



EDP – Energias de Portugal, S.A.

# EDP Green Bond Framework

October 2018



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**EDP – Energias de Portugal, S.A.**

## 1. Introduction

EDP - Energias de Portugal Group's ("EDP") vision is to be a global energy provider and a leader in creating value, innovation and sustainability. EDP assumes the power sector's key role in the transition to a low-carbon economy and has set a strategic agenda based on organic growth focused on renewables and low exposure to CO<sub>2</sub> and sustainability risks. We are a vertically integrated global utility, with activities in power generation, distribution and supply of electricity and gas supply. Over our 40-year history, the EDP family has grown to circ. 12,000 employees, and has established a presence in 14 countries across 4 continents serving 9.8 million electricity and 1.5 million gas customers.

EDP is the largest generator, distributor and supplier of electricity in Portugal and the third largest electricity generator in Iberia. In Brazil, EDP is the fifth largest private operator in electricity generation, has two electricity distribution concessions, is the fourth largest private supplier in the liberalised market and has recently added the transmission activity to its portfolio.

EDP, through its subsidiary EDP Renováveis, S.A. ("EDP R"), one of the world's largest renewable energy companies, with wind farms in the Iberian Peninsula, USA, Canada, Brazil, France, Belgium, Italy, Poland, Romania and Mexico, and developing wind projects in the UK. Additionally, EDP also produces photovoltaic solar energy in Portugal, Romania and USA.

## 2. EDP's Sustainability Strategy

EDP Group's business growth strategy anticipates the major trends in the energy markets and is based on investment in renewable assets within a framework of (i) financial deleveraging, (ii) increased operational efficiency and (iii) low risk exposure. Our commitment to renewable production is enshrined in our vision to help build a society capable of reducing CO<sub>2</sub> emissions, by replacing thermal with renewable production, decentralizing generation and electrifying transportation.

At EDP, Sustainable Development is incorporated into our strategy, with clear, demanding sustainability objectives for the future. EDP Group's sustainability objectives and goals, which are integral to the Business Plan and updated periodically, support the United Nations' 17 Sustainable Development Goals ("SDGs") of which EDP endorses 8 to which the group can contribute directly (Annex 1).

In particular, in relation to Renewable Energy EDP endorses the following:



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- By 2020, we want to achieve 76% of installed capacity coming from renewable sources, provide our customers with access to energy efficient products and services to reduce overall consumption by 1 TWh over 2015 levels and invest 200 million euros in innovative projects and promising clean energy technologies.
- As part of our climate action, we also propose to reduce our specific CO<sub>2</sub> emissions by 75% by 2030 compared to 2005. This ambition has been recognised by the Science Based Targets Initiative as being in line with the requirements set out in the Paris Agreement.

EDP publishes an Independent Sustainability Report whose framework is in line with the ten principles of the Global Compact<sup>1</sup>.

### 3. Basis of the EDP Green Bond Framework

As part of the drive by different power sector participants to push forward the decarbonization of the economy, EDP believes that the issuance of green bonds is an important tool to encourage the transition to a low-carbon economy, giving financial backing to existing projects or new ones aimed at bringing about this transition.

The framework defined by EDP is aligned with the Green Bond Principles (GBP), drawn up by the International Capital Market Association (ICMA) and most recently updated in June 2018.

EDP Green Bond Framework is based on the following 5 pillars: (1) Use of proceeds, (2) Process for project evaluation and selection, (3) Management of proceeds, (4) Reporting and (5) External review.

This framework may, from time to time, be updated and, will be applied to any green bond issued by EDP Group. This Green Bond Framework may also be used to govern other green financing for which the use of proceeds is intended for a portfolio of Green Projects (“Eligible Green Project Portfolio”), defined, selected, tracked and reported on, in accordance with this Green Bond Framework.

EDP regularly accesses the capital markets, through the issuance of bonds, raising funding as per the strategic priorities. To ensure the best market conditions in the use of financial instruments EDP has a centralized and coordinated approach to the banking and capital markets, i.e. the majority of funding for the EDP Group investments and

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<sup>1</sup> A) Voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals and B) For more details regarding our strategy for sustainability please see <https://www.edp.com>



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activities is raised by EDP - Energias de Portugal S.A. and EDP Finance BV (issuers under this framework) and then made available to other members of the Group.

## 4. Green Bond Framework

### 4.1 Use of proceeds

The net proceeds from Green Bonds issuance will be used in the financing or refinancing of existing or planned investments of EDP R, a fully consolidated subsidiary of EDP, which support the transition to a low-carbon economy, especially those that help increase the production of renewable energy (“Eligible Green Project Portfolio”).

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 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 as previously outlined.

EDP R’s corporate purpose of activity is to develop, construct and operate wind and solar power plants to generate and deliver clean energy. As such, the Eligible Green Project Portfolio excludes any projects based on fossil fuel and hydro energy production, transmission and distribution.

### 4.2 Process of project evaluation and selection

Projects (new or existing) that comply with the Use of Proceeds as previously described will be considered for the Eligible Green Project Portfolio and the Green Bond implementation and allocation procedures.

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 Policies (please refer to Annex 2 for details). EDP is well positioned to address environmental risks associated with the projects in accordance with its Environmental Policy. The Corporate Environmental Management System frames operation’s performance at a site level. At this umbrella



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EDP is committed to achieve 100% ISO 14001 certification by 2020 for EDP's operations with environmental impacts<sup>2</sup>.

EDP's Finance and Sustainability teams, jointly with EDP R representatives, will be responsible for the governance of this Green Bond Framework and will assess, at least annually, the process of evaluation and selection of eligible projects, proceeds allocation and reporting. EDP's board members responsible for Finance and Sustainability matters will be informed on a periodic basis of the progress of the evaluation, allocation and reporting of EDP's green bonds.

#### 4.3 Management of Proceeds

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 Project 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), or in reimbursement/purchase of existing debt, the balance of net proceeds not yet allocated to the Eligible Green Project Portfolio.

#### 4.4 Reporting

An annual report will be prepared and made available on EDP's website with the status of EDP's Green Bonds proceeds 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 Bonds proceeds allocation will also be published in EDP's Annual Sustainability Report.

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<sup>2</sup> For more details please see EDP Sustainability Report, EDP website ([www.edp.com/en/sustainability/publications/publications](http://www.edp.com/en/sustainability/publications/publications)) and EDP R website (<https://www.edpr.com/en/node/52154>)



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.

#### Allocation Reporting

The allocation report will provide, as far as practical:

- The total amount of investments and expenditures in the Eligible Green Project Portfolio.
- The amount and percentage of new and existing projects (financing and refinancing).
- The balance of unallocated proceeds.

#### Impact Reporting

EDP intends to align the green bond impact reporting with the approach described in "*Green Bonds - working towards a Harmonized Framework for Impact Reporting (December 2015)*"<sup>3</sup>.

The impact report may provide, as far as practical:

Main categories of the green bonds	Potential impact indicators
Renewable energy projects/individual investments in existing projects	<ul style="list-style-type: none"><li>• Expected installed capacity (MW)</li><li>• Estimated annual CO<sub>2</sub> emissions avoided (tCO<sub>2</sub>)</li><li>• Projected annual net production of renewable energy (MWh)</li></ul>

## 5. External certification of the issuance

### 5.1 Second Party Opinion

EDP has appointed Sustainalytics to provide a Second Party Opinion on its Green Bond Framework. The Second Party Opinion and the Green Bond Framework will be made available to the green bond investors on EDP's website at [www.edp.com/en/investors/funding/green-bonds](http://www.edp.com/en/investors/funding/green-bonds).

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<sup>3</sup> <https://www.ifc.org/wps/wcm/connect/35c1cd76-b75f-474c-815a-dfb876543a22/Updated+logo+FINALPROPOSALIRH+CLEAN.pdf?MOD=AJPERES&CVID=mHrR8w4>



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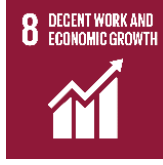
## 5.2 Verification

An independent external party will verify the internal tracking method and allocation of funds annually until the full allocation of the outstanding green bonds.






Annex 1

Priorities	EDP strategic objectives 2020/2030 <sup>4</sup>	Sustainable Development Goals (SDGs) set by the United Nations
<p><b>Generate economic value</b> (establishes objectives and commitments for total renewable production capacity, gains in energy efficiency, investment in innovation and digital transformation of distribution networks and intelligence at energy delivery points).</p>	Achieve 76% of clean capacity by 2020	  
	Invest €200M in innovative projects by 2020.	
	Surpass 90% of smart meters' installation in Iberia by 2030.	
	Provide energy efficiency products to reduce overall consumption by 1 TWh before 2020 (vs 2014 levels).	
<p><b>Develop our people</b> (defines commitments in relation to EDP employees and in relation to the employees of EDP's suppliers).</p>	Keep employee engagement level high (engagement 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)	

<sup>4</sup> For detailed information please see [www.edp.com/sites/default/files/portal.com/documents/en\\_2020\\_edp\\_objectives\\_-\\_sri\\_2q18.pdf](http://www.edp.com/sites/default/files/portal.com/documents/en_2020_edp_objectives_-_sri_2q18.pdf)



Priorities	EDP strategic objectives 2020 <sup>5</sup>	Sustainable Development Goals (SGGs) set by the United Nations
<p><b>Improve trust</b> (focuses on Customers and Communities, Ethics and Human and Labour Rights, on dialogue with and listening to stakeholders and on the promotion of Citizenship and Volunteering<sup>6</sup>).</p>	Achieve >80% of Client satisfaction rating	
	Maintain EDP's position as one of the world's most ethical companies (Recognition by the Ethisphere Institute)	
	Implement full stakeholder sounding (covering all EDP Group stakeholders segments)	
	Develop volunteering programme, giving special emphasis to skills volunteering (20% employees participating in volunteer activities and 20,000 h/year in volunteer activities)	
	Invest in the community, notably in promoting volunteering, social businesses and initiatives towards sustainable lifestyles (€100 million investment in the community (LBG) <sup>7</sup> )	
	Evaluate and audit suppliers (100% critical suppliers evaluated according to ESG criteria and 100% Service	



<sup>5</sup> For detailed information please see

[www.edp.com/sites/default/files/portal.com/documents/en\\_2020\\_edp\\_objectives\\_-\\_sri\\_2q18.pdf](http://www.edp.com/sites/default/files/portal.com/documents/en_2020_edp_objectives_-_sri_2q18.pdf)

<sup>6</sup> It is also in this priority that EDP contributes to SDG 17 through active participation in national and international partnerships to promote the United Nations goals.

<sup>7</sup> London Benchmarking Group- EDP evaluates the projects in which it is involved within its social investment policy, through the international LBG methodology (Measuring Community Investment).



	Providers with audited ESG risks)	
Priorities	EDP strategic objectives 2020/2030 <sup>8</sup>	Sustainable Development Goals (SGGs) set by the United Nations
<b>Manage climate and environment</b> (establishes the basic commitments for lowering CO <sub>2</sub> emissions, by addressing environmental impacts through in-house management systems and the commitment of EDP's suppliers to the same goals and a reduction in the waste produced by activity).	Reduce CO <sub>2</sub> 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 exposed to high risks)	
	Internalize the concept of circular economy (Variation in specific waste materials vs 2015 -20%)	

EDP has also committed to:

- Contribute to the supply of CO<sub>2</sub> neutral electricity in Europe by 2050 (EURELECTRIC Declaration).
- Adopt an internal price of carbon.
- Reduce scope 1<sup>9</sup> and scope 2<sup>10</sup> specific emissions by 55% by 2030 relative to 2015 levels, and also reduce indirect absolute emissions of scope 3<sup>11</sup> by 25% in the same period.
- Disclose information about climate change as a fiduciary duty<sup>12</sup>, including content in its reports to fulfil the requirements of the Climate Change Reporting Framework (CCRF).

<sup>8</sup> For detailed information please see [www.edp.com/sites/default/files/portal.com/documents/en\\_2020\\_edp\\_objectives\\_-\\_sri\\_2q18.pdf](http://www.edp.com/sites/default/files/portal.com/documents/en_2020_edp_objectives_-_sri_2q18.pdf)

<sup>9</sup> Direct GHG emissions occur from sources that are owned or controlled by the EDP.

<sup>10</sup> GHG emissions from the consumption of electricity.

<sup>11</sup> Other indirect emissions upstream and downstream of the value chain.

<sup>12</sup> Reports:

- ✓ to the CDP Climate Change and Water program ([www.edp.com/en/sustainability/environmental-dimension/climate-change/climate-change](http://www.edp.com/en/sustainability/environmental-dimension/climate-change/climate-change))



## Annex 2: Evaluation Criteria

Eligible green projects	Sustainability benefits	EDP's analysis	ESG Criteria
Renewable Energy Projects	Avoidance/reduction of GHG emissions	Alignment with EDP's standards <sup>13</sup>	Environmental issue: environmental management of the project, climate change mitigation, protection of biodiversity and natural resources
			Social issue: respect of human and labor rights, health and safety, stakeholders dialogue and community involvement
			Governance issue: including business ethics and responsible procurement
<p>Projects will be excluded if they:</p> <ul style="list-style-type: none"> <li>• Involve GHG intensive activities; or</li> <li>• Give rise to material litigation relating to ESG issues</li> </ul>			

- ✓ Strategic Agenda (Annual and Sustainability Report); Risks, Opportunities and Governance (CDP); • Management (Annual and Sustainability Report); Objectives and Goals (Annual and Sustainability Report); • Global Energy Macro-Trends (Annual and Sustainability Report); • GHG Emissions (Sustainability Report), fully aligned with the financial consolidation method.

<sup>13</sup> 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/our-principles>



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