Materiality Process of the EDP Group | 2019

Sustainability Department, March 2020

The Materiality Process allows topics important for the various stakeholders of the EDP Group to be prioritised, cross-referencing them with their importance for the business

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What is the purpose of Materiality?

1. It identifies critical topics⁽¹⁾ and sensitive issues⁽²⁾ for the business
It enables the company's strategic orientation to be optimised and directs internal management more efficiently, specifically through defining plans of action

3. It focuses on what is important to report
It guides the drafting of the Sustainability Report
It guides the reporting of non-financial performance
It supports the response to ESG indexes

2. It supports the definition of the Sustainability strategy
It supports the process of revising the sustainability strategy

4. It supports the management of the Group's stakeholders
It determines a ranking of relevant topics by shareholder group

Material Topics affect the company's value creation and, simultaneously, have a positive or negative impact on its shareholders
These are normally associated with the risks and opportunities of the business

(1) **Critical topic**: Extremely important topic for society and for the business Topics to consider in the development of internal strategies and internal actions. Highlights areas to be prioritised in the establishment of partnerships.
(2) **Sensitive Issue:** Topics whose importance is high for Society, but low for EDP. They require close accompaniment, whether for internalising in future plans, or for external clarification of their importance for the business

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The process of analysis of the EDP Group's Materiality is carried out using a transversal methodology, common to the whole EDP Group

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Step 1 - Updating the List of Themes
Based on interconnecting sources and the previous year's process

▼

Step 2 - Prioritization of themes based on their importance to society
Identification of the relevant themes for each group of stakeholders
Through the analysis of:
- direct sources (direct consultation)
- indirect sources (public consultation)
- transversal sources (studies and indexes)

▶

Step 3 - Prioritizing themes for their relevance to the business
Identifying topics significant for the business
Through the analysis of:
- Strategic Objectives for the business and respective targets
- Activity plans for strategic areas
- Risk Reports, Taxonomy and Policies
- Interviews of top management

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Step 4 - Construction of the Materiality Matrix
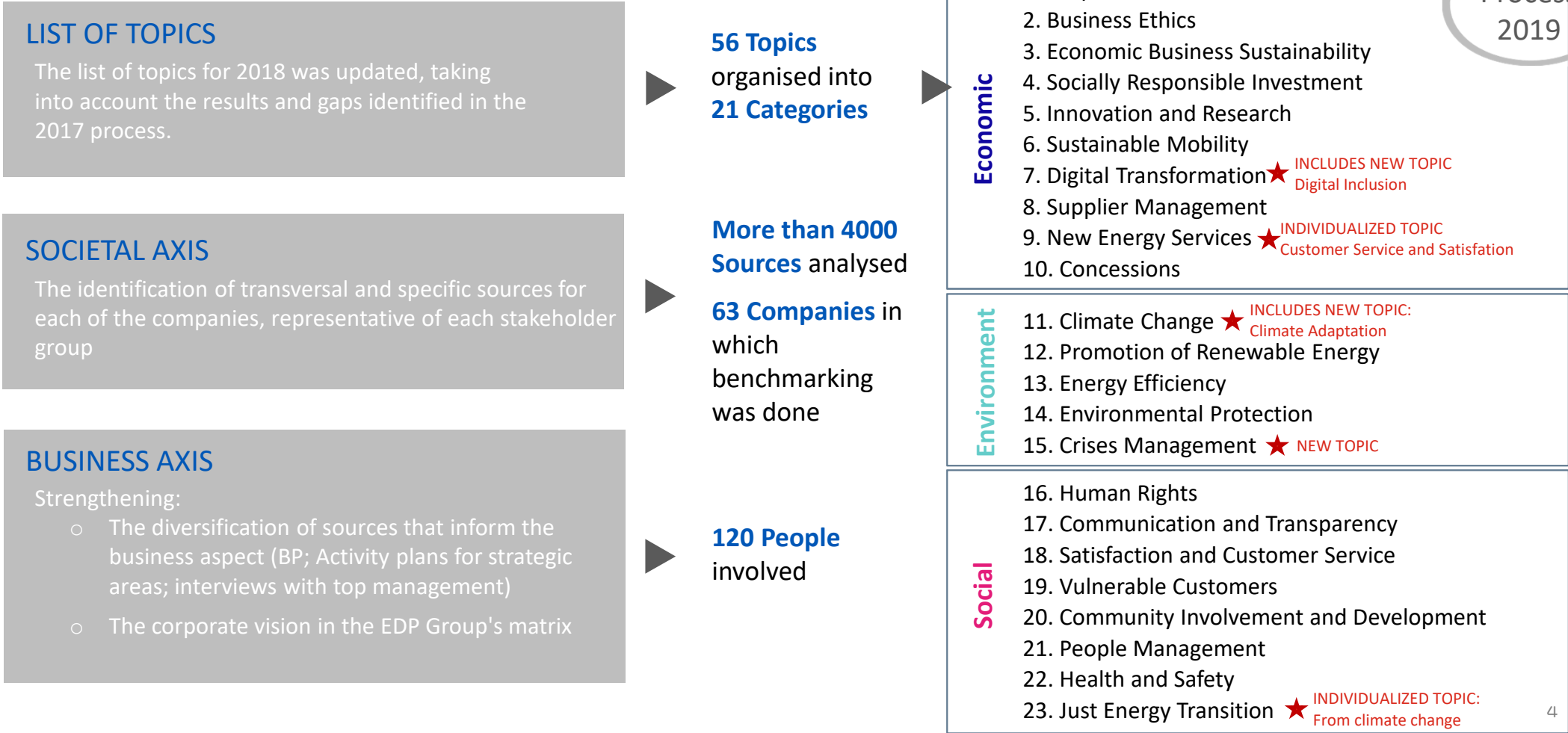Interconnecting the relevance of themes for society and for business
Elaboration of the Corporate matrix

▶

Step 5 - Analysis of Critical Themes and Sensitive Themes
The company analyses the results of the process that it uses for:
- Defining its sustainability strategy
- Critical topics – to direct internal management as efficiently as possible
- Sensitive issues – internal analysis and definition of plans of action

In 2019 the list of topics was revised and the sources that indicate the importance of topics for the company were improved

LIST OF TOPICS

The list of topics for 2018 was updated, taking into account the results and gaps identified in the 2017 process.

SOCIETAL AXIS

The identification of transversal and specific sources for each of the companies, representative of each stakeholder group

BUSINESS AXIS

Strengthening:
- The diversification of sources that inform the business aspect (BP; Activity plans for strategic areas; interviews with top management)
- The corporate vision in the EDP Group's matrix

▶ **56 Topics** organised into **21 Categories**

▶ **More than 4000 Sources** analysed

63 Companies in which benchmarking was done

▶ **120 People** involved

Process 2019

Economic
1. Corporate Governance
2. Business Ethics
3. Economic Business Sustainability
4. Socially Responsible Investment
5. Innovation and Research
6. Sustainable Mobility
7. Digital Transformation ★ INCLUDES NEW TOPIC Digital Inclusion
8. Supplier Management
9. New Energy Services ★ INDIVIDUALIZED TOPIC Customer Service and Satisfation
10. Concessions

Environment
11. Climate Change ★ INCLUDES NEW TOPIC: Climate Adaptation
12. Promotion of Renewable Energy
13. Energy Efficiency
14. Environmental Protection
15. Crises Management ★ NEW TOPIC

Social
16. Human Rights
17. Communication and Transparency
18. Satisfaction and Customer Service
19. Vulnerable Customers
20. Community Involvement and Development
21. People Management
22. Health and Safety
23. Just Energy Transition ★ INDIVIDUALIZED TOPIC: From climate change

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The process of recovery and consolidation was maintained compared to the previous year

SOCIETAL AXIS | Identification of the topics important for each stakeholder segment

- Internal consultation of transversal sources used for all the business units, when applicable
- Internal consultation by the business units of specific internal and external sources
- Benchmarking of 15 comparable companies

ANALYSIS PROCESS | Recovery and consolidation of the information identified

- Each source consulted gives rise to a list of topics, collected and consolidated by stakeholder segment
- A topic gains importance from the number of times it appears in each source
- The sources are weighted by the BUs based on the criteria of credibility, breadth and representativeness
- The topics are grouped into categories, as shown in the Glossary, page 10

BUSINESS AXIS | Identifying topics significant for the business

- Consult the business plans to gather the topics significant for their implementation
- Interviews of strategic Departments and Boards of Directors of the Companies to identify the priority fields of action

ANALYSIS PROCESS | Recovery and consolidation of the information identified

- In each consultation the significance of the topics obtained by the societal aspect process is analysed
- A topic gains importance for the business according to the number of times it appears in each business objective / priority field of action
- The resulting importance for the business is validated/rectified by the Boards of Directors of the Group's Companies
- The resulting consolidated matrix is validated/rectified by the Executive Board of Directors

The main alterations in the Corporate Materiality Matrix for 2018 include the introduction of new topics such as "Crisis Management" and "Digital Inclusion"

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Relevância para a Sociedade

○ Comunication and Transparency	○ Climate Change	
○ Vulnerable Clients	○ Energy Efficiency	
○ Comunity Engagement	○ Promotion of Renewable Energy	
○ Environmental Protetion	○ Satisfation and Customer Service	
★ Crisis Management	○ Health and Safety	
○ R&D	● Digital Transformation	
● Sustainable Mobility		
● New Energy Services		
● Just Enrgy Transition		

○ Human Rights	○ Concessions	
○ Corporate Governance	○ Business Ethics	
○ Socially Responsible Investment	○ Supplier Management	
	○ People Management	
	● Economic Business Sustainability	

In 2019, the following stand out:

- **Digital Transformation**: It is a catalyst for the Group's energy transition and strategic priority. This year covers the topic of **digital inclusion** for the first time

- **Crisis Management**: The issue emerges on the side of society with high relevance, in a year where the climatic emergency was declared and recognized by different segments of stakeholders. The extreme events that plagued the world during the year were facts that contributed to the increase in this perception

- **Just Energy Transition:** In a context of climatic urgency where the speed of transition is requested by society, this theme emerges associated with the social fragility that it can lead to, namely associated with employment, energy poverty and the loss of local competitiveness in areas highly dependent on fossil fuels, namely coal

- **New Energy Services and Sustainable Mobility:** Greater relevance to society reflects a better perception of the need to change consumption habits as a way to contribute positively to the energy transition that is required

- **Economic Business Sustainability:** The company's Debt Management theme is more mature in the investor's perception, which justifies the loss of relevance to society

Legend:
- ▇ Sensitive Issues for the Business
- ▇ Critical issues
- ▇ High Importance
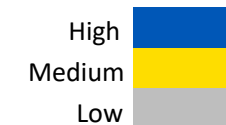- ▇ Average Importance
- ▢ Low Importance
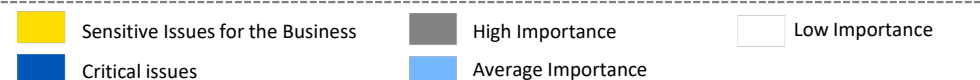
Um dos resultados da matriz de materialidade é a identificação do grau de prioridade dado por cada um dos grupos de stakeholders da empresa face aos temas de Sustentabilidade

TOP 5 ISSUES

1. Climate Change
2. Promotion of Renewable Energy
3. Energy Efficiency
4. Comunication and Transparency
5. Environmental Management| R&D

Relevance level

High
Medium
Low

APPENDICES

1. List of Topics and Glossary
2. Sources Consulted

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1. List of Topics

Glossary of material topics 2019

EDP Issues			
Issue	**Category**	**Pillar**	**Description**
1.1. Structure and operation of corporate governance	**1. Corporate Governance**	Economic	Refers to the set of rules and principles governing the design/structure, integration and operation of the company's governing bodies. Based on the pillars of independence and separation of skills and the diversity of the company's corporate governance.
1.2. Evaluation and payments	**1. Corporate Governance**	Economic	Meaning the set of rules and principles used in defining the fixed and variable pay of the Corporate Bodies, specifically alignment with their performance in the medium/long term. They also include issues related to the ratio between the CEO's compensation and the average of the company's other employees.
2.1. Efficient and confidential complaint management	**2. Business Ethics**	Economic	Effective mechanisms to report unethical or illegal behaviors for the different groups of stakeholders. Existence of a code of ethics/conduct.
2.2. Risk of Corruption/Bribery/Fraud/Money laundering	**2. Business Ethics**	Economic	- Measures established to avoid and minimize risks associated with illegal conduct (corruption, conflict of interests, fraud, money laundering, embezzlement, concealment and obstruction of justice, influence peddling) of employees and/or company representatives.
2.3. Promotion and dissemination of an ethical culture within the	**2. Business Ethics**	Economic	Measures to raise awareness and communicate business ethics, both internally and together with service providers.
2.4. Responsible political involvement	**2. Business Ethics**	Economic	Not using undue influence with parties and public policies, avoiding behaviors such as manipulation, intimidation and coercion, which may negatively influence the public political process.
2.5. Fair competition practices	**2. Business Ethics**	Economic	Encouraging innovation and efficiency through fair and generalized competitive practices, allowing for a reduction in the costs of products and services. Ensure that all organizations have equal opportunities by encouraging the development of new or improved products or processes that, in the long run, can improve economic growth and living standards. Respect for the rules of healthy competition in the context of product/service promotion, based on factors such as price, quality and service.
2.6. Information safety and privacy	**2. Business Ethics**	Economic	Safeguarding customer privacy rights by limiting the type of information collected and the ways in which such information is obtained, used and maintained securely and meeting the necessary requirements of confidentiality and information protection.
3.1. Respect for human rights	**3. Human Rights**	Social	Mechanisms that ensure there is no distinction, exclusion or preference, which restricts equal treatment or opportunities. Processes able to identify and prevent real or potential impacts on human rights as a result of EDP's activities. Includes: (1) the existence of a human rights policy and its integration throughout the organization; means of evaluation; means of tracking performance and actions to address the negative impact of company decisions and activities.
4.1. Creation of long-term value	**4. Business Sustainability**	Economic	Creation of value for its shareholders and for society, from a long-term perspective. Assessment of the direct return on investment generated and return distributed. Includes issues such as long-term growth, direct and indirect impacts, and shared value.
4.2. Solvency and financial management	**4. Business Sustainability**	Economic	References to the financial situation of a company and to its capacity to fulfill long- and short-term financial obligations. This includes aspects related to solvency and financial liquidity, as well as debt management.

Glossary of material topics 2019

Issue	Category	Pillar	Description
EDP Issues			
5.1. Evaluation of the company in terms of its ESG performance	**5. Socially Responsible Investment**	Economic	Differentiation by sustainability performance through measurement approaches based, for example, on sustainability indexes (e.g. DJSI; Sustainalytics; Vigeo; Ethics; CPD; etc.). This may also include other external assessment instruments (e.g. reports, interviews, etc.)
5.2. Responsible financing and investment	**5. Socially Responsible Investment**	Economic	Investments incorporating non-financial issues with the objective of generating financial and sustainable value, such as green investment, impact investing, ethical funds, green bonds / green loans.
6.1. Communication and Transparency	**6. Communication and Transparency**	Social	External pressure to communicate more and better (and more transparently) the company's performance in the various areas of sustainability. Openness to society, with greater willingness to share information with all the company's stakeholders.
6.2. Fiscal Transparency	**6. Communication and Transparency**	Social	Broader clarification of the regulatory risks of subsidies obtained by the company and the rates to which the business is subject and/or exempt. Importance of the impact of regulatory changes on the company's financial/operating performance.
7.1. Agreements for cooperation, financing and dissemination of research	**7. R&D**	Economic	Measures to foster research through project co-operation and financing agreements, contributing to the development of knowledge, skills and technology (e.g. smart metering, electric mobility, improvements in generation efficiency, demand management research and improvements in accumulation energy, research and innovation in products, collective agreements, university chairs, etc.).
7.2. Development of innovative technologies	**7. R&D**	Economic	Measures to encourage research into innovative technologies, namely intelligent networks; production of energy from renewable sources, such as off-shore wind, photovoltaic and wind power in decentralized production.
8.1. Electric mobility	**8. Sustainable Mobility**	Economic	Ability to respond to society's needs to move freely, access, communicate, transact, and establish relationships, without sacrificing other human or ecological values now and in the future. Electrification of transports, including the availability and evolution of the various technologies for electrical mobility and also the charging network and products and services available.
9.1. Digital transformation	**9. Digital Transformation**	Economic	Integration of digital technology in all areas of the company, resulting in changes both in the way it operates and in creating value for customers. This also includes a cultural change and process change, capable of managing digital challenges and opportunities.
9.2. Digital inclusion	**9. Digital Transformation**	Economic	Promotion by the company of its stakeholders' ability to access, understand and use the channels of digital communication and technologies, namely (employees, customers, suppliers, etc.). Including issues such as digital literacy and global coverage of digitalization.
10.1. Sustainability in relationships with suppliers	**10. Supplier Management**	Economic	Ensure that the price, the technical proposal and commercial conditions are not the only factors in the selection of suppliers. The suppliers' sustainability practices should be valued in comparing product and service offers (occupational accidents, environmental management, ethics, and social responsibility). Existence of supporting measures for suppliers with respect to procurement practices and compliance with contractual conditions in order to ensure a stable relationship. Payment policy, relationship stability, co-operation, reliability, and competitive ethics define the relationship with suppliers. Health and safety/wellness measures necessary to minimize risks that may affect suppliers or subcontractors in the course of their work.
10.2. Engagement with the supply chain	**10. Supplier Management**	Economic	Involvement and dialog with suppliers; collaboration with the entire supply chain to promote participation and involvement in the company.

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EDP Issues			
Issue	**Category**	**Pillar**	**Description**
11.1. Quality of technical service	**11. Energy Infrastructures**	Economic	Measures to maintain a reliable and good-quality electricity supply according to indicators such as ICEIT (Installed Capacity Equivalent Interruption Time).
11.2. Distributed/Self-consumption generation	**11. Energy Infrastructures**	Economic	Initiatives that promote distributed or decentralized generation, such as the use of small energy sources near the end consumer, which can be connected to any low voltage grid point.
12.1. Satisfaction and Customer Service	**12. Satisfaction and Customer Service**	Social	Improved satisfaction by providing exceptional service and care. Clear and easily understandable communication in customer contracts; providing clear information on prices, characteristics, terms, conditions, costs, duration of the contract, and cancellation periods. Communication of energy bills. Engagement with customers and collection of feedback.
12.2. Complaint and claim management	**12. Satisfaction and Customer Service**	Social	Mechanisms and channels that allow adequate transmission and management of complaints by customers.
12.3. Energy prices	**12. Satisfaction and Customer Service**	Social	Perception of fair price, clarification of price breakdown (greater transparency).
12.4. New energy services	**12. Satisfaction and Customer Service**	Social	Providing new energy services that can meet the needs/expectations of customers.
12.5. Safety of products and services	**12. Satisfaction and Customer Service**	Social	References to the health and safety risks related to the use of products and/or services. Including issues such as customer health and the safe use of products.
13.1. Energy poverty	**13. Vulnerable Customers**	Social	Mechanisms/measures that allow exceptional treatment in the case of vulnerable customers, meaning, families unable to bear the energy costs that allow them an appropriate level of comfort, in particular, to properly heat their homes or to meet other energy services at an acceptable cost.
13.2. Access to energy	**13. Vulnerable Customers**	Social	Mechanisms to ensure access to energy for all customers, regardless of where they live. Promote network expansion to guarantee access to energy, but also provide good quality service conditions without discrimination.
14.1. CC Mitigation	**14. Climate change**	Environmental	Initiatives to mitigate Climate Change, namely the definition of a strategy and actions implemented by the company for the development of renewable energies considering indicators such as MW of projected clean energy or tons of CO_2 avoided by the use of renewable energies.
14.2. CC Adaptation	**14. Climate change**	Environmental	Capacity to prevent, respond to and repair damage resulting from the effects of Climate Change, while taking advantage of the opportunities that may arise from it and responding to mostly local and specific physical risks. Create cities that are resilient to climate change. Mitigation of the impacts of climate change.
14.3. Fair Energy Transition	**14. Climate change**	Environmental	Transition to a fair, low-carbon, sustainable energy system (from electricity generated from coal to renewable energy sources), which ensures that fairness is considered, particularly for communities and workers, benefiting from a wider-scale critical reflection and systematic analysis of the dimensions and wider implications of the interconnections between global energy transition and justice in the context of the approaches towards low-carbon development.
14.3. Crisis Management	**14. Climate change**	Environmental	Development of actions that help to prevent risks and reduce vulnerabilities, increasing the resilience of communities and the capability to anticipate and respond to major accidents or disasters. Maintain service delivery at acceptable levels following a disruptive incident.

Glossary of material topics 2019

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	EDP Issues		
Issue ▼	**Category** ▼	**Pillar** ▼	**Description** ▼
15.1. Promotion of Renewable Energy	**15. Promotion of Renewable Energy**	Environmental	Strategy and mechanisms to minimize the company's contribution to climate change, such as risk assessment, energy efficiency measures, avoided emissions, carbon footprint, CO2 capture and storage projects, etc.
16.1. Energy efficiency	**16. Energy Efficiency**	Environmental	Measures to improve the company's energy efficiency, namely the reduction of the energy needs of buildings, transport, production processes, equipment, etc. Development of energy efficiency initiatives among company stakeholders, namely replacement of equipment or education/awareness actions.
17.1. Circular economy	**17. Environmental Management**	Environmental	Promotion of a transition to a resource- and material-efficient economy, taking into account a complete life-cycle analysis of the products and services associated with their value chain. Consumption of natural resources at a rate equal to or less than their natural replacement rate. Including issues related to material management, meaning, reducing, re-using and recycling materials and resources in operations, activities and products.
17.2. Water management	**17. Environmental Management**	Environmental	Identification and evaluation of the dependencies and impact of the business on the availability and quality of water resources. The existence of actions to avoid or mitigate these dependencies and impacts, and the definition of objectives and goals that ensure the continuous monitoring of the company's performance. This management encompasses, among others, risks associated with the location of assets in water stress zones, competing uses, regulatory alterations and water management in the supply chain.
17.3. Protection of biodiversity	**17. Environmental Management**	Environmental	Act in a way that protects the environment and restores natural habitats and the various services and functions that the ecosystems provide (such as food and water, thermal regulation, soil formation and recreational opportunities). The main aspects include the valuing and protection of biodiversity; valuing, protecting and restoring ecosystem services; sustainable use of natural resources and environmentally appropriate rural and urban development.
17.4. Prevention of pollution	**17. Environmental Management**	Environmental	Actions to prevent pollution, such as, atmospheric emissions (CO2, SOx, NOx, etc.); water management and waste management. Including emissions of any substances and/or materials used in operations and/or present in products that represent a substantial or potential threat to public health or the environment.
18.1. Investment in the community	**18. Community Involvement and Development**	Social	Development of voluntary initiatives with the community that respond to its needs from a shared-value perspective. Including corporate volunteer activities, as well as other measures related to culture, education and awareness, donations, investments in the community, and commercial initiatives such as sponsorships, support to universities or other institutions.
18.2. Involvement with local communities	**18. Community Involvement and Development**	Social	Acting responsibly in the compensation of business externalities, impacts generated in society and the environment. Including measures that aim to manage the relationship and rights of the communities, as well as the potential impact on them due to the company's activity. Valuing the involvement of the community, and responding to their needs, favoring partnerships with local organizations and stakeholders. Support to local economic and social development.
18.3. Respect for indigenous communities	**18. Community Involvement and Development**	Social	Respect and inclusion of the rights of indigenous communities in the construction of new projects, particularly when these involve the displacement of these communities or have an impact on their territory. Involvement of the indigenous communities impacted by the projects, in decision-making and the definition of measures developed by the company.

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EDP Issues			
Issue	Category	Pillar	Description
19.1. Attracting and retaining talent	**19. People Management**	Social	Ability to attract new and retain current employees with skills valuable to the organization. Recognition of employee competencies and practices by meritocracy and remunerative justice. Including appropriate remuneration and recognition, and management of human capital.
19.2. Training and development	**19. People Management**	Social	Employee training to acquire new skills, widening people's choices and expanding their capabilities. For example, training sessions, career advancement programs, scholarships, and mentoring programs, among others.
19.3. Employees satisfaction	**19. People Management**	Social	Mechanisms to guarantee high levels of satisfaction by employees, as well as the efficient management of their claims.
19.4. Measures for social conciliation and protection	**19. People Management**	Social	Initiatives that promote reconciliation of work with family life, such as timetable flexibility, additional measures for paternity/maternity leave, workplace flexibility, continuous workdays, mobility and transportation solutions for employees, among others.
19.5. Rewards and benefits	**19. People Management**	Social	Initiatives to attribute compensation and benefits to employees, including financial and/or non-financial compensation, such as remuneration policies and programs, pension plans, and health care, among others.
19.6. Labor relations	**19. People Management**	Social	Management of the relationship between employee and employer and the legal rights that regulate this relationship. Examples are: the existence of and relationship with unions, collective work agreements, working conditions, workplace practices, freedom of association and trade union negotiations, among others.
19.7. Stability in employment	**19. People Management**	Social	Stability in employment and measures to minimize the negative impact of potential relocations or restructuring. Including reorganizations, turnover and outsourcing.
19.8. Diversity/Equal Opportunities	**19. People Management**	Social	Existence of mechanisms to ensure equality and non-discrimination in conditions and opportunities, without distinguishing between gender, age, minority groups or other indicators of diversity.
20.1. Occupational illnesses and diseases	**20. Safety**	Social	Promote the implementation of measures to eliminate or minimize the occurrence of occupational incidents and illnesses with employees, service providers and third parties, which may be affected by the normal undertaking of EDP's activities. This includes environmental aspects (air quality, noise, lighting, ergonomic aspects) and facility security (fire protection, emergency response plans).
20.2. Promotion of occupational health	**20. Safety**	Social	Prevention of medical aspects associated with work, including health surveillance and promotion of healthy living conditions for workers (nutrition and smoking cessation programs, cardiovascular screening, vaccination programs).
20.3. Physical safety in the facilities	**20. Safety**	Social	Concern about security aspects of the public and the communities surrounding the company premises. Associated with concerns with local communities, in particular, emergency response concerns related to all aspects.

2. Sources Consulted

Types of sources consulted in 2019

		MARKET			DEMOCRACY			SOCIAL & TERRITORIAL ENVIRONMENT				VALUE CHAIN			
		Shareholders, Investors	Financial Entities	Competition	Public Authorities and Regulation	Parliament and Political Parties	Instituições Internacionais	NGOs	Local Communities	Local Authorities	Media and Opinion Makers	Scientific Community	Customers and Representatives	Suppliers	Employees and Trade Union Representation
Direct Sources	Meetings	X			X	X	X	X	X	X	X	X	X	X	X
	Surveys								X	X			X	X	X
	Entrevues	X					X	X	X	X	X	X	X	X	X
	Foruns	X	X	X	X	X	X	X	X	X	X	X	X	X	
	Complaints/Claims							X	X	X			X	X	X
Indirect Sources	ESG Performance Questionnaires	X													
	Public Information from Associations and Peers			X					X	X			X	X	
	Informação e Relatórios de Sindicatos														X
	Unions Information and Reports		X		X	X	X	X				X			
	Sanctions				X				X	X			X		
	Structured Projects and Programmes							X	X	X					
	Public Studies and Reports		X				X	X							
	News and Opinion Makers							X			X				
	Political Programmes					X									

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