SECTOR POLICY

THERMAL COAL

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1. INTRODUCTION

Within the framework of its Corporate Social Responsibility policy, Societe Generale (the “Group”) intends to take into account within its group the environmental and social (E&S) issues associated with all its activities, to better control their impact and promote good practices, with an objective of continuous improvement. The Group 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 Group looks more specifically into certain sectors identified as sensitive and in which it plays an active role. The Thermal Coal sector has been identified as one such sector.

Power generation from coal is the most CO₂ intensive of power sources and significantly contributes to climate change. To be consistent with the objective set by the parties to the Paris Agreement in December 2015 of limiting global warming below 2°C, reliance on coal-fuelled power 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 the 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.

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 Group is active, from retrieval of the energy source; to power and heat production; to transportation, distribution and storage; and end user energy consumption. The Group 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:

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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 Group 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 Group and its various stakeholders.
3. SCOPE

This Sector Policy applies to all the banking and financial services provided by the Société Générale Group entities.

Companies involved in the Thermal Coal Sector are defined as companies with activities related to thermal coal extraction, transport, trade, transformation and/or coal-fuelled power production, transport, trade or distribution.

4. RISK ASSESSMENT

While it is incumbent on the Group’s clients to manage the risks associated with their own operations, it is important to Société Générale to evaluate the consistency of its engagements with clients against the E&S principles of the Group.

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

5. SECTOR-SPECIFIC STANDARDS AND CRITERIA

Société Générale 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, Société Générale requests its clients to comply with the E&S laws and regulations of each relevant country, while encouraging them to apply the Group’s E&S standards.

A number of institutions have developed standards and initiatives addressing the E&S impacts resulting from the sector activities. The standards and initiatives of the organisations listed below provide guidance for Société Générale 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 of December 2015.
- The climate scenarios determined by the International Energy Agency (IEA) through its analysis of energy technology perspectives and published in its annual World Energy Outlook.
- The CDP Climate Change Program.

Based on the analysis of these initiatives and of best practices of multilaterals and financial institutions, Société Générale 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 Thermal coal sector:

a. Portfolio management criteria

For the financing portfolio, Société Générale committed in 2016 to:

- reducing by 14% its exposure to coal (both metallurgical and thermal) extraction activities at the end of 2020, from a starting point determined at the end of 2015, in consistency with the 2015 IEA 2°C scenario.
- limiting the coal-fuelled part of its financed energy mix for power production (installed MW) at 19% at the end of 2020, in consistency with the 2015 IEA 2°C scenario.

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1 See Glossary
2 These standards and initiatives may take the form of conventions, directives, standards, recommendations or guidelines…
In addition, the Group is committed to progressively reduce to zero its exposure to the thermal coal sector, at the latest in 2030 for companies with thermal coal assets located in EU or OECD countries and 2040 elsewhere.

b. Client criteria
Societe Generale distinguishes three types of companies³.

• “Coal companies” are companies which either:
  o have more than 50% of their revenue linked to the thermal coal sector⁴;
  o have more than 50% of their revenue linked to the power sector and have more than 50% of their power capacity fuelled by coal.

• “In transition companies” are companies which either:
  o have between 30% and 50% of their revenue linked to the thermal coal sector;
  o have more than 50% of their revenue linked to the power sector and between 30% and 50% of their power capacity fueled by coal.

• Companies which fit none of these criteria are called “Diversified companies”.

Societe Generale refrains from providing new financial products and services to:

- all “Coal companies”
- the “In transition companies” which either:
  o have plans to expand their thermal coal sector extraction or coal-fuelled power infrastructure or
  o do not have an explicit corporate strategy consistent with becoming a diversified company by 2025.

“Diversified” client companies are also expected to be aligned with Societe Generale Mining sector policy and/or Thermal power sector policy, depending on their activities.

c. Acquisition transactions criteria
Societe Generale refrains from being involved in transactions and advisory services aiming at the sale or acquisition of assets in the thermal coal sector or companies which revenue is more than 30% linked to the thermal coal sector.

d. Dedicated transactions criteria
Societe Generale refrains from being involved in dedicated transactions and services linked to:

- thermal coal extraction, transport or transformation;
- coal-fuelled power production units and associated infrastructures;
- thermal coal trading.

³ See Glossary
⁴ See Glossary
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 Group. Societe Generale puts all its reasonable endeavours to ensure the quality and reliability of this information.

7. SCHEDULE – REVISIONS

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

Procedures will be put in place progressively, as necessary, throughout the Group 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: Glossary

**Company**: Group or subsidiary. In determining indicators of thermal coal related business, Societe Generale will consider the corporate entity with which business is conducted or envisaged, when this corporate entity has thermal coal sector operations. Holding or non-operational corporate entities will be considered as representative of all relevant operational subsidiaries.

**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.

**Power sector**: Activities linked to power production, transport, trade or distribution of power.

**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 sector**: Activities related to thermal coal extraction, transport, trade, transformation and/or coal-fuelled power production, transport, trade or distribution.