

SECTOR POLICY



COAL-FUELLED POWER

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|---|---|
| 1. INTRODUCTION | 2 |
| 2. COMMITMENT | 3 |
| 3. RISK ASSESSMENT | 3 |
| 4. SECTOR-SPECIFIC STANDARDS AND CRITERIA | 4 |
| 5. SCOPE | 6 |
| 6. IMPLEMENTATION PROCESS | 6 |
| 7. SCHEDULE – REVISIONS | 6 |

1. INTRODUCTION

Within the framework of its Corporate Social Responsibility policy, Societe Generale (the “Bank”) intends to take into account within its group the environmental and social (E&S) issues associated to all its activities, to better control their impact and promote good practices, with an objective of continuous improvement. The Bank thus defined E&S General Guidelines which set key standards and parameters for a responsible engagement in all its banking and financial activities. In addition to this general framework, Cross-sectorial Policies dealing with E&S issues common to all sectors are developed, as well as Sector Policies where the Bank looks more specifically into certain sectors identified as sensitive and in which it plays an active role. The Coal-Fuelled Power sector has been identified as one such sector.

Societe Generale provides a range of banking and financial services to the Power sector. Coal is still playing a key role in the world economy as one of the most accessible fossil fuel resources for large-scale electricity generation and will continue to be part of the energy mix of many countries in the foreseeable future. Power generation from coal with currently deployed technologies is however the most CO₂ intensive of power sources and significantly contributes to climate change. To be consistent with the objective set by the Paris Agreement of December 2015 of limiting global warming below 2°C, the use of such technologies needs to be significantly reduced in the coming decades.

Societe Generale recognises it has a role to play in the transition to a low-carbon economy and supports governments and private-sector efforts towards diversification of the energy sources and wider use of renewable energy in many of the markets in which it operates. In 2015, the Bank committed to reduce the banking and financial services it provides to the coal sector in consistency with the international objectives. Societe Generale recognises the importance of the E&S risks and impacts associated with these activities. This is why the Bank aims for the highest E&S standards when considering the provision of banking and financial services to the Coal-Fuelled Power industry.

ENERGY E&S SECTOR POLICIES

Societe Generale’s Energy E&S Sector Policies seek to identify E&S issues throughout the whole value chain in which the Bank is active, from retrieval of the energy source; to power and heat production; to transportation, distribution and storage; and end user energy consumption. The Bank will identify and develop additional Policies as necessary in the future to assist it in better addressing E&S issues within this value chain. The Energy E&S Sector Policies of Societe Generale and their current status include:

| | Energy E&S Sector Policies | Status |
|--|---|-----------------|
| Liquid and Gaseous Fuels Production | 1. Oil and Gas Sector Policy | Published |
| | 2. Alternative Liquid and Gaseous Fuels Sector Policy | In development |
| Thermal Energy | 3. Coal-Fuelled Power Sector Policy | This document |
| | 4. Civil Nuclear Power Sector Policy | Published |
| | 5. Thermal Power Sector Policy | Published |
| Renewable Energy | 6. Dams and Hydropower Sector Policy | Published |
| | 7. Renewable Energy Sector Policy | In development |
| Electricity Transmission & Distribution | <i>integrated to</i> 8. Infrastructure Sector Policy | To be developed |

2. COMMITMENT

Societe Generale is committed to incorporating in its decision making processes the review of the E&S impacts potentially associated with the activities of its clients. The Bank will work with clients who meet or aim at meeting its sustainability standards. Societe Generale will take appropriate measures if these standards are not met, or if the client no longer aims at meeting them.

This Sector Policy may evolve in time, according to legislative or regulatory evolutions and as a result of the discussions between the Bank and its various stakeholders.

3. RISK ASSESSMENT

While it is incumbent on the Bank's clients to manage the risks associated with their own operations, it is important to Societe Generale to evaluate the consistency of its engagements with clients against the E&S principles of the Bank.

Contribution to global climate change through emissions of Greenhouse Gases (GHG), which closely derive from the implemented technology, is a key environmental impact of the sector. In addition, there are a number of regional or local E&S risks potentially associated to the development of a coal-fuelled power plant.

When evaluating clients' activity and/or transactions in this sector, particular attention is paid to the following aspects:

- Technology and thermal efficiency of the power plant(s), which has a direct influence on both GHG and other air pollutants level of emissions;
- Applicable regulatory framework regarding GHG emissions in the country or region where the power plant(s) are operated, including existing and reasonably foreseen regulations (emissions trading schemes, carbon capture, offsets, etc.);
- Air emissions with a local or regional impact (SO_x, NO_x, PM₁₀, etc.), in particular when they affect locations where air quality is already poor;
- Impact of coal storage and handling of solid and liquid residuals facilities which, if not managed adequately may lead to significant conversion of land and pollution of air, water and soil;

- Impact of water extraction for cooling or desulphurization operations;
- Responsible sourcing of coal supplies to the extent it is practicable to identify and assess specific coal supply sources;
- Resettlement or economic displacement caused by loss of land or assets;
- Environmental legacy of past operations such as soil contamination in the case of projects involving revamping or repowering, or where projects are being implemented on brown-field sites.

4. SECTOR-SPECIFIC STANDARDS AND CRITERIA

Societe Generale being active worldwide, the E&S laws and regulations its clients have to comply with vary from one country to another or one region to another. At a minimum, Societe Generale requests its clients to comply with the E&S laws and regulations of each relevant country, while encouraging them to apply the Bank's E&S standards.

A number of institutions and business associations of the Energy sector have developed standards and initiatives¹ addressing the E&S impacts resulting from the sector activities. The standards and initiatives of the organisations listed below provide guidance for Societe Generale E&S assessment in the Coal-Fuelled Power sector:

- The UN [Framework Convention on Climate Change \(UNFCCC\)](#), related protocols and agreements, including the Paris Agreement of December 2015.
- The EU [Emissions Trading Scheme \(EU ETS\)](#).
- The EU [2010/75/EC Industrial Emissions Directive \(IED\)](#) and [IPPC Bureau BREF documents covering Large Combustion Plants](#) and [Energy Efficiency](#).
- The [2°C scenario \(2DS\) determined by the International Energy Agency \(IEA\)](#) through its analysis of energy technology perspectives.
- The World Bank Group [Environmental, Health and Safety Guidelines \(EHS\) for Thermal Power Plants](#).
- The [WBCSD Global Water Tool for Power Utilities](#).
- The [Bettercoal](#) initiative.
- The Global CCS Institute [Carbon Capture Storage Ready Policy](#).
- The [World Resource Institute \(WRI\)](#) and [World Business Council for Sustainable Development \(WBCSD\) Greenhouse Gas Protocol](#).
- The [CDP Climate Change Program](#).

Based on the analysis of these initiatives and of best practices of multilaterals and financial institutions, Societe Generale has defined the following E&S criteria which are incorporated into its decision making process when considering provision of banking and financial services in the Coal-Fuelled Power sector:

a. Portfolio management criteria

Societe Generale is committed to limit the coal-fuelled part of its financed energy mix (installed MW) at 19% at the end of 2020, in consistency with the IEA 2°C scenario.

¹ These standards and initiatives may take the form of conventions, directives, standards, recommendations or guidelines...

b. Client criteria

Clients are expected to apply the best E&S practices of the sector and in particular to:

- Develop a corporate strategy for carbon intensity reduction, including quantitative targets, and to publicly disclose the GHG emissions generated by their activities (for instance through participation to the CDP);
- Assess the water risks relative to their operations. Clients are encouraged to use risk assessments tools (such as the WBCSD Global Water Tool for Power Utilities);
- Develop and implement policies aiming at controlling the E&S impacts of their supply chain (relying for instance on the Bettercoal code).
- Societe Generale refrains from entering into a new relationship with a company presenting at least one of the following features:
 - More than 95% of the turnover of the prospect entity is linked to coal sector² activities;
 - More than 50% of the turnover of the group to which the prospect entity belongs is linked to coal sector activities;
 - More than 50% of the turnover of the group to which the prospect entity belongs is linked to power activities and the energy mix of the group is over 50% coal-fuelled (installed capacities in MW).

c. Acquisition transactions criteria

Societe Generale refrains from being involved in transactions and advisory services aiming at the sale or acquisition of coal-fuelled assets if the seller is not an existing client of the Bank and if the transaction presents at least one of the following features:

- After the acquisition, more than 30% of the turnover of the buyer is linked to coal sector activities;
- After the acquisition, more than 50% of the turnover of the buyer is linked to power activities and its energy mix is over 30% coal-fuelled (installed capacities in MW).

d. Dedicated transactions criteria

When conducting an E&S assessment of a transaction³ in this sector, Societe Generale has the following positions and requirements:

- Societe Generale refrains from being involved in dedicated transactions linked to coal-fuelled power production units or associated infrastructures, except when the units comply with one at least of the following conditions:
 - The units are or will be equipped with a Carbon Capture and Storage system operated during the whole operational phase or
 - The units are located outside [High Income OECD countries](#) and produce or will produce combined heat and power (cogeneration) during the whole operational phase⁴.
- Dedicated transactions linked to an existing coal-fuelled power plant which purpose is to bring a new environmental benefit will be evaluated on a case by case basis.

² See definitions in Annex

³ See Implementation Process in Societe Generale E&S General Guidelines

⁴ See definitions in Annex

- For transactions satisfying the above criteria, the production units will in addition respect the following conditions:
 - Compliance with national and international law regarding GHG emissions and consistency with the host country's commitments as part of the Paris Agreement;
 - Compliance with international environmental standards such as the World Bank Group EHS Guidelines for Thermal Power Plants;
 - When CO₂ emissions of the power plant during the operational phase are expected to be more than 100,000 tonnes of CO₂-equivalent annually, the client will conduct:
 - An alternatives analysis to evaluate less GHG intensive options, which will always include an option with operational CCS;
 - On an annual basis during the operational phase, a quantification of GHG emissions in accordance with internationally recognized methodologies and good practice⁵.

e. Equator Principles

Societe Generale applies the [Equator Principles](#) and its underlying standards, to the transactions falling in the scope of this initiative.

Together with the criteria defined in the E&S General Guidelines, the Cross-sectorial Policies and the Thermal Power Sector Policy, these criteria provide the E&S framework used by Societe Generale to consider its involvement in this sector.

5. SCOPE

This Sector Policy applies to all the banking and financial services provided by the Societe Generale Group entities to its clients involved in the Coal-Fuelled Power Sector, through their activities of development, construction, operation and/or decommissioning of coal-fuelled power plants.

6. IMPLEMENTATION PROCESS

As established in the E&S General Guidelines, Societe Generale integrates the assessment of potential E&S risks and impacts into its decision-making processes both at the client assessment level and, where necessary, at the transaction assessment level.

The development of these processes will take into consideration risks materiality and may be adapted to countries.

Societe Generale decisions are based on the information made available to the Bank. Societe Generale puts all its reasonable endeavours to ensure the quality and reliability of this information.

7. SCHEDULE – REVISIONS

This Coal-Fuelled Power Sector Policy is applicable from the date of its publication to all services provided therefrom.

⁵ Such as the GHG Protocol of WRI and WBCSD. In countries where such conditions are regulatory requirements, the analysis and/or reporting will follow the methodology required by the relevant process.

Procedures will be put in place progressively, as necessary, throughout the Bank to ensure full integration of these requirements in the usual decision processes. Review mechanisms will allow for continuous improvement.

Societe Generale reserves the right to modify this Sector Policy at any time. This document cannot be interpreted as a contractual commitment.

Updated versions will be posted on [Societe Generale's website](#), where the E&S General Guidelines and all published Cross-sectorial and Sector Policies are also available.

This Sector Policy has been established in French, versions in other languages are free translations.

ANNEX: Definitions

Coal sector = Activities related to coal extraction and transformation (with the exception of metallurgy) and coal-fuelled power production.

Coal-fuelled power production = Power production using coal as fuel, including coal-fired power, biomass co-firing (except total conversion to biomass projects) or gasification.

Operational CCS = Carbon Capture and Storage system where all three components (capture, transport and storage) are being operated.

Combined Heat and Power or Cogeneration power production unit = coal-fuelled unit producing both power and heat (for industrial or domestic use), which thermal efficiency, on an annual average, is higher than the combined thermal efficiency of a gas-fired power production unit (in line with the requirements of Societe Generale thermal power sector policy) and of a gas-fired boiler (state of the art for new equipment in the host country) producing the same annual amounts of power and heat.