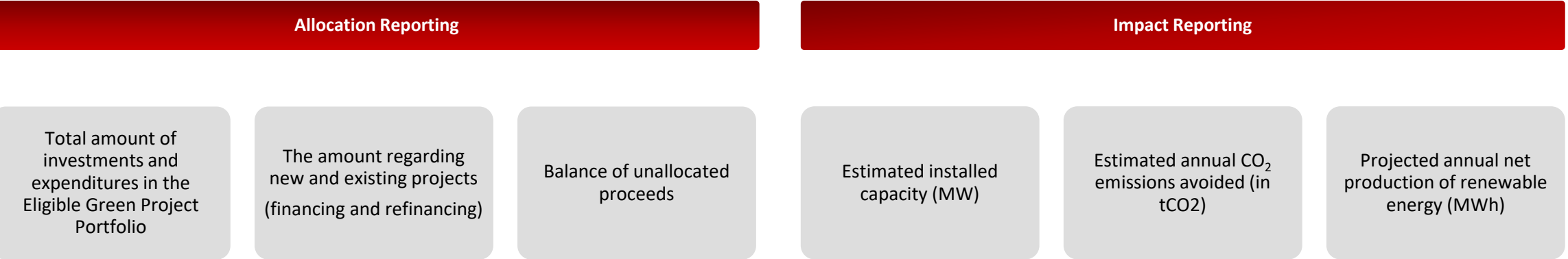
- The net proceeds of green bonds issued by EDP will be managed on a portfolio basis. Proceeds will be used for (re)financing the Eligible Green Project Portfolio i.e. the financing of new and the refinancing of existing projects of EDP R
- EDP will strive, over time, to achieve a level of allocation for the Eligible Green Portfolio which matches or exceeds the balance of net proceeds from its outstanding green bonds. Additional eligible investments will be added to the Eligible Green Portfolio to the extent required to ensure that the net proceeds from outstanding green bonds will be allocated to eligible projects
- Whilst any green bond net proceeds remain unallocated, EDP will hold and/or invest, at its own discretion, in its treasury liquidity portfolio, in cash or cash equivalents, reimbursement/purchase of existing debt, the balance of net proceeds not yet allocated to the Eligible Green Project Portfolio





- An annual report will be prepared and made available on EDP’s website with the status of EDP’s Green Bonds allocation, overview of the project portfolio (re)financed with the proceeds of the green bonds and its environmental impact, until the full allocation of the outstanding green bonds. In the event of material changes further one-off reports can be made available. EDP’s Green Bond proceeds allocation will also be published in EDP’s annual sustainability Report.
- EDP intends to report on the Eligible Green Project Portfolio on an aggregated basis, per type of renewable asset (i.e. wind assets, solar assets), subject to confidentiality obligations

EDP Green Bond report will provide, as far as practical:





Confirmation of alignment with the Green Bond Principles 2018

	Sustainalytics opinion	
Pillar 1: Use of proceeds	<ul style="list-style-type: none"> The eligible category for the use of proceeds, renewable energy, is aligned with those recognized by the Green Bond Principles. Sustainalytics considers that wind and solar energy generation projects will lead to positive environmental impacts and advance UN Sustainable Development Goal 7 	✓
Pillar 2: Process for Project Selection and Evaluation	<ul style="list-style-type: none"> An Eligible Green Project Portfolio will be established, consisting of assets that meet the eligibility criteria of the Framework. EDP's Finance and Sustainability teams, in consultation with representatives from its subsidiary, EDP Renováveis, will be responsible for the selection and review of these projects. This is in line with market practice 	✓
Pillar 3: Management of proceeds	<ul style="list-style-type: none"> EDP's Finance and Sustainability teams will strive to add new and existing projects to its Eligible Green Project Portfolio to match or exceed the amount of Green Bond(s) outstanding. Pending allocation to the Portfolio, the balance of net proceeds may be held or invested by EDP in its treasury liquidity portfolio. This is in line with market practice 	✓
Pillar 4: Reporting	<ul style="list-style-type: none"> EDP will report annually, until full allocation, on the allocation and impact of the proceeds. The allocation reporting, including amounts allocated and shares to new and existing projects, will be verified by a third party. Impact reporting will include quantitative measures such as installed capacity, annual net renewable energy produced, and annual CO2 emissions avoided. In Sustainalytics' view, reporting on these metrics is in line with market practice 	✓

SUSTAINALYTICS ESG RISK RATING SUMMARY REPORT

Date Sep 17, 2018

EDP - Energias de Portugal, S.A.

Electric Utilities | Portugal | LIS:EDP

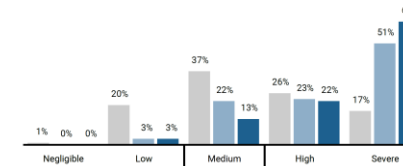
20.7 /100 Medium



Rating Overview

The company is at medium risk of experiencing material financial impacts from ESG factors, due to its high exposure and strong management of material ESG issues. Notably, its overall risk is higher since it is materially exposed to more ESG issues than most companies in our universe. The company has experienced a moderate level of controversies.

ESG Risk Rating Distribution



Relative Performance

	Position (1st = lowest risk)	Percentile (1st = lowest risk)
Global Universe	2122 out of 9395	23rd
Utilities (Industry)	17 out of 397	4th
Electric Utilities (Subindustry)	6 out of 151	3rd

In accordance with Sustainalytics ESG risk rating "EDP's overall management of material ESG issues is strong"

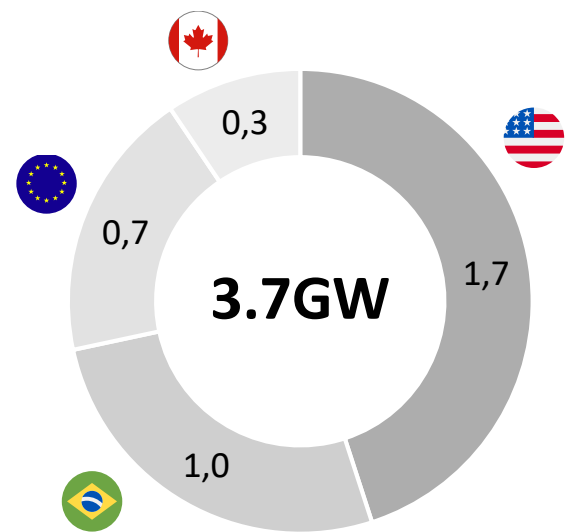
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Appendix 

EDPR: Clear visibility on renewables growth, with 3.7 GW of PPA/FiT secured for new wind onshore & solar projects while preserving attractive returns

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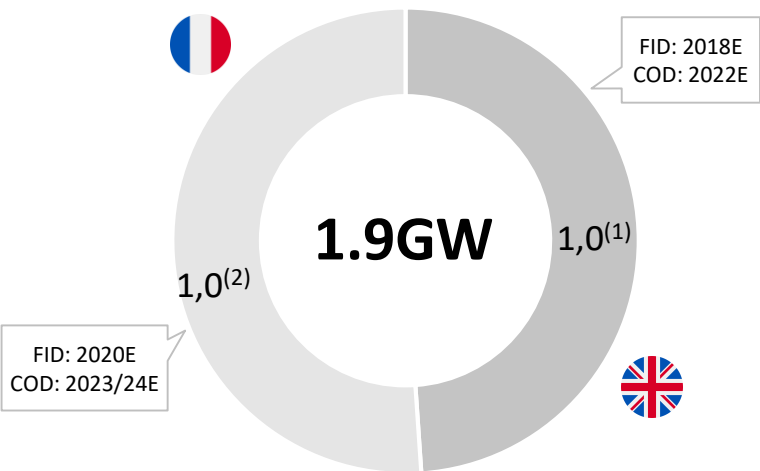
Wind onshore and solar Projects: 2018-24



2.1GW of additional PPA/FiT secured YTD

1.1GW under construction as of Jun-18

Wind offshore Projects: Sep-18



UK: On track to 2H18E FID; 20% sell down in Mar-18⁽¹⁾

(1) Current EDPR stake in the project is 56.7%; additional pre agreement for sale of further 13% stake; (2) EDPR stake in the project is 43%

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