

# Thermal Coal sector policy

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# 1. INTRODUCTION

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In the frame of its Corporate Social Responsibility policy, and as a signatory of the Principles for Responsible Banking, Societe Generale and its subsidiaries (the Group) intends to take into account the environmental, social (E&S) and governance issues associated with all its activities, to better control their impact and promote good practices, with an objective of continuous improvement.

The Group published E&S general principles which define the overall framework of its E&S Risk Management system for the responsible conduct of its banking and financial activities. Within this framework, transversal statements addressing issues common to all sectors have been developed, as well as sector policies where the Group looks more specifically into certain sectors identified as sensitive from an E&S standpoint and in which it plays an active role.

The Thermal Coal sector has been identified as one such sector.

The Group provides a range of banking and financial products and services to the Energy sector value chain. The Group's Energy sector policies seek to identify and manage E&S issues throughout the whole value chain in which the Group is active, from the extraction of energy resources, to transportation, distribution and storage, power and heat production and end user energy consumption. If necessary, the Group will identify and develop additional sector policies in the future to better address E&S issues within this value chain.

Energy is at the core of the economy and a priority sector for the achievement of the Paris Agreement objectives. Power generation from coal is the most CO<sub>2</sub> intensive of power sources and significantly contributes to climate change. To be consistent with the objective of limiting global warming below 2°C, as set by the parties to the Paris Agreement in December 2015, reliance on coal-fueled power needs to be significantly reduced worldwide in the coming decades. The Group recognizes it has a role to play in the transition to a low-carbon economy and supports governments and private sector efforts towards diversification of energy sources and wider use of renewable energy in markets in which it operates. Therefore, the Group has committed to reduce the banking and financial services it provides to the Thermal Coal sector in consistency with the Paris Agreement and with its own climate commitments as a member of the [Net Zero Banking Alliance](#).

# 2. SCOPE

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## 2.1. Geographical scope

The Thermal Coal sector policy is applicable worldwide.

## 2.2. Scope of the Group's activities

This sector policy applies to all consolidated companies over which the Group exercises exclusive control.

It applies to the following products and services:

- Banking and financial products and services: credit, debt and equity markets, guarantees and advisory activities.
- Services provided by the Group's entities managing proprietary assets and third-party assets, with the exception of index-linked products. External asset managers are monitored and encouraged to implement similar standards.
- Investment activities of the Group's insurance entities.

## 2.3. Scope of sector activities

This sector policy covers the following activities and the Companies<sup>1</sup> commercially involved<sup>2</sup> in them:

- Thermal Coal<sup>3</sup> mining, storage, transport, trade, transformation
- Coal-fueled power production<sup>4</sup>, transport, trade or distribution.

## 3. THERMAL COAL SECTOR ESG RISKS

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A non-exhaustive list of potential E&S and governance risks considered by Societe Generale in its risk management framework is provided in the E&S general principles.

Contribution to global climate change through the emissions of Greenhouse Gases (GHG) in the value chain is a key environmental impact of the Thermal Coal sector. In addition, there are other regional or local E&S risks also potentially associated with this sector. They are tackled in the Mining sector policy and in the Thermal Power sector policy.

In addition, governance risks are managed as part of the Know Your Customer (KYC) and other Compliance processes to guarantee alignment of the Group with applicable laws and regulations, including exclusions based on international sanctions.

## 4. SECTOR SPECIFIC E&S STANDARDS AND INITIATIVES

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The Group 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. The Group requests its clients to comply with the laws and regulations of each relevant country or region while encouraging them to apply or use as references the following E&S standards and initiatives.

A number of institutions have developed standards and initiatives addressing the E&S impacts resulting from activities in the Thermal Coal sector. The standards and initiatives of the organisations listed below provide guidance for Societe Generale E&S assessment framework in the Thermal Coal sector.

- The UN [Framework Convention on Climate Change \(UNFCCC\)](#), related protocols and agreements, including the Paris Agreement adopted in December 2015.
- The [climate scenarios](#) determined by the International Energy Agency (IEA) through its [Energy Technology Perspectives](#) report and published in its annual [World Energy Outlook](#).
- The [CDP Climate Change Program](#).

New regulations and voluntary standards will be developed in the future. The Group will closely follow these developments, use them as references in implementing its Thermal Coal sector policy and update it if necessary.

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<sup>1</sup> See Glossary

<sup>2</sup> See Glossary

<sup>3</sup> See Glossary

<sup>4</sup> See Glossary

## 5. COMMITMENT AND IMPLEMENTATION PROCESS

### 5.1. Long term commitment

For its financing, asset management and investment portfolios, the Group is committed to progressively reducing to zero its exposure to the Thermal Coal sector at the latest in 2030 for Companies with mining or power production thermal coal assets located in the EU or OECD countries and 2040 for Companies holding such assets elsewhere.

### 5.2. Implementation process

To implement the above long-term commitment, the Group has defined E&S criteria which are incorporated into its decision-making process when considering provision of banking and financial services in the Thermal Coal sector.

The E&S general principles set out the main features and implementation processes of the Group's E&S risk management system. The Group's decisions are based on public information or information made available by the client. The Group shall make its reasonable endeavors to ensure the quality and reliability of this information but accepts no liability whatsoever in connection with any such information.

The **E&S exclusion criteria** are intended to exclude certain types of corporates, dedicated transactions or services or financial products from the Group's activities.

The **E&S priority evaluation criteria** are criteria for which a specific and systematic answer is requested as part of the evaluation process. For client's evaluation, if the criteria are not fulfilled, a positive evolution from the company current practices is expected in a reasonable timeframe and can be formalized through action plans or contract clauses. For dedicated transactions on projects, alignment with the criteria is expected as part of the project development; for dedicated advisory services ahead of a project's development, the client's commitment to develop the project according to these criteria is evaluated.

The results of the evaluation in regard to the different criteria will provide evidence for decision-making process to the Group. The Group will work with clients within the implementation scope of the policy who meet or aim at meeting the applicable E&S criteria.

During the E&S review of the Thermal Coal sector clients, if a client is found to be failing a criterion of the Policy, a dialogue will be engaged aiming at finding ways to improve the situation through a time bound process.

In case of disagreement between the Group's first and second lines of defense and/or lasting discrepancy between a client policy and the Group's policy, the issue will be examined by the Group Responsible Commitment Committee<sup>5</sup>. The Group will take appropriate measures if its E&S criteria are not met, or if the client does not aim at meeting them.

The Group may refuse to provide financial or banking services to certain corporates or refuse to be involved in certain transactions as a result of this evaluation, even if the exclusion criteria defined in this sector policy are not applicable. The Group may also require additional actions or engage in an additional due diligence process before concluding on the acceptability of a client or a transaction.

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<sup>5</sup> See Glossary

## 6. APPLICATION CRITERIA

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### 6.1. Clients criteria

The Group will be restricting its support to Companies involved in the Thermal Coal sector in two steps. This approach allows time for in depth discussions with existing clients of the sector to assist in their transition, while acknowledging the need to disengage from the Thermal Coal mining sector at a quicker pace.

All client Companies are also expected to be aligned with Societe Generale Mining sector policy and/or Thermal Power sector policy, depending on their activities.

#### Exclusion criteria

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**From the publication date of this policy**, the Group will not provide new financial products or services to the following Companies:

- prospects which:
  - are Thermal Coal Developing Companies<sup>6</sup>; or
  - have more than 25% of their revenue linked to the Thermal Coal sector<sup>7</sup>; or
  - have not communicated a transition plan aligned with the 2030/2040 thermal coal phase-out objectives of Societe Generale.
- existing clients which have more than 25% of their revenue linked to the Thermal Coal sector and have not communicated a time-bound transition plan to exit<sup>8</sup>.

The Group will also not provide new financial products and services to Corporate Entities (prospects or existing clients) of the Thermal Coal Mining sector<sup>9</sup> which:

- are developing or planning to develop thermal coal mining capacity; or
- belong to groups which have more than 20% of their revenue linked to the Thermal Coal Mining sector or produce more than 10 million tonnes of thermal coal per year; or
- have not communicated a transition plan aligned with the 2030/2040 thermal coal phase-out objectives of Societe Generale.

**In addition, from the end of 2021 at the latest**, the Group will not provide new financial products and services to any Company with thermal coal mining or power assets which:

- is a Thermal Coal Developing Company; or
- has not communicated a transition plan aligned with the 2030/2040 thermal coal phase-out objectives of Societe Generale.

By the end of 2021, the Group will review its entire portfolio and have a dialogue with all client Companies with mining or power production thermal coal assets about their transition plans and coal phase-out timeline.

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<sup>6</sup> See Glossary

<sup>7</sup> See Glossary

<sup>8</sup> Or which have more than 50% of their revenue linked to the Thermal Coal sector, regardless of their transition plan

<sup>9</sup> See Glossary

### Energy transition exception

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As the Group is committed to assisting corporates in their energy transition, Companies which do not meet the above criteria will however be offered financing products and services dedicated to the energy transition<sup>10</sup>. Coal Developing Companies won't be able to benefit from such services from the date of publication of this policy for prospects and from end 2021 for existing clients.

## 6.2. Acquisition transactions, products and services criteria

### Exclusion criteria

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The Group will not provide financial products or services aiming at the sale or acquisition of:

- assets in the Thermal Coal sector; or
- Thermal Coal Developing Companies; or
- Companies with more than 25% of their revenue linked to the Thermal Coal sector.

## 6.3. Dedicated transactions, products and services criteria

### Exclusion criteria

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The Group will not provide dedicated financial transactions, products and services when the underlying activities are:

- Thermal coal mining, transport or transformation; or
- Coal-fueled power production units and associated infrastructures, including transport and distribution infrastructures directly linked to Coal-fueled power plants; or
- Thermal coal trading.

## 6.4. Asset management and investment criteria

### Exclusion criteria

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The Group's entities managing assets for their own account or on behalf of third-parties will exclude from their universe of investment the Companies:

- which have more than 10% of their revenue linked to thermal coal mining.
- which are in the energy sector and have more than 30% of their power production generated from thermal coal.
- which are Thermal Coal Developing Companies.

Divestment will occur over a reasonable period of time.

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<sup>10</sup> See Glossary

### Priority criteria

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In addition, the Group's entities managing assets for their own account or on behalf of third-parties will ask Companies of the sector to communicate a transition plan aligned with the 2030/2040 thermal coal phase-out objectives of Societe Generale.

Regarding dedicated funds and bespoke mandated asset management, the criteria are applied unless the client explicitly refuses. Regarding delegated fund management, an engagement for application of the criteria will be conducted with the delegatee on a best effort basis. Index-linked asset management are not within the scope of application.

These criteria are applied by the LYXOR Group entities. They are also applied by Societe Generale insurance entities as part of their investment policy.

## 7. DISCLOSURE AND UPDATES

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This sector policy is applicable from the date of its publication to all services provided therefrom, with exceptions for pre-existing business commitments or opportunities at an advanced stage of negotiation.

This sector policy may evolve in time, in accordance with legislative or regulatory evolutions and as a result of the discussions between the Group and its various stakeholders. Therefore, the Group reserves the right to modify this sector policy at any time. Updated versions will be posted on the Group's website, where the E&S general principles and the E&S transversal statements and other sector policies are also available.

This document cannot be interpreted as a contractual commitment.

This sector policy has been established in French and in English. The English version is a free translation.



## 8. GLOSSARY

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**Commercially involved in the Thermal Coal sector:** Either deriving a revenue from the Thermal Coal Sector or planning to do so.

**Company:** In determining indicators of thermal coal related business, Societe Generale will consider the counterparty (either at group or corporate entity level) with which business is conducted or envisaged.

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

**Corporate entity of the Thermal Coal Mining sector:** corporate entity directly operating or owning thermal coal mining assets.

**Group Responsible Commitment Committee:** Societe Generale Group committee which examines and arbitrates complex transaction/customer cases with a high risk in terms of the Group's reputation or non-alignment with its standards in terms of Corporate Social Responsibility, culture and conduct or ethics.

**Revenue linked to the Thermal Coal sector:** For Companies of the power value chain, thermal coal revenue is primarily evaluated based on the revenue derived from coal-fueled power production.

**Products and services dedicated to the energy transition:** Dedicated products and services with a traceable objective linked to the energy transition. Clients will be systematically encouraged to disclose public information about the underlying assets in due course.

**Thermal coal** (also known as steam coal): coal grades used for power and heat generation, which generally includes peat, lignite and sub-bituminous ranges of coal. **Metallurgical coal / coking coal** is used in metallurgical process such as in smelting of iron to make steel.

**Thermal Coal Developing Companies:** Companies of the Thermal Coal sector developing, or planning to develop, new thermal coal mines, new coal-fueled power capacities strictly above 300 MW or new transportation projects dedicated to thermal coal. Majority owners of the asset are considered. Companies purchasing thermal coal assets will be considered as Thermal Coal Developing Companies if they do not commit to cease operating these assets within a reasonable period.