GDZ Elektrik Dağıtım A.Ş.
Electric & Gas Utilities Emerging Market
July 2022

Moody's | ESG Solutions

Sustainability Rating

Summary

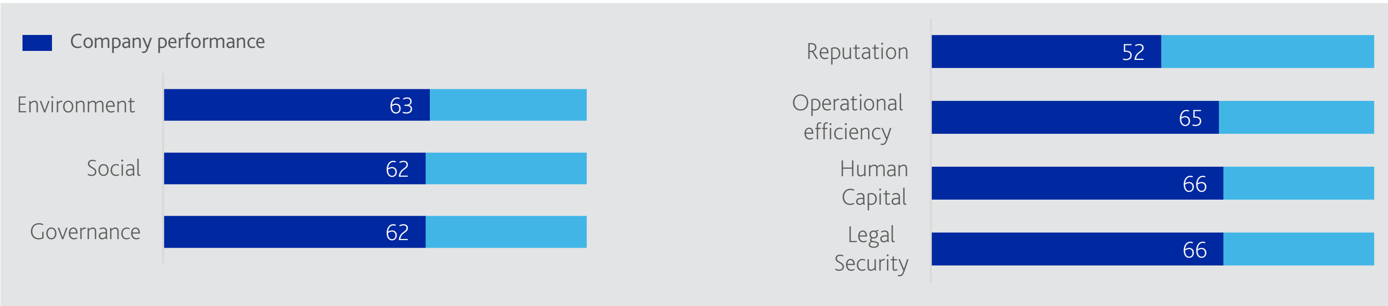
A1

<u>Preliminary note:</u> *We assessed GDZ Elektrik Dağıtım A.Ş. at its request in line with our standard rating methodology. This assessment results in an absolute score of 62/100. Since GDZ is not part of our listed issuers universe, this assessment, which benefits from an active dialogue with the company, is not presented in a ranking against these other listed companies, as they may not have benefited from such dialogue. Therefore, the relative A1 Rating serves an indicative purpose only.*

As of July 2022, GDZ Elektrik Dağıtım A.Ş. (GDZ) obtains an A1 rating, based on an overall score of 62/100. GDZ displays a strong capacity and willingness to integrate ESG factors into its strategy, operations, and risk management, with Robust results achieved on managing reputational risks, and Advanced results concerning operational efficiency, human capital, and legal security risks.

Established in 2005, GDZ Elektrik Dağıtım A.Ş. is a Turkish electricity distribution company with a private license. It serves two provinces of Turkey: İzmir and Manisa. GDZ has a concession agreement with the Turkish state, which expires in 2036.

ESG AND RISKS MANAGEMENT PERFORMANCE (../100)



STRENGTHS

- Advanced management system to address corruption and anti-competition issues
- Governance-wide integration of CSR issues
- Absence of controversies for the last four years

WEAKNESSES

- Lack of transparency regarding executives' remuneration
- Lack of KPIs to measure the effectiveness of GDZ's strategy to mitigate customers' energy demand

KEY TAKEAWAYS

Impacts: GDZ displays a Limited energy transition score (42/100). The main environmental (greenhouse gas emissions, net electricity losses) indicators show positive results, with social (health and safety, turnover, diversity) indicators showing mixed results.

Risks: GDZ's risk management system appears comprehensive, covering its most material ESG risks. The company displays Advanced capacity to safeguard and enhance its operational efficiency, human capital cohesion, and legal security, while Robust scores are observed on factors that could affect its reputation.

Management: GDZ appears to proactively integrate ESG factors into its governance bodies, strategy, and operations. Its approach is supported by commitments, environmental and health and safety targets, and adequate means and processes addressing most of the material challenges. The absence of controversies strengthens our assurance on the company's management of its relationships with stakeholders.

Impacts

VALUE CREATION AND SHARING

Share of investments in activities creating sustainable value [Major, Significant, Limited, None, Unclear]	Limited	GDZ reports its 2022 budget for ESG-related investments to be TRY 333M (EUR 18.5M), which would account for a share of total investments of 13.3%. Of note, the company states that other investment projects in topics such as risk mitigation and human resources have indirect ESG objectives and impacts. Although regulated, the company has significant leeway to decide on the detail of its investments. Examples of ESG-related investments include zero waste, LED, training, among others.
Investments in innovation [Major, Significant, Limited, None, Unclear]	Limited	▸ GDZ has established an R&D Centre on the company's campus. - GDZ reports to have completed 12 of its 29 accepted R&D projects by its regulator EMRA over 2016-2021. ▸ GDZ reports its budget for innovation to be approximately TRY 72.4M (EUR 4.03M) for 2022. The share of GDZ's total investments dedicated to innovation is 2.9%.
Ratio of CEO-to-employee compensation [Increase, Stable or No Clear Trend, Decrease or Undisclosed]	Undisclosed	GDZ discloses the overall collective remuneration for executives, which does not explicitly include the CEO's compensation. Thus, the ratio of employee wages and benefits vs. CEO compensation cannot be calculated.
Transparency on tax payments [Major, Significant, Limited, None]	Significant	GDZ, which is only active in Turkey, reports its tax payments on a yearly basis, in addition to its operating profit, number of employees, and sales.
Operations in offshore financial centres (OFC), including non- compliant OECD jurisdictions [No Operation in OFC, Justified Operations in OFC, Unjustified Operations in OFC]	Justified Operations in some OFC	GDZ is headquartered and operates only in Turkey, which is considered as partially compliant on tax transparency rules by the OECD.

SOCIAL & ENVIRONMENTAL IMPACTS

<u>Environmental impacts :</u>

We consider GDZ's direct carbon footprint to be Significant. The company was therefore granted a **B grade** (the second lowest notch on a four-level scale) in this regard. GDZ obtains an energy transition score of **42/100**, which is above the average performance of the Electric & Gas Utilities Emerging Markets sector (30/100). This performance results from our assessment of GDZ's efforts to manage energy consumption and greenhouse gas (GHG) emissions from distribution activities, manage energy-side demand, and prevent fuel poverty.

Greenhouse Gas emissions linked to electricity distribution activities [Decrease, Stable or No Clear Trend, Increase]	Decrease	GDZ's GHG emissions, specifically Scope 1 and 2, normalised to the length of its electric network, decreased 26% from 2017 at 10.98 tonnes of CO_2 per km to 8.12 tonnes of CO_2 per km in 2021. GDZ's GHG emissions, specifically Scope 1 and 2, normalised to the total electricity volumes transported, decreased 20% from 2017 at 38.56 tonnes of CO_2 per GWh to 30.80 tonnes of CO_2 per GWh in 2021. Less than 10 companies from the Electric and Gas Utilities Emerging Market sector have reported on this indicator, which prevents the comparison of GDZ's performance with its peers.
Net Electricity Losses [Decrease, Stable or No Clear Trend, Increase]	Decrease	GDZ's net electricity losses along its transmission & distribution network have decreased, although not continuously, by 0.9 percentage points from 7.25% in 2017 to 6.35% by 2021 (and 6.43% in 2020).

		This ratio is below the average of the Electric and Gas Utilities Emerging Market sector, which stood at 7.93% in 2020 (13 companies reported this data in 2020).

Social impacts:

Organic growth of employment [Positive, Stable, Negative, Undisclosed]	Positive	From 2017 to 2021, the number of employees has increased continuously from 696 to 875. No reorganisation, acquisition, or divestment has taken place during the last 5 years. Thus, the organic growth of employment stood at 25.7% between 2017 and 2021, and at 13.5% between 2019 and 2021.
Percentage and trend of women in management [Increase, Stable or Unclear, Decrease or Undisclosed]	Decrease	The share of women in management positions has decreased by 2 percentage points, although not continuously, from 18% in 2017 to 16% in 2021 (it was 13% in 2020, though). This ratio is below the average of the Electric and Gas Utilities Emerging Market sector, which stood at 18.33% in 2020 (34 companies in the sector reported on this indicator).
Average number of training hours per employee [Increase, Stable, Decrease or Undisclosed]	Increase	The average number of training hours per employee has increased by 14%, from 37.01 hours in 2017 to 42.15 hours in 2021 (and 40.12 hours in 2020). This ratio is above the average of the Electric and Gas Utilities Emerging Market sector, which stood at 31.92 hours per employee in 2020 (35 companies reported this data in 2020).
Injury frequency rate [Decrease, Stable or Unclear, Increase or Undisclosed]	Decrease	GDZ's LTIFR has decreased 19%, although not continuously, from 2017 at 0.378 lost-time injuries per 200,000 hours worked, to 2021, at 0.308 (and 0.4 in 2020). This rate is in line with the sector average of 0.40 in 2020 (16 companies in the sector reported on this indicator).
Injury frequency rate for subcontracted labour [Decrease, Stable or Unclear, Increase or Undisclosed]	Undisclosed	GDZ does not report its lost-time injury frequency rate (LTIFR) for subcontracted labour. The sector average LTIFR in 2020 was 0.56 (10 companies in the sector reported on this indicator).
Employee turnover rate [Decrease, Stable or Unclear, Increase or Undisclosed]	Increase	GDZ's employee turnover rate for headquarters employees (which constituted 63% of staff in 2021) has increased, although not continuously, from 2.3% in 2019 to 3.2% in 2021 (and 2.2% in 2020). This ratio is below the average of the Electric and Gas Utilities Emerging Market sector, which stood at 5.6% in 2020 (35 companies reported this data in 2020).

IMPACTS OF PRODUCTS & SERVICES

GDZ is considered to have a minor percentage of products and services contributing to sustainable development. These activities appear to contribute to UN Sustainable Development Goals N°7 (Affordable and clean energy) and N°8 (Decent work and economic growth).

Share of products and services contributing to reduce customer demand for energy [Major, Significant, Minor, Non-existent or Undisclosed]	Minor	GDZ offers some energy consultancy services enabling customers to mitigate energy consumption. This is accomplished through awareness raising initiatives to energy-intensive sectors. The percentage of turnover derived from these activities is not disclosed but assumed to represent less than 10% of turnover.
Performance trend in terms of Fuel Poverty [Increase, Stable or Unclear, Decrease or Undisclosed]	Undisclosed	GDZ does not disclose any indicators concerning providing access to energy for low-income and vulnerable customers i.e., fuel poverty.

Risks

RISK FACTORS

GDZ's most material risk and opportunity factors relate to:

- Climate change
- Responsible customer relations
- Health and safety
- Local communities' social, cultural and economic development
- Prevention of corruption and transparency of lobbying practices
- Board of Directors

Our analysis reveals that GDZ has comprehensively addressed most of these challenges.

Climate Change

As an electricity distribution company, GDZ has a major role to play in combating climate change. GHG emissions from distribution activities include SF6 emissions, as well as emissions related to the energy consumed to operate the network. Additionally, with an ever-growing global demand for energy and GHG emissions on the rise, energy demand-side management plays a crucial role in the fight against climate change. A lack of efforts to address this issue could harm the company's brand image and expose GDZ to physical risks of climate change, since it could damage or disturb the distribution network.

- GDZ has achieved an Advanced performance concerning its environmental strategy. GDZ, via its Environmental Policy, has issued a formalised commitment towards environmental protection, with several relevant targets. The company commits to increasingly reduce emissions (by 43% in 2025, 86% in 2035), in an effort to be net zero by 2050. Moreover, the company sets targets on reducing waste intensity, water consumption per employee, and energy consumption intensity at all sites. The company states that its progress on environmental targets is monitored on a monthly basis, with environmental indicators verified annually by a third party. In addition, all GDZ sites are ISO 14001 certified. Moreover, resources are dedicated to environmental accidents (i.e., pollution prevention and control), including monthly risk assessments and training for employees and contractors on relevant topics. GDZ has not reported any soil pollution accidents recently.
- Concerning the reduction of GHG emissions related to transmission and distribution activities, the company achieves a Robust performance. GDZ's Environmental Policy and Sustainability Report highlight a commitment towards reducing lost energy amounts, in addition to the environmental targets previously outlined. To support this commitment, the company monitors Scope 1 and 2 emissions, annually reporting these figures publicly. However, the company lacks further measures to address network energy efficiency and the reduction of GHG emissions, such as a fugitive GHG emissions reduction programme and assets replacement programme. On a more positive note, GDZ's GHG emissions, normalised to the length of its electric network, have decreased 26%, and continuously, from 2017 at 10.98 tonnes of CO_2 per kilometre to 8.12 tonnes of CO_2 per kilometre in 2021.
- GDZ's energy demand-side management performance is considered Limited, as the company's commitment towards this salient issue for electricity distribution companies is general, lacking robust quantitative targets. However, significant means are dedicated to this topic, which include GDZ's Energy Hunters campaign providing awareness raising to children and smart meter installation for some consumers. In addition, GDZ provides consultancy services for energy-intensive sectors to decrease energy usage; though, GDZ provides limited information on what constitutes these consultancy services apart from awareness raising trainings. Other potential measures for the issue include promoting energy-efficient appliances for clients, as one example.

Responsible customer relations

Responsible customer relationships include sufficient information to customers and compliance with contracts. As an electricity distribution company with its end users being everyday customers, GDZ has the obligation to transparently inform its clients in a timely and complete manner of pertinent topics, such as contractual terms, service continuity, termination procedures, the complaints handling process, among other facets. A lack of sufficient dedication towards this issue could likely adversely impact the company's reputation and operational efficiency.

GDZ's responsible customer relations performance is Robust. The company has issued multiple publicly available policies (e.g., Quality Policy, Consumer Satisfaction Policy) to establish its commitment on the issue, though they lack some fundamental responsibilities when assessing their relevance (e.g., service continuity). GDZ has ISO 10002:2018 certification concerning its customer satisfaction, which constitutes a positive signal.

The company's complaints management system appears comprehensive, with a formalised and accessible procedure in place to handle complaints in the Complaint Management Procedure. The policy, published on the company's website, addresses complaints received by the company's Distribution Call Centre; however, GDZ's accessibility to put forward complaints is further enhanced by the fact that the company uses multiple channels besides its website, including social media, WhatsApp, Turkey's complaints.com equivalent, face-to-face communications, and neighbourhood heads (i.e., local administrators) to ensure customers can make swift complaints. Moreover, GDZ affirms that all call centre staff members, and more generally all employees in direct contact with customers, receive training on relevant topics. For example, GDZ's customer service centres provide training on difficult customers and complaint grievance procedures.

GDZ monitors relevant KPIs including its rate of customer satisfaction (95.2% in 2021), when assessing service quality. Moreover, service continuity is measured via the average interruption duration per customer, with GDZ's average interruption duration per customer having decreased continuously by 42% between 2018 and 2020, standing at 650.9 minutes per customer in 2020 (with 2021's data not yet reported).

Employees' health and safety

Building, operating, and maintaining electricity distribution networks involve significant operational and legal risks related to the working conditions of the company's direct and subcontracted workforce. GDZ must ensure the physical safety and wellbeing of its employees working in offices and in the field, and it also bears the responsibility for social standards applied by subcontractors working in the field. The lack of adequate health and safety systems may cause accidents, occupational diseases, absenteeism, high staff turnover, production interruptions, and legal proceedings, as well as harm the company's brand image and reputation.

GDZ deploys a strong approach to mitigate employees' and contractor's health and safety (H&S) risks, thereby resulting in an Advanced performance.

- GDZ's commitment to ensure employees' and contractors' health and safety, in its Occupational Health and Safety (OHS) Policy, is comprehensive, and further substantiated by targets including decreasing the LTIFR (lost-time injury frequency rate) and TRIFR (total recordable injury frequency rate) by 25% until the end of 2023, with 2021 as the baseline year. GDZ has an Occupational Health and Safety (OHS) management structure, which consists of the Sustainability, Environment, Occupational Health and Safety Committee affiliated to and reporting to the Board of Directors quarterly. This oversight works in conjunction with the Safety of Life Committee and Early Risk Detection Committee. GDZ also has a dedicated OHS and Environment (HSE) Department, which includes its managers, experts, and an officer. Advanced safety measures are in place, particularly concerning physical health, including OHS training, internal monitoring, risk assessments, dedicated monthly OHS audits, among other features. The company has also obtained ISO 45001:2018 certification. Over a five-year period, GDZ's accident frequency (LTIFR and TRIFR) and severity rate have decreased, although not continuously. As a note, these indicators do not apply to contractors.
- While the company's commitment towards mental health is referenced in the OHS Policy via the encouragement of reducing stress, there are no targets set towards mental health, which constitutes an area of improvement. GDZ does dedicate significant, relevant measures towards stress reduction in the workplace, including monitoring of stress through employee surveys. Moreover, measures allocated towards this issue include corrective measures (e.g., training on stress for employees) and preventative measures (e.g., training on stress for managers, ergonomic workplace design). MESG positively notes that the company's means dedicated to reducing stress extend beyond company employees to include sub-contractors.
- Social standards expected from sub-contractors are formalised in the company's Procurement Policy and relevant measures (including supplier questionnaires, risk assessments) appear to ensure their implementation. The company, however, does not report explicit indicators concerning the share of social non-compliance in the supply chain.

Local communities' social, cultural and economic development

The construction and operation of GDZ's electricity network requires transparent communication and fluid dialogue with local communities. The company is also expected to foster the economic development of its areas of operation. Proper management of communities' interests and the respect of their rights may positively impact the company's reputation and licence to operate.

GDZ's performance towards the development of local communities is considered Robust. The company has issued a formalised commitment to contribute to social, cultural, and economic development of communities in its Sustainability Policy, with a focus on promoting local employment and contributing towards the local economy. To substantiate this policy, the company relies upon social impact assessment mechanisms, namely surveys conducted at company sites. In this survey process, GDZ engages with employees, suppliers, neighbourhood heads, NGOs, municipalities, the regulatory authority, public institutions, all of which the company deems to be critical stakeholders. The survey findings are used to modify the company's Sustainability Matrix and thereby understand what ESG topics the company should prioritise depending, in part, on the needs of the local community. GDZ reports that the surveys are conducted between 1-2 times per year. Moreover, the company has established social development programmes throughout its local communities, including programming in vocational high schools and the renovation of a public library. GDZ offers environmental protection and hazard prevention trainings to local community members as well.

GDZ has also implemented a Complaints and Survey Procedure to manage grievances from the local community (and employees), in addition to the confidential reporting system to address ethical concerns, the Ethics Line. The company does not however report on quantitative indicators concerning local social and economic development projects, which constitutes one area of improvement for the company.

Prevention of corruption and transparency of lobbying practices

GDZ's projects involve negotiations with public authorities, mainly the Energy Market Regulatory Authority (EMRA), on planning and tariff schemes controlled by national and local legislations, which therefore exposes the company to potential corruption risks. In a country where corruption risk is perceived as medium to high by international stakeholders – Turkey's corruption perception index by Transparency International is of 38/100 in 2021, ranking 96 out of 180 countries – the company's ability to showcase a solid business ethics culture could be a strong asset for its future development projects. GDZ is expected to demonstrate transparency and integrity in its lobbying practices, which may benefit the company's operational functioning and reputation, while lowering the risk of controversies on the matter.

- GDZ displays an Advanced approach on corruption issues. Corruption is addressed by comprehensive commitments in the company's Code of Conduct and Business Principles, Anti-Bribery and Anti-Corruption Policy, in addition to other policies and procedures. GDZ's Ethics and Disciplinary Committees, whose composition is unclear, oversee compliance with the company's Anti-Bribery and Anti-Corruption Policy and the Code of Conduct. The visibility of GDZ's approach to prevent corruption is strengthened by the company's signing of the UN Global Compact Principles. GDZ dedicates strong measures to ensure the application of its commitment throughout its value chain by training employees, business partners, and contractors on corruption, allowing the reporting of non-compliant behaviour through the confidential Ethics Line, conducting annual dedicated risk mapping, and performing internal audits. These measures could help the company reduce its exposure to corruption incidents and associated legal, reputational, and financial consequences. The company, however, lacks sufficient transparency on its external controls dedicated towards anti-corruption practices, which makes the extent of such practices uncertain. GDZ has reported no major incidents of corruption over the last five years (2017-2021), with a major incident defined as any incident resulting in disciplinary action or termination. The company has not faced any controversies pertaining to corruption, which reinforces MESG's assurance on the company's ability to manage such risk.
- GDZ's performance regarding the integrity and transparency of its lobbying practices is Limited. The company has published its Public Relations Policy, which lightly addresses lobbying topics, including the commitment to present accurate, updated information to public officials to avoid misleading them and a commitment to donation amount transparency. The company provides formal lobbying training for relevant employees and executive management twice a year. Some measures are generally dedicated throughout the company to address this issue, including a gift acceptance policy and confidential Ethics Line, though several internal and external controls are lacking. Moreover, the company has not communicated its annual lobbying budget. GDZ is involved in 31 memberships and collaborations, as disclosed in its Sustainability Report for 2021. Some memberships include local bar associations and ministries, among others.

Board of Directors

Although local regulations and international expectations are less demanding for non-listed companies, the composition of the Board of Directors (including the diversity, independence, and competency level of its members), as well as its functioning rules (including board members' training and performance evaluation, the frequency of their elections, etc.) could impact its ability to exercise control over management and foster the company's long term competitiveness and profitability, as well stakeholders' interests.

GDZ displays an Advanced performance on the functioning of its Board of Directors.

- Regarding the structure and functioning of the Board, GDZ conforms to good governance standards, with a few identified areas for improvement. MESG positively notes that there are dedicated Board-level committees (e.g., Corporate Governance Committee, Investment Committee) with current Board members sitting on them in addition to several company directors. Moreover, Board members are evaluated annually by a third party, although these evaluation results are not disclosed publicly. GDZ's Board members have a set term length of three years.
- In terms of the composition of the Board, GDZ has three Board members, two of which are non-executive directors, which is assessed positively. The third member is the General Manager (CEO) of GDZ. The CEO and Chairman roles are held by separate individuals as well. However, no Board members are considered independent per MESG criteria, due to either being an executive or their current term lengths on the Board exceeding nine years. Moreover, no women currently sit on the Board, which goes against international good governance standards. However, GDZ has established a Board Diversity Policy to address this deficiency, calling for a target to have 25% of the Board be women members in the next five years, with an annual evaluation on the matter. GDZ has also stated to MESG that in pursuit of this target, the number of Board members, particularly independent ones, will likely increase past three members as well.

RISK MANAGEMENT

GDZ's risk management system appears comprehensive and covers the group's most material CSR risks, with operational teams and Board Committees involved in the risk mapping process and the company's risk mapping directly integrating CSR risks.

- GDZ generally states that its risk appetite is distinct from that at the Aydem Holding level due to regional and organisational differences. As a result, the company has its own risk policy and KPIs.
- GDZ's risk function is primarily organised by two committees that are affiliated to the Board of Directors: (1) the Audit Committee and (2) the Early Detection of Risk Committee. The Audit Committee is comprised of the Board's Vice Chairman, Chairman, and Internal Audit and Control Group Director. The Early Detection of Risk Committee is comprised of the Board's Chairman, Head of Financial Affairs Group, and Risk Management Group Director (who heads GDZ's risk function). The two committees overlap with one member—the Chairman of the Board, thereby not making them fully separate. The two committees meet quarterly at a minimum, with an occasional increase in meetings if an emerging risk is identified and requires action.
    - GDZ has a risk expert, called a Risk Supervisor, who works in collaboration with legal and compliance managers. The Risk Supervisor's role is to ensure the implementation of the company's Risk Policy, make recommendations to the Early Detection of Risk Committee, and identify the company's risk appetite and key risk indicators. The Risk Supervisor addresses the risk needs of both GDZ and its sister company ADM, and this individual reports quarterly to the Chair of the Early Detection of Risk Committee, which is the Vice Chairman of GDZ's Board of Directors.
    - GDZ operates on a three lines of defence model, with appointed risk representatives (who typically serve as managers of departments) reporting to the Risk Management Unit on a monthly basis. GDZ states that such monthly reports include emerging risks.
        - Risk representatives hold monthly meetings with the Internal Audit unit, and quarterly meetings with the Audit Committee and Early Detection of Risk Committee.
    - GDZ provided management-level employees trainings in 2020 and 2021 on key risk indicators, which included ESG topics.
- GDZ's Risk Management Policy is reviewed and updated annually under the supervision of the Board Committees and Board of Directors.
- Group-wide risk mapping is conducted annually by the Risk Management Unit, with the company stating that this risk assessment covers major risks. MESG has not been made aware of whether this risk mapping incorporates all risks, which would be a positive signal. We positively note, however, that GDZ's risk mapping directly integrates ESG risks. There are segregated risk categories under this singular risk mapping for the Group, with category one for employment practices, business continuity, environmental risks, and security; category two for regulation; and category three for operational risks.
    - Risks are prioritised and therefore ranked in importance, based on an assessment of their impact and probability.
    - GDZ involves external stakeholders in its risk mapping process, which allows the company to benefit from other stakeholders' inputs and interests on major risks deemed relevant to a materiality matrix.
- Emerging risks are monitored, with a mapping of such risks formally updated annually. Moreover, GDZ states that it can reassess emerging risks more frequently on an as-needed basis.
    - Emerging risks identified by GDZ include: climate change, cybersecurity, earthquakes, floods, geopolitical conflict, among others.
- GDZ stated to MESG that its Risk Management Unit and Internal Audit maintain a separate relationship to independently ensure the effectiveness of GDZ's risk management system.
    - GDZ's Internal Audit plans are reviewed annually, with includes a risk analysis that incorporates ESG risk.
- Concerning GDZ's interactions with its regulators, the company states that in the event of an extraordinary situation, GDZ can demand and influence what the company sees as necessary to ensure adjustments are made in tariff arrangements, as one example.

REPUTATION

REPUTATION (/100)	52
Fundamental human rights	74
Social standards in the supply chain	60
Social and economic development	57
Biodiversity	51
Executive remuneration	44
Responsible lobbying	42
Access to energy	36

OPERATIONAL EFFICIENCY

OPERATIONS (/100)	65
Environmental strategy	97
Board of Directors	68
Audit & internal controls	67
GHG emissions from T&D	64
Customer relations	54
Energy demand-side management	39

HUMAN CAPITAL

HUMAN CAPITAL (/100)	66
Non-discrimination	76
Health and safety	70
Fundamental labour rights	69
Career management	69
Reorganisation	67
Social dialogue	43

LEGAL SECURITY

LEGAL SECURITY (/100)	66
Corruption	69
Industrial accidents and pollution	65
Anti-competitive practices	64

Weak: from 0 to 29 | Limited: from 30 to 49 | Robust: from 50 to 59 | Advanced: from 60 to 100

Management

INTEGRATION OF ESG FACTORS INTO CORPORATE GOVERNANCE

Most factors under review demonstrate GDZ's advanced willingness and capacity to integrate ESG factors into its governance structure and decision-making processes.

- At the **Board level,** the Sustainability, Environment, Occupational Health and Safety Committee is chiefly responsible for supporting the company's sustainability strategy and related initiatives. This committee comprises of GDZ's General Manager, Regulation Director, Operations Director, Risk Management Group Director, and OHS and Environment Group Director. As a note, the other four Board committees indirectly address ESG topics; for example, the Early Detection of Risk Committee monitors emerging risks, including climate change. The Board committees report every quarter to the Board of Directors, with the company stating that ESG KPIs are monitored at this minimum frequency.
    - There is no dedicated Board member responsible for ESG matters.

- At the **management level,** dedicated operational teams tackle different facets of ESG. There is overlap between this and the Board committees, as managers of different functions sit on these committees (e.g., risk, occupational health and safety).
    - GDZ has Sustainability Leaders in the field that are in each provincial directorate. These leaders, who are designated company managers, perform multiple functions including audits on environmental and social topics. Examples include: the collection of employee feedback and discrimination topics. Sustainability Leaders receive training quarterly. It is unclear how much time Sustainability Leaders dedicate to their field work and ESG matters, compared to their everyday job functions.
    - The company's overall targets for 2021, as further detailed below, are applicable to managers' remuneration, and include some CSR-linked objectives (employee turnover, LTIFR).

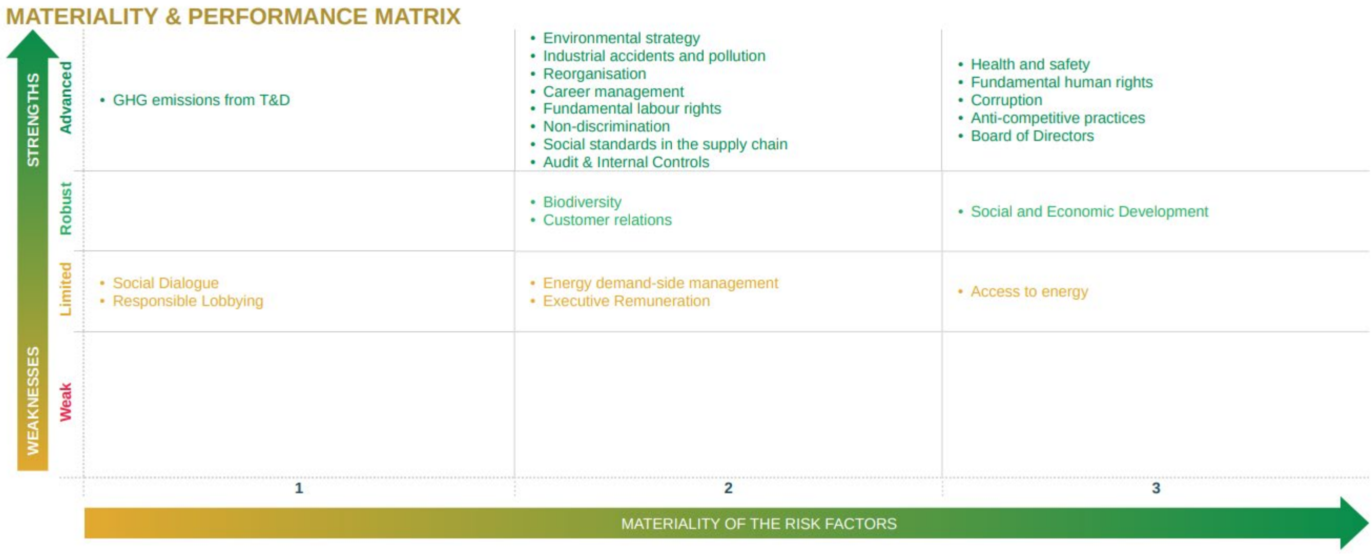
- ESG risks are covered by the **internal controls system**, which entails comprehensive risk mitigation processes (these are analysed in detail in the "risk management" part on p. 9 of this document).

- In terms of **executive remuneration**, CSR-linked objectives are considered in the company's variable remuneration. Such objectives are directly derived from the company's annual targets, although executives' importance in driving such components remains unclear. For 2021, the company's explicit CSR targets included the reduction of the employee turnover rate (for those aged 25-35) to 10% and lost-time injury frequency rate (LTIFR) to 8.65. For executives, bonuses can reflect up to 50% of their annual wages (compared to managers receiving 33% and staff 25%).
    - Additionally, MESG notes that the company does not disclose executives' remuneration on an individual level, which signals a lack of transparency.

- GDZ's CSR reporting to stakeholders is primarily accomplished via the Sustainability Report, published annually. This reporting is based on GRI standards, but not externally verified.

- These various structures and initiatives give MESG a positive assurance on GDZ's ability to lead, implement, and follow up on its sustainability strategy.

ESG MATERIALITY AND PERFORMANCE MATRIX



ENVIRONMENT

Strengths	Areas for improvement
GDZ's comprehensive Environmental Policy includes multiple quantitative targets on emissions reduction, energy consumption intensity, in addition to a few others. These targets support the company's ambition to be Net Zero in 2050. Moreover, environmental KPIs are monitored on a monthly basis. Such efforts demonstrate the company's willingness to address climate-related risks. Extensive resources are allocated to address pollution prevention and control, particularly in the context of environmental accidents. Monthly risk assessments, training, and risk prevention procedures all work towards addressing this important risk GDZ faces as an energy distribution company.	GDZ lacks relevant environmental KPIs on energy demand-side measures. Monitoring and reporting of such indicators could improve the company's ability to showcase its environmental strategy and results to customers and other stakeholders.

SOCIAL

Strengths	Areas for improvement
The company's diversity and inclusion strategy, found in its Human Rights Policy, is supported by an action plan (e.g., Board Diversity Policy) and comprehensive measures to prevent discrimination, may strengthen employee attraction and retention. GDZ's advanced labour rights performance can be attributed to its regularly updated Collective Bargaining Agreement (every two years), permanent measures implemented to monitor the freedom of association within operations, and resources allocated to promote collective bargaining. An employee representative interviewed by MESG further confirmed that GDZ's blue collar workers have set meetings with HR every 1-2 weeks. Employee representatives are also able to attend GDZ's Corporate Governance Committee meetings quarterly.	GDZ provides limited information on measures dedicated to the prevention of fuel poverty, which may adversely lower income individuals' access to energy and also negatively impact the company's reputation. GDZ does not disclose health and safety KPIs (e.g., TRIFR and LTIFR) for its contractors, which excludes a significant proportion of relevant individuals in its monitoring programme.

GOVERNANCE

Strengths	Areas for improvement
GDZ has a comprehensive risk management system that incorporates CSR and emerging risks, including cybersecurity and climate change, thereby mitigating legal, operational, and reputational threats to the company. GDZ's performance in corruption prevention is advanced, with comprehensive commitments, in addition to internal controls to prevent fraud and business ethics risks.	No women currently sit on the Board of Directors. Having a higher level of diversity on the Board could foster a gender equality culture and facilitate the consideration of CSR elements in strategic decisions. (MESG notes however that the company is currently working to address this issue with its Board Diversity Policy). GDZ does not disclose executive remuneration on an individual basis, while such disclosure signals transparency and contributes to good governance practices.

DETAILED EXPOSURE TO CONTROVERSIES

ESG Issues: Generic Name	Number of companies facing associated cases within the sector	Company exposure	Company reactivity
Customer Relations	3	No	N/A
Social standards in the supply chain	0	No	N/A
Corruption	3	No	N/A
Anti-competitive practices	4	No	N/A
Responsible Lobbying	0	No	N/A
Fundamental human rights	2	No	N/A
Fundamental labour rights	0	No	N/A
Non-discrimination	0	No	N/A
Environmental strategy	0	No	N/A
Industrial accidents and pollution	6	No	N/A
Biodiversity	3	No	N/A
GHG from T&D activities	2	No	N/A
Energy demand-side management	0	No	N/A
Social and economic development	8	No	N/A
Access to energy	0	No	N/A
Board of Directors	1	No	N/A
Audit & Internal Controls	1	No	N/A
Executive Remuneration	0	No	N/A
Social Dialogue	0	No	N/A
Reorganisation	1	No	N/A
Career management	0	No	N/A
Health and safety	1	No	N/A

CONTROVERSY MANAGEMENT

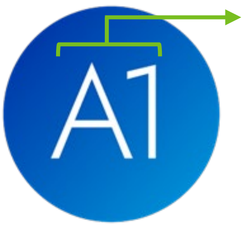
As of June 2022, MESG has identified no controversies in which GDZ is involved. Therefore, MESG's opinion on GDZ's ability to ensure balanced relationships with stakeholders is high.

Methodology

Corporate Rating Scale

Our consolidated rating scale ranges from A1 to D3.

- The consolidated rating translates the overall and relative ESG performance of an issuer according to its quartile performance and position within this quartile.



Positions the issuer's overall ESG performance within our research universe, on a 12-level scale:

- The **letter** (A, B, C or D) positions the issuer's ESG score within one of the four quartiles of our overall research universe
- The **number** (1, 2 or 3) positions the issuer's ESG score in relation to its' peers within the same quartile.

Definition of Strategic Assets

Each sustainability criterion of our rating framework affects issuers' non-material strategic assets with a different intensity. We have categorized these non-material assets into 4 classes: reputation, human capital cohesion, operational efficiency and legal security. The intensity of each sustainability driver on each asset class translates into a weight from 0 to 3.

We believe that a correlation exists between an issuer's level of commitment towards each of the sustainability criteria analysed and its ability to protect and develop these 4 classes of strategic assets.

From the ESG scores obtained by an issuer on different sustainability criteria, we infer a level of risk mitigation of these strategic assets. This level is given a score which is calculated using the following formula:

- "R": Level of risk mitigation
- "Y": Asset under review (reputation, human capital cohesion, legal security, operational efficiency)
- "S": Sustainability criteria score for which the weight of the asset X is weighted at 2 or 3
- "W": Weight allocated to the asset under review within each sustainability driver

$$R_y = \sum (S_y \times W_y) / \sum W_y$$

Risk Typology – The Four Main Categories

Reputation	1. Brand recognition, level and variation of brand image and organization, its leaders and consulting shareholders 2. Outbreak, persistence, reduction or elimination of rumours, allegations and controversies 3. Licence to operate, degree of social acceptability (approval of the implementation and/ or extension of the company, receipt and maintenance of operational permits and licences from public authorities or ordering parties) 4. Talent attraction 5. Variation of levels of shareholder support and satisfaction
Human Capital Cohesion	1. Stability of labour relations and social conflict mitigation 2. Retention of skills and know how; skills development 3. Attraction and mobilization of core skills 4. Company culture and values
Operational Efficiency	1. Production cost management (work accidents, competencies, reducing energy consumption etc) 2. Competitiveness of products and services (training, waste reduction, employee training and participation) 3. Organizational and process effectiveness (audits and control mechanisms, environmental strategies etc) 4. Innovation and preventing production and organizational process techniques from becoming obsolete; prevention of technological obsolescence 5. Security and quality of supplies and revenues

Legal Security	1. Recourse and complaints, litigation, legal proceedings, trials and fines

Controversies

We continuously monitor controversies involving the social responsibility of the issuers we assess. We promptly disseminate our detailed opinion on the severity and possible consequences of the controversies in question. This service is designed to inform investors and asset managers about unexpected changes in issuers' risk profiles and enable them to make informed decisions.

We assess issuers' capacity to mitigate risks arising from allegations, media campaigns, lawsuits, or social movements related to environmental, social, ethical, supply chain, human rights and governance issues, which involve their products, services or behaviours. We provide an opinion on issuers' controversy risk mitigation based on the analysis of three systematic factors: the **severity** of the controversy regarding the social responsibility norms and standards applicable to the issuer and the rights and expectations of its stakeholders; the **frequency** of similar allegations involving the issuer; the issuer's **responsiveness** and its ability to take appropriate, corrective and preventive measures. Depending on their topic, controversies are categorized into 106 different themes.

This service provides access to our Controversy Journal, which is permanently available and categorizes entries by social responsibility theme and factor, company, sector, and country. It also offers a "Warning List", identifying companies involved in the most critical controversies which, due to the frequency of allegations to which they are subject and/ or their weak level of responsiveness, require issuers to be more vigilant. The reference universe for our controversy analysis is based on our exclusive research. The Controversy Database is updated daily and involves correspondence with issuers.

Energy Transition Strategy Score

By considering the size, sector of activity and nature of its products and services, we assess a COMPANY's willingness and capacity to adopt a clear, documented and measurable transformation strategy regarding its behaviour, products and services; with the objective of reducing its carbon footprint and creating sustainable value based on low-carbon activities that are in line with international climate objectives such as the 2 degrees policy.

Each issuer receives an Energy Transition Strategy score resulting from the analysis of criteria defining its responsibilities regarding the fight against climate change. These criteria stem from an authoritative framework of international norms and standards and consider the best practices that make up our Equitics© framework: green products, energy, atmospheric emissions, transportation, use and disposal of products, and societal impacts of products & services. The reference universe is based on our exclusive research and is updated at the same time.

Carbon Footprint

A COMPANY's carbon footprint is the total volume of Greenhouse Gas (GHG) emissions in tonnes of CO2 equivalent (Scope 1 + Scope 2) emitted by the issuer.

Emissions

- Scope 1 covers direct GHG emissions originating from sources that are owned or controlled by the issuer.
- Scope 2 covers indirect GHG emissions caused by the organization's consumption of electricity, heat, cooling or steam purchased or brought into its reporting perimeter.
- Scope 3 covers other indirect emissions (not included in Scope 2) from the entire value chain, both upstream and downstream.

Data

The main source of GHG emissions data is the Carbon Disclosure Project (CDP) and Vigeo Eiris' own company research. When data is not available via these two processes, we estimate the Carbon Footprint of the company based on the size and the nature of the issuer's activities, using three main modeling processes: regression analysis, sector-specific factors and average sector emission ratios. The research on non-sovereign issuers is updated twice a year.

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