# Practical Class #11

International Management

Spring 2025

May 12/13

# Corporate reports



- Go to Moodle >>> Corporate reports (folder)

- Briefly analyse (main topics) the following corporate reports – Nike, EDP, DHL, Tony Chocolonely – and discuss:
  1. What information do they have in common?
  2. What information do you consider to be mandatory in terms of disclosure?

# Mandatory elements (US)

❖ The Securities and Exchange Commission (SEC) requires all publicly traded companies to report:

**BUSINESS**

An **overview of** the company's main **operations**, including its products and services (i.e., how it makes money)

# Business




Source: EDP Annual Report 2024

# Mandatory elements (US)

❖ The Securities and Exchange Commission (SEC) requires all publicly traded companies to report:

| BUSINESS | RISK FACTORS |
| --- | --- |
| An **overview of** the company's main **operations**, including its products and services (i.e., how it makes money) | **Risks** the firm faces or may face in the future<br><br>The risks are typically <u>listed in order of importance</u> |

# Risk factors

**Risks**

| | | Risk Description |
|---|---|---|
| 1 | Capital Gains on Asset Rotation | Reduction of capital gains expected from asset rotation activity due to a decrease in the value of assets, because of lower market appetite, a generalised rise in interest rates, lower energy prices or exchange rate variations. |
| 2 | Renewable Production Volumes | The EDP Group has a material degree of exposure to variations in renewable energy generation volumes, particularly regarding hydro volume, but also wind and solar. A dry year and/or a year with lower wind or solar resources can have a negative impact on the company's results. |
| 3 | Commodity Prices | Changes in commodity prices, essentially due to market exposure in Iberia to electricity, coal, gas and $CO_2$ prices, but also in EDPR's other markets (residual exposure not covered by PPA). These changes may be due to various factors, namely fluctuations arising from supply and demand dynamics or regulatory changes (national or international) and may impact the company's results. |
| 4 | Physical Assets under Construction | Risk associated with CAPEX deviations and/or COD delay beyond what was estimated in the investment decision, leading to potential impacts on the current year (less revenue and more costs) and on the profitability of investments. This risk is mostly concentrated in Renewables investments due to the proportion of new investments foreseen in the Business Plan. |
| 5 | Counterparty | Risk associated with the potential default (or increase in relation to the expected level of default) of contractual obligations from customers, energy counterparties, financial counterparties (essentially associated with deposits with financial institutions and financial derivatives) and / or suppliers. |
| 6 | Regulation | Risks related to legislative and regulatory changes that the group is obliged to comply with in the different geographies and markets in which it operates (namely sector packages, regulatory models, environmental legislation, taxes and other). Adverse regulatory changes could have a negative impact on the company's results. |

Source: EDP Annual Report 2024

# Risk reporting



- Common illustrations included risk owners, potential velocity of the risk and information about the actual mitigating activities performed in the year.

- **Examples of risks:**
  - Cyber security
  - Geopolitical risks (incl. wars and Brexit)
  - Climate change
  - New trends relevant and specific to the company's business model

# Mandatory elements (US)

- The Securities and Exchange Commission (SEC) requires all publicly traded companies to report:

| BUSINESS | RISK FACTORS | FINANCIAL INDICATORS |
|---|---|---|
| An **overview of** the company's main **operations**, including its products and services (i.e., how it makes money) | **Risks** the firm faces or may face in the future<br><br>The risks are typically <u>listed in order of importance</u> | Specific **financial information** about the firm's over the last years.<br><br>The company's recent performance.<br>E.g.: Profitability ratios: Net Profit Margin, Return on Equity, Return on Assets; Liquidity Ratios… |

# Financial indicators


Source: EDP Annual Report 2024

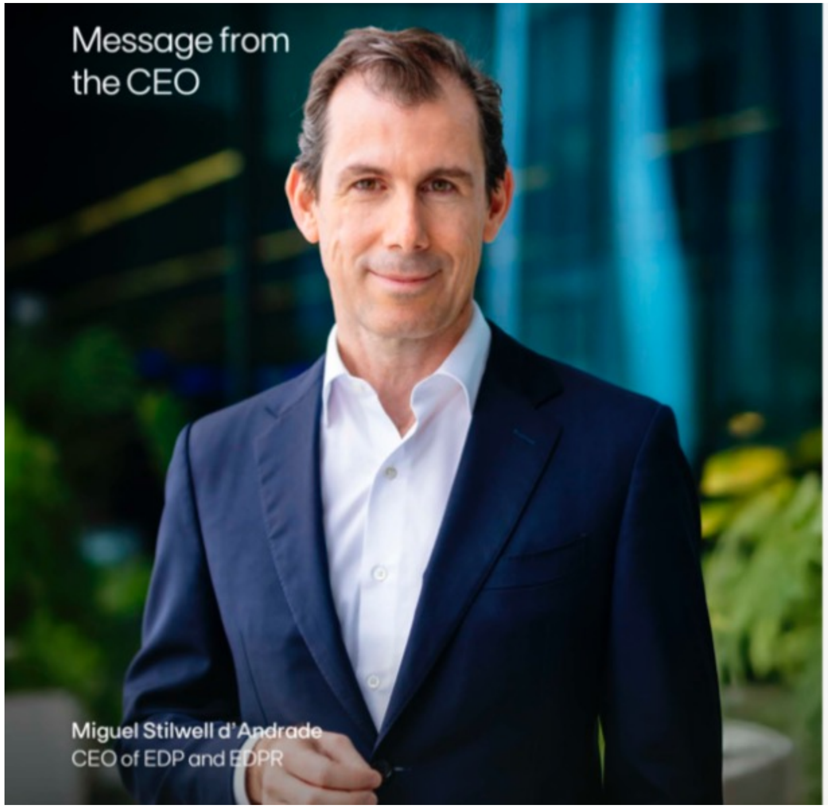
# Mandatory elements (US)

NOVA SCHOOL OF BUSINESS & ECONOMICS

- The Securities and Exchange Commission (SEC) requires all publicly traded companies to report:

| BUSINESS | RISK FACTORS | FINANCIAL INDICATORS | MANAGEMENT'S ANALYSIS |
|---|---|---|---|
| An **overview of** the company's main **operations**, including its products and services (i.e., how it makes money) | **Risks** the firm faces or may face in the future<br><br>The risks are typically listed in order of importance | Specific **financial information** about the firm's over the last years.<br><br>The company's recent performance.<br>E.g.: Profitability ratios: Net Profit Margin, Return on Equity, Return on Assets; Liquidity Ratios… | Of the financial condition and results of operations.<br><br>Opportunity to explain the previous fiscal year's results |

# Management analysis




**Dear Shareholders and Stakeholders,**

In 2024, the energy sector faced a pivotal moment, encountering both significant challenges and promising opportunities. Carbon emissions rose, capital costs remained high and shifting political dynamics introduced new uncertainties – particularly with the implications of the new U.S. administration for the clean energy sector yet to be clarified. Stronger competition and delays in renewable project deployment – mainly due to permitting and grid connection barriers – also posed significant challenges to the renewables business case.

Nonetheless, these challenges have not altered the long-term outlook for clean energy. Beyond environmental and sustainability concerns, energy affordability and competitiveness gained prominence, and the urgency of energy security became undeniable. Renewable energy remains a critical part of the solution to the energy trilemma.

According to the International Energy Agency (IEA), global electricity consumption is set to rise at an unprecedented pace while electricity supply is projected to grow by over 25% by 2030, with renewables leading the way. Record-breaking growth in solar PV and wind is expected, with hydropower continuing to provide essential flexibility to power systems. Batteries have emerged as the fastest-growing source of short-term dispatchable capacity, playing a crucial role in energy storage and grid stability. The expansion of distributed solar generation (DG) will continue transforming the energy landscape, enabling consumers to actively participate in energy markets while enhancing grid resilience. Grid infrastructure expansion and maintenance will be critical to enabling electrification and integrating renewables and industrial customers.

At EDP, we successfully navigated a rapidly evolving environment, particularly within our renewables business. The business segment mix evolved differently from what was expected two years ago, with stronger-than-anticipated performance from our integrated generation and supply business in Iberia, as well as our electricity networks business. This highlights the value of our integrated utility business model and the benefits of portfolio diversification. Additionally, we prioritized operational excellence, execution, and profitability over scale.

I am proud to share that 95% of our energy generation came from renewable sources (hydro, wind, and solar), surpassing our business plan target. We also achieved an outstanding 64% reduction in emissions intensity compared to the previous year. By year-end, we had invested 5.4 billion euros and delivered on the financial targets set in our 2024-2026 strategic plan, including EBITDA, net profit, and financial leverage.

Source: EDP Annual Report 2024

# Mandatory elements (US)

NOVA SCHOOL OF BUSINESS & ECONOMICS

❖ The Securities and Exchange Commission (SEC) requires all publicly traded companies to report:

| BUSINESS | RISK FACTORS | FINANCIAL INDICATORS | MANAGEMENT'S ANALYSIS | FIN. STATEMENTS + NOTES |
|---|---|---|---|---|
| An **overview of** the company's main **operations**, including its products and services (i.e., how it makes money) | **Risks** the firm faces or may face in the future<br><br>The risks are typically listed in order of importance | Specific **financial information** about the firm's over the last years.<br><br>The company's recent performance.<br>E.g.: Profitability ratios: Net Profit Margin, Return on Equity, Return on Assets; Liquidity Ratios… | Of the financial condition and results of operations.<br><br>Opportunity to explain the previous fiscal year's results | **1.** Audited financial statements: income statement, balance sheet and cash flows<br><br>**2.** Notes to the financial statements<br><br>**3.** Letter from the independent auditor - certifying the scope of review |

# Financial statements

NOVA SCHOOL OF BUSINESS & ECONOMICS

## Consolidated Income Statements for the periods ends at 31 December 2024 and 2023

| Thousand Euros | Notes | 2024 | 2023 |
|---|---|---|---|
| Revenues from energy sales and services and other | 7 | 14,965,762 | 16,202,308 |
| Cost of energy sales and other | 7 | -8,092,283 | -9,205,348 |
| | | 6,873,479 | 6,996,960 |
| Other income | 8 | 848,156 | 1,036,691 |
| Supplies and services | 9 | -1,116,812 | -1,175,914 |
| Personnel costs and employee benefits | 10 | -832,666 | -819,259 |
| Other expenses | 11 | -866,377 | -1,031,434 |
| Impairment losses on trade receivables and debtors | 27 | -69,826 | -64,730 |
| | | -2,037,525 | -2,054,646 |
| Joint ventures and associates | 22 | -34,853 | 77,712 |
| | | 4,801,101 | 5,020,026 |
| Provisions | 37 | -166,574 | -31,272 |
| Depreciation, amortisation and impairment | 12 | -2,372,544 | -2,190,584 |
| | | 2,261,983 | 2,798,170 |
| Financial income | 14 | 977,330 | 979,498 |
| Financial expenses | 14 | -1,859,820 | -1,889,694 |
| Profit before income tax and CESE | | 1,379,493 | 1,887,974 |
| Income tax expense | 15 | -506,355 | -507,219 |
| Extraordinary contribution to the energy sector (CESE) | 16 | -47,748 | -49,365 |
| | | -554,103 | -556,584 |
| Net profit for the period | | 825,390 | 1,331,390 |
| Attributable to: | | | |
| Equity holders of EDP | 31 | 800,980 | 952,348 |
| Non-controlling Interests | 34 | 24,410 | 379,042 |
| Net profit for the period | | 825,390 | 1,331,390 |
| Earnings per share (Basic and Diluted) - Euros | 31 | 0.19 | 0.23 |

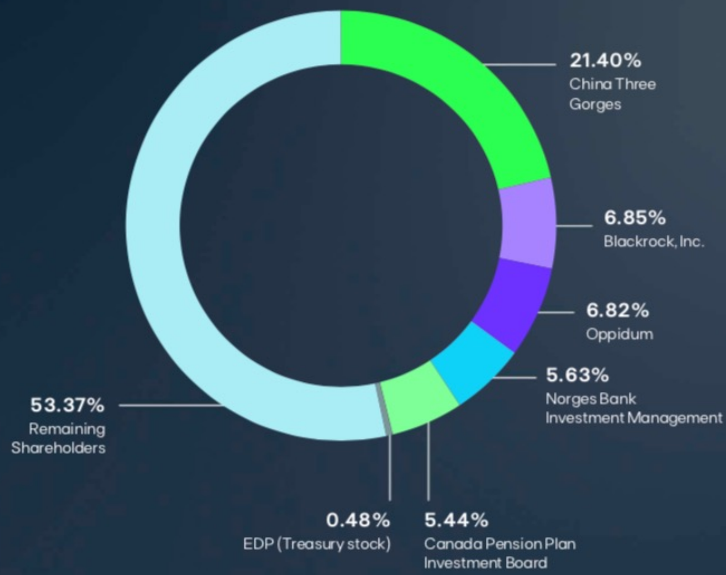
Source: EDP Annual Report 2024

# Other sections - Shareholder structure

NOVA SCHOOL OF BUSINESS & ECONOMICS

## 1.4. Shareholder structure

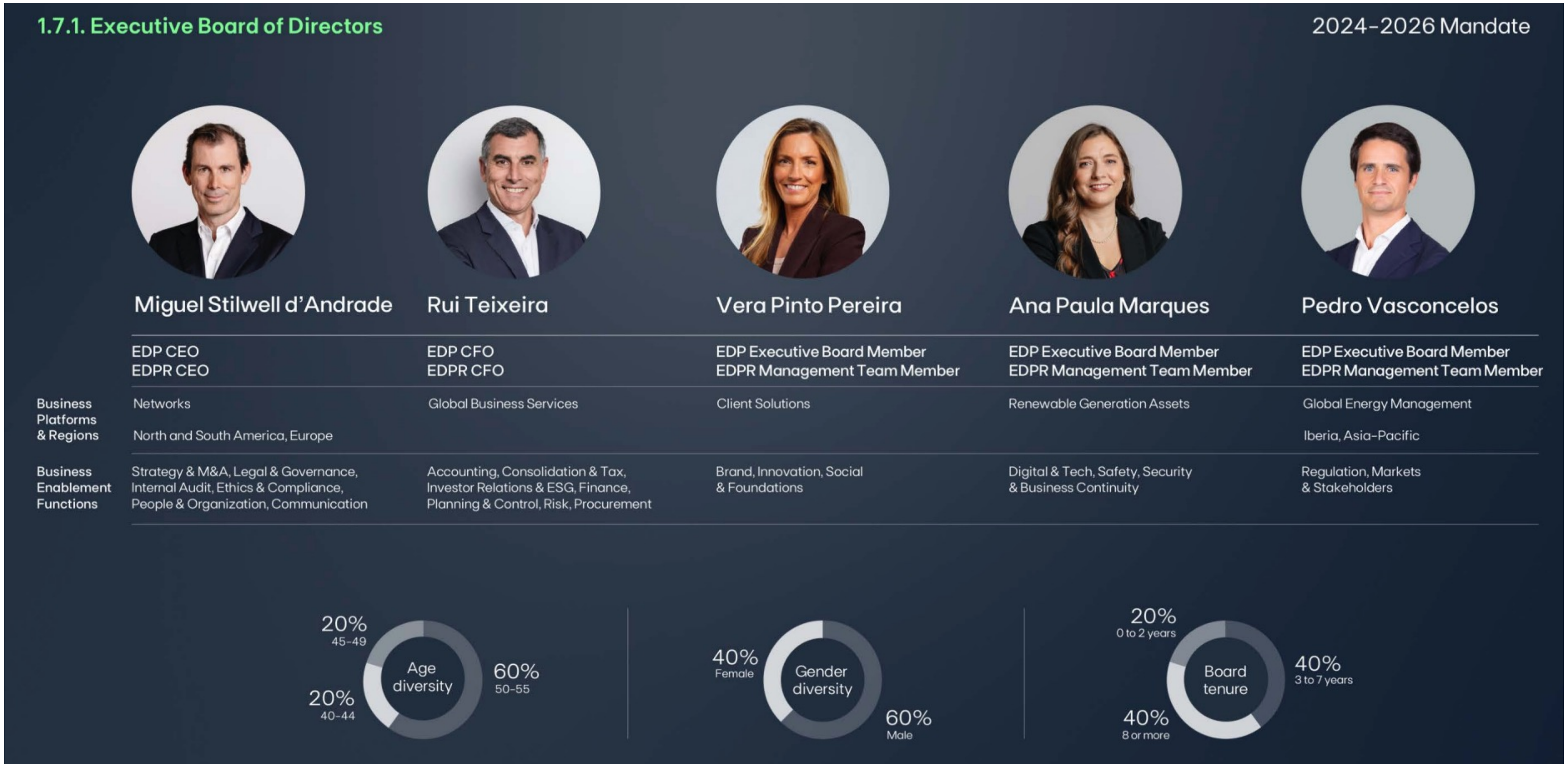
The share capital of EDP, S.A. is 4,184,021,624 euros and is fully paid up, as provided for in article 4 of the Company Statutes, being represented by 4,184,021,624 shares with a nominal value of 1 euro each.




Within EDP's share capital, 82% are institutional investors, 11% are retail investors and 7% are other type of investors. Among the institutional investors, the volume of the Socially Responsible Investors (SRI) represent 52% of EDP's share capital. In terms of geographical breakdown, 50% are located in Europe being the rest located in United States (19%), Canada (12%), Asia Pacific (8%) and Rest of the World (11%).

Source: EDP Annual Report 2024

# Other sections - Board of directors and executive team




Source: EDP Annual Report 2024

# Corporate reporting



- **Mandatory information** to disclose **depends on the country.**

- However, there are **common aspects**/trends:

  - The quality of a company's corporate reporting and the way it transmits information are indicators of a board's **commitment to transparency** and its sense of **accountability to** its **stakeholders and regulatory compliance**.

# Corporate reporting

- Corporate reporting provides firms with the **opportunity to tell** stakeholders **their story**:
  - It should provide information about the **firm's strategy** and its **performance** against said strategy.

- **Good corporate reporting** is **characterized by** one underlying quality: **accountability**.
  - By creating a clearer **strategic narrative** which identifies what is important to them, and why.



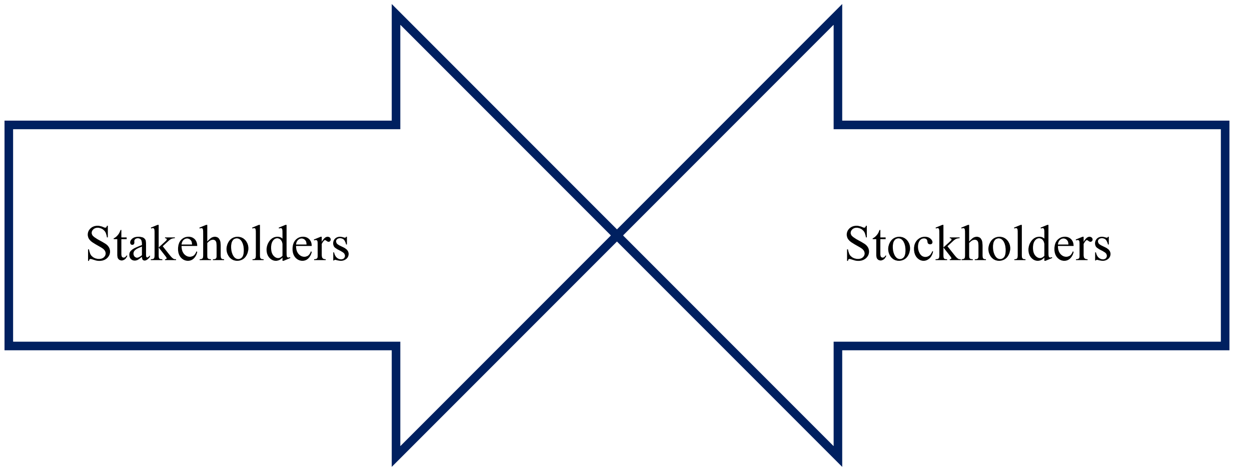
Slides based on https://www.pwc.co.uk/services/audit/corporate-reporting.html

# Reporting dilemma

## Balancing the needs of shareholders and other stakeholders

- On one side, there is pressure from the government, regulators and special interest groups to show **how the company** is engaging with and **considering its stakeholders** in its actions.

- On the other, there are **investors** wanting to know the company's **strategic plans**, future **ambitions** and how it measures success.



# Reporting dilemma



- A corporate report is precise **balance** between **both backward-looking and forward-looking elements:**
  - Significantly, the **content** in the report **tends to be quite backward looking** and fails to discuss plans and a direction of travel for the future.
  - In **uncertain times,** companies may to take a **step back from** the information they **disclose regarding future plans**, due to hesitancy. However, it is in this time of change that investors are demand more information.

# Trends in corporate governance



## 1. New political environment

- **Uncertainty and unpredictability:** Need to adjust to potential major changes in tax policy, immigration, international trade, industrial policy and regulation.

- **Contingency analysis:** Boards should understand how management will assess political developments and how they might affect supply chains, workforce strategy, capital investment, compliance.

- **Risk assessment:** Boards should understand the management's risk assessment process to identify, evaluate and act on the impacts of the evolving regulatory environment.

# Trends in corporate governance

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## 2. AI usage to drive business strategy while managing risks

- **Trade-off between using AI** to remove costs, create value, make customer service more responsive and support business development **and managing the risks** associated with using it, including third-party risks.

- **Governance frameworks:** Boards should have a defined a plan for the firm’s AI strategic adoption and engage with the firm’s management.

# Trends in corporate governance

## 3. ESG evolution

- **Commitment to sustainability:** Despite political backlash, there will be increased investment in green technologies and sustainability business practices which enhance firms' long-term viability and profitability.

- **Balancing core business with sustainability**: Boards should ensure that the firm complies with regulation and moves towards sustainability, without compromising the firm's core business and consumer preferences.

# Trends in corporate governance

NOVA SCHOOL OF BUSINESS & ECONOMICS

## 4. New future of work

- **Remote working at risk?:** Firms and employees are evaluating whether company practices like remote working still make sense and serve firm goals while maintaining employee productivity and well-being.

- **Investment in training:** Firms should invest in employee's upskilling and reskilling to meet new technology demands.

# Trends in corporate governance



## 5. Focus on board composition and effectiveness

- **Adaptability:** Firms need to rapidly respond to political, economic and regulatory developments and fast-changing technology by reshaping business models and strategies.

- **Identifying weaknesses:** Boards should identify gaps in their skills and knowledge and fill them through education or people with diverse backgrounds.

- **Technology for efficiency:** Boards should adopt technology to enhance their efficiency and decision-making processes, including virtual meetings and real-time data analysis.