

Interview with EDP



How did the market respond to the issuance of green bonds from EDP?

EDP was the first company in Portugal to issue Green Bonds (and is still the largest to date), issuing our first Green Bond in 2018. By this time, the green bond market was already established, and a portfolio approach to the use of proceeds was becoming more acceptable. Additionally, we had a renewable energy capital expenditure plan in place, and felt that a green issuance from EDP was appropriate and would be expected by investors.

This issuance was backed by a green bond framework with a second-party opinion from Sustainalytics. The net proceeds were used to finance or to refinance wind and solar projects in EDP's portfolio.

EDP's first issuance in October 2018 was allocated 45% to dark green investors, and 35% to medium and light green investors. This was a considerable increase from previous non-green deals. Historically, EDP had already captured some of the green demand through our clearly sustainable corporate strategy; however, the first green bond deal led to a strong skew towards dark green investors, while minimising the participation of non-green names. This confirmed to us that investors appreciated the framework we had put in place, and approved the deal. EDP's latest issuance in March 2022 was allocated 50% to dark green investors, and 25% to medium and light green investors. This consistency over the years shows that investors continue to appreciate EDP's commitment to sustainability.

How is EDP's financial planning supporting its sustainable strategy?

Sustainable financing is key to accelerate the transition to a carbon-neutral society. 'Use-of-proceeds financing', where companies commit to allocate the proceeds of a deal for green/social/sustainable projects, has proven to be an effective form of finance for the energy transition. Investors, and the market in general, have accepted and welcomed this type of product warmly.

Although EDP's strategy has long been focused on sustainability, our issuance of Green Bonds has promoted a greater alignment of the company's financial policy with our sustainability strategy, while the market's awareness of this topic is increasing. EDP's green bond issuances have contributed heavily towards UN Sustainable Development Goal (SDG) 7: affordable and clean energy.

EDP has so far completed ten green bond issuances, raising €7.6bn in total. In March 2022, we updated our Green Bond Framework with a new Green Finance Framework. This new framework is aligned with ICMA's 2021 Green Bond Principles, LMA's 2021 Green Loan Principles and the EU Taxonomy. The new framework includes not only bonds, but also green loans.

EDP defined an objective for 2025 of obtaining 50% of our funding from sustainable sources. By the end of Q1 2022, we were already at 41%.

How is EDP steering its activities toward a 1.5° objective? What are the key milestones in sight?

EDP supports the UN IPCC's recommendations stated in the Paris Agreement to limit the global temperature increase to 1.5°C compared to pre-industrial levels.

At the beginning of 2021, we presented our strategy for 2025 to the market, complemented with a vision for the decade ahead. Over this five-year period, we plan to invest €24 bn, of which 80% will be invested in the growth of renewable installed capacity, and the remaining 20% will be distributed across areas that can leverage responses to the challenges of transition. Specifically, 15% will be focused on network growth and intelligence, and 5% on energy sales and management, providing our customers with a growing number of decarbonised services. By the end of 2025, our portfolio will no longer include coal, and, by 2030, we will have decarbonised 98% of our entire portfolio, achieving carbon neutrality in our activities, with a 100% renewable generation portfolio. By 2030, we will also have reduced 50% of the CO₂ emissions we generate both downstream and upstream in our value chain, compared to 2015 values.

This ambition is in line with the path defined by science to limit the increase in the global average temperature to 1.5°C, as recognised by the Science Based Targets initiative (SBTi) in 2021.

More recently, EDP strengthened this climate ambition by announcing a new target for 2040: reducing carbon emissions by more than 90% across our value chain (scope 3 emissions), from suppliers to end customers, anticipating the European Union's goal of carbon neutrality by a full decade (SBTNZ).



What are the key drivers of EDP's sustainable strategy?

EDP's sustainability disruption occurred in 2006 when we recognised that the energy sector was going through a revolution. Since then, EDP has pursued a strategy of becoming a leader in the energy transition.

As a result, EDP plans to invest €19bn in the 2021-2025 period to add 20GW of installed capacity from renewable sources. Renewables represent 80% of our total capital expenditure in that period.

It is also important to highlight that EDP is not adding any new capacity in fossil fuel technologies, and is disinvesting from polluting technologies. With this in mind, EDP has committed to having zero production from coal power plants by 2025 and to zero thermal power production by 2030.

This path has helped EDP contribute to the transition, support the promotion of more renewable energy use, and increase awareness of the benefits of renewable energy.

We are at a tipping point and the global energy landscape needs to change more in the next ten years than ever before. The United Nations called the current decade the Decade of Action, and it will be decisive for accelerating the energy transition. This requires unprecedented investment and an alignment across the different stakeholders, including, for instance, governments and regulators.



What topics are you especially curious about in the future of sustainability in the debt market?

Green bonds have been the clear winner in the sustainable finance space. However, their specific environmental focus and use-of-proceeds structure mean they are not necessarily the best option for every activity or issuer. Sustainability-linked bonds can be an alternative and complementary solution for issuers to show their accountability and commitment to sustainability. It will be interesting to see the dynamics between these two types of sustainable financial instrument, not just in the bond market but in the loan market as well. EDP has been issuing green bonds since 2018 and will also have sustainability-linked loans in its portfolio.

Similarly, it will be interesting to know whether social and blue bonds or other use-of-proceeds bonds issued by corporates will have the same success as green bonds, by taking advantage of lessons learned from the green market.

Finally, we are curious to see how the market will react to the upcoming legislation from the EU on sustainable finance and whether this legislation will be consistent with other international standards. **The sustainable finance market** is still in its infancy and important steps are needed to **help it grow** and **become widespread**.

Glimpse of current and upcoming EDP projects

Behyond project

Building an engineering design for an offshore green hydrogen production module (electrolysis) and the corresponding infrastructure, using electricity produced by offshore wind farms. The project is in its techno-economic feasibility study phase.



Alqueva floating solar park

Installing panels on the Alqueva reservoir, which is used to generate hydropower. The panels will produce 7 gigawatt-hours (GWh) of electricity a year, and will be complemented by lithium batteries to store 2 GWh. The solar park will start operations this July.

Sines green H2 hub

EDP aims to repurpose the decommissioned Sines coal power plant into a green hydrogen hub, including a collaborative lab to promote hydrogen know-how and a 100MW green hydrogen production facility and a green ammonia pilot project. Construction is expected to start by 2023.

