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Generating Success

EDP is a global energy company dedicated to leading the way in value creation, innovation, and sustainability.

Images courtesy of EDP

EDP is one of Europe's major suppliers of power, and the world's third-largest producer of wind energy. Established in 1976, EDP has grown to inhabit a significant space in the electricity and gas sector worldwide, being present in 13 countries, with more than 12,000 employees. The company uses a low-risk approach, takes a long-term view, and is committed to transparency and sustainability.

The CEO of EDP, António Mexia, brings a diverse range of experiences to his leadership of the company. António started his career as a lecturer, before moving into leading positions in investment banking and energy companies in Portugal. He was also the Portuguese Minister for Public

Works, Transport, and Communications. António took the time to speak with *The CEO Magazine* regarding his approach to leadership, the company's development, and his outlook for the future.

The CEO Magazine: How has your professional background in academia and government informed your leadership approach to EDP?

António: I see leadership as an exercise in freeing up capabilities and energy. To fulfil this leadership exercise today, I believe that you need to have a global vision, and that all the different experiences that you bring to the role of CEO are very relevant. Playing different roles is critical to having a more holistic vision,

which gives you the possibility to better anticipate and be prepared for surprises.

The only thing that we know today is that the speed of change will create surprises, and that it is better to be prepared for those surprises, so that we can turn them into something good. Typically, having this global vision is critical, and my experiences in teaching and government—which are very different to my current role—assist me in realising this global vision.

What major challenges has Europe's energy industry faced in recent times?

The European energy sector suffered a structural transformation in recent times. While during past decades this >

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- António Mexia*

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sector was considered to be defensive, today it is very cyclical. Due to several factors, such as the economic crisis, the lack of a proper market design, and some doubtful decisions from managements, the perception regarding the sector has changed. We are witnessing a time where energy demand is falling to the same levels of 10 years ago, there is an excess capacity created, and that excess capacity dampens the prices on the markets. In such conditions there is no need for new investment from utilities in the short term, thus creating the conditions for free-ride moments by governments or regulators across Europe. I am confident that the global mood will change as soon as you need new investment in the sector.

The way to meet the challenge is not to lose track of what the nature of a utility should be, which is capital-intensive, with visibility on the cash flows. We need to ensure that we avoid all the effects of short-term vision, since ours is a sector which invests for the long term.

What sort of strategies has EDP adopted to overcome these challenges?

Our strategic agenda is based on three pillars. The first one is to keep the low-risk profile of the company. This means having wide regulatory management, and having as much exposure as possible to markets and technologies that are regulated or where long-term contracts are available.

Focused growth is the second pillar, and that involves finding countries and technologies, like renewables, where you can have low levels of risk, and visibility about the cash flows. The third pillar is efficiency. In tough times,

"Our shared commitment towards wind energy has forged a long-standing partnership with EDP, based on mutual trust and accountability. As one of Vestas' most important strategic customers, we strive to deliver tailored solutions to suit their most demanding needs across different geographies."
 - Juan Araluce y Martinez de Azagra, Executive Vice President, Sales, Vestas



you need to show the market that you are efficient, and today we are the most efficient utility in the Iberian Peninsula.

What roles do you see renewable energy playing in your company specifically and in the market in general, both now and into the future?

In 2005, renewables were more or less non-existent in our company. Today, they are more than one-quarter of our EBITDA, and that figure is moving toward one-third. We have become the third-largest player in the world, and our intention is to maintain better growth factors than our competitors and be better in assessment. We want to continue

being a leader, not only in terms of size, but especially in efficiency, which is what makes the renewable industry a mature industry at this stage.

Based on this vision, and the fact that our wind and water installed capacity makes up around 70 per cent of our portfolio, our idea is to focus our growth in electricity generation through water and wind energy. It will be important to have this diversified potential, because there are more countries in the world where you can have wind, compared to other renewable energy sources.

Renewables will be the key growth engine of our company in the future. Wind can already compete >

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with gas and other technologies, even in countries where there are no subsidies available. As costs have gone down, and efficiency has gone up a great deal, renewable energy is clearly a key part of the growth plan of any country, especially if you want to reduce emissions in the future.

Which key values would you say are paramount to your organisation, and how do you instil them in your staff?

I think being open and transparent is key, because this has a lot to do with ethics and credibility, namely in the financial market. EDP was rated the number-one utility in the world in the Dow Jones Sustainability Index, as well as being considered a world leader in financial disclosure. This indicates that we are very concerned with being transparent and having a sustainable approach. Being open and transparent also means being very focused on the final client. You always have to consider whether the solutions you provide to the market make economic sense and have a positive contribution to people's lives.

Internally, if I had to pick the key characteristics of people inside our company, I would choose having a professional attitude and curiosity. This relates to people who are open to understanding and can anticipate changes, while also being able to execute their ideas in reality. We like to have people in the company who can understand that our sector is facing a revolution like the one the telecom industry faced 10 years ago. Our key challenges relate to supply and generation, smart meters, energy efficiency, and storage.

How does EDP invest in its staff with regard to training and development?

We have several initiatives, including our corporate university. When it was only two years old, our university was considered among the best corporate universities in Europe. Our 12,000 workers are getting a total of half a

million hours of training, per year. If you're giving people horizontal skills like leadership, finance, and markets, as well as vertical skills like knowledge of distribution, innovation, and renewables, then you end up with a great sharing of knowledge inside the company through this corporate university.

At the same time, we try to realise that there are external entities like universities, business schools, and research centres that can help us. We also try to implement the same kind of knowledge sharing with our suppliers and subcontractors so that we can anticipate and minimise problems in those stakeholder relationships. So, the first step was to build a strong corporate university, and then to share our knowledge.

All this is related to being an open company. I'm a fan of open-source innovation and I like to ensure we have that within the company. We also try to maintain very clear and open relations with entities outside the company, so that we can understand what is going on in the world, and so that our people also learn by studying issues in renewables, like storage and batteries.

One example relates to offshore wind and floating devices: everyone agrees that offshore wind will have a bigger input in the future, and that in shallow water you need floating devices. In EDP, we have developed a new technology, Windfloat, that addresses the issue of floating devices for offshore development. We invest in our staff in the traditional way, but we also create presence in the key new playing fields by having the right partners for those developments.

How does EDP collaborate with key suppliers and your other partners to achieve success?

One way we do this is by presenting to our suppliers what we are going to do over the next five or six years. This allows them to prepare themselves so that they can propose solutions to help us

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with our challenges. We also introduce our suppliers from different markets to each other so that they can form alliances and cross-fertilise with other potential partners of ours. We enable our suppliers to learn from one another by crossing people from Brazil into Portugal, from Portugal to China, or from China to Brazil.

We have also created an academy where we help to instruct the staff of our suppliers in topics like ethics, security, key values that we want to see fulfilled, and even studying to anticipate where we can make savings. We start by telling our suppliers what we are doing to prepare ourselves, then we work together to ensure our suppliers are preparing themselves as well, and then we enable our partners and suppliers to work among themselves, and learn from each other. Each of these strategies effectively put a competitive edge on what is already an open-book approach between ourselves and our key partners.

Where do you see EDP going over the coming years?

I see EDP as an integrated utility leading the value creation for shareholders, as we have clearly been doing in the past. We aim to maintain our distinctive approach to generating energy through wind projects around the world, staying at the forefront of smart distribution, and maintaining the low-risk nature of our business by retaining visibility on cash flows. We want to keep up the practices that set us apart from the rest of the energy sector in Europe. If the next five years go as well as the past five years, I think we can be happy. •

"A constant innovator in its sector, EDP is an excellent client to work and partner with. Given its focus on creative and sustainable solutions, we have been able to partner in challenging new areas like smartgrids, renewables systems and IT modernisation." - José Carlos Gonçalves, Senior Vice President, CGI Southern Europe