CSR sector policy applicable to the coal industry:
Coal-fired power plants and Thermal coal mines

1. Context and Rationale

The energy supply sector is the largest contributor to anthropogenic greenhouse gas (GHG) emissions responsible for global warming[1].

Despite reduction targets set by the Kyoto Protocol, the energy sector GHG emissions grew more rapidly between 2000 and 2010 than during previous decades, with emissions average annual growth accelerating from 1.7% over the 1990-2000 period to 3.1% over the following decade[2]. The main contributors to this trend were both the sharp rise in global energy demand, driven up by a combination of population growth and economic development, particularly in Asia, and the increased share of coal in the global energy mix.

Coal is the most carbon-intensive fuel. Although coal-fired power plants account for just 41% of world energy production, they are responsible for more than 70% of the energy sector GHG emissions[3].

Restricting global warming therefore requires a gradual shift in the energy mix, away from fossil fuels and towards less carbon-intensive energy generation sources. Despite technological progress already made, a reduction of thermal coal in the mix is now seen as a vital condition for this transformation.

The abundant supply of inexpensive coal resources is holding back this shift, which public policy on climate change endeavors to drive, in particular through the framework for climate action agreed at COP21[4]. National GHG reduction pledges then made by 196 countries are set to limit global warming to less than 2°C compared to pre-industrial levels.

For the first time since 1990, global coal demand growth stalled in 2014 as a result of both structural reforms and the economic slowdown in China, where half of world coal is used.
Yet despite Chinese efforts to diversify its energy sources, along with the coal use decline in OECD countries and more restrictive energy policies adopted by various governments, global coal demand should still continue to rise by 0.8%[5] per year out to 2020 as demand from India and the rest of Southeast Asia is expected to triple by 2040. However, because power demand will grow even faster, the share of coal in total energy production is expected to drop from 41% currently to 37% in 2020, and then 30% in 2040[6].

The growing awareness of climate change issues amongst most energy sector players has led to a shift in investment towards renewable energies, the decommissioning of the least efficient thermal power plants, and the gradual shift in producers' fuel mix. By 2040, renewable energy is therefore expected to account for 50% of the overall energy mix in the European Union, 30% in China and Japan, and more than 25% in the USA and India.

Acknowledging the importance of climate change issues and the active role financial institutions should be playing in addressing the global energy transition, Natixis has been supporting the

[1] In 2010, the energy generation sector was responsible for 35% of greenhouse gas emissions worldwide (Source: Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (AR5))
[2] Source: IPCC AR5
[3] 2010 data (Source: World Bank)
[4] 21st annual meeting of the Conference of Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC), which took place in Paris in December 2015
[5] Source: International Energy Agency (IEA), Coal medium-term market report 2015
[6] Source: International Energy Agency (IEA), World Energy Outlook 2015.

move towards a low-carbon economy for over 20 years by financing the development of renewable energies.

Renewable energies currently account for more than 60% of Natixis' total exposure to project financing of the power sector.

In order to bring its commitment in favor of climate change mitigation and the environment preservation a step further, Natixis has taken the following commitments, worldwide:

- no longer finance coal-fired power plants or thermal coal mines
- no longer accept new advisory or arrangement mandates linked to financing of this type
- no longer provide general purpose corporate financing to companies whose business is over 50%-reliant on operating coal-fired power plants and/or thermal coal mines.

2. Objective

The current policy (the "Policy") aims at ending the financing of coal-fired power plants and thermal coal mines (each one referred to as a "Project"), and thereby contributes to reducing the share of this type of fossil fuel energy in the global energy mix.

3. Scope of application of the Policy

3. 1. By transaction type

The Policy applies to the following activities:

Bank financing

- Dedicated financing – in the form of either *project finance* or *corporate finance* – in order to (i) finance or refinance a new Project (defined as *greenfield*) to be built or under construction, or (ii) finance or refinance investment to expand, revamp or transform an existing Project in operation (defined as *brownfield*), or (iii) to finance or refinance the acquisition of one or several Project(s) or of an entity holding one or several project(s) that are in operation.

- Some *corporate financing*, when facilities are to be used for general purpose.

- Financing the sale or trading of thermal coal.

For the purpose of this Policy, the term financing also covers all types of related banking or capital market products and services, including guarantees, letters of credit, swaps, and other associated facilities.

Advisory

Financial advisory and M&A.

Capital Markets

- Bond or equity issues

- Trading and sale of coal-related financial derivatives

- The origination of capital market transactions on listed stocks

Third-party Asset management

- Third-party Asset management activities of Natixis Asset Management (Natixis AM)[7]

Insurance

- Investments done by Natixis Assurances

3. 2 By geography

The Policy applies worldwide, with no distinction made between the various countries and their classification.

4. Implementation criteria

For transactions within the scope of application outlined in section 3 above, the following conditions apply when considering a credit or an investment for any new transaction:

4.1 Natixis does not participate in any dedicated facility to finance one or several *greenfield* or *brownfield* Project(s).

4.2 Natixis does not participate in any general purpose financing in favor of a borrower[8] whose activity[9] is relying by 50% or more on the thermal coal sector (based on the latest published financial statements).

4.3 Natixis does not participate in any acquisition financing of:

- One or several thermal coal mine(s), or a company that owns one or several thermal coal mine(s);
- One or several power plants if they are in majority coal-fired.

4.4 Regarding financing of the power generation sector's external growth, Natixis intends to continue playing an active role and to support the sector's future mutations (including ownership changes).

Natixis therefore does not rule out participating in financing the acquisition of portfolios or companies that hold one or several operating power plants, subject to the following conditions being met:

- The acquisition of a portfolio of operating power plants subject to:
  (i) coal-fired generation accounts for a minority share of the acquired portfolio's total generation, and

[7] Asset management affiliate of NGAM (Natixis Global Asset Management)
[8] If the borrower belongs to a group (i.e. holding or subsidiary), the share of revenues derived from thermal coal is calculated for both the borrowing entity and the group it belongs to. General purpose corporate financing of the borrower is excluded if and when one of the two ratios stands at 50% or more.
[9] Depending on data availability, power generation may be measured using either energy generation revenues or energy generation volumes (GWh); mining activity is measured using revenues.

(ii) the acquiring company’s energy generation business is less than 50%-reliant on operating coal-fired power plants (based on the latest published financial statements), and

(iii) the acquiring company demonstrates that it has implemented a coherent strategy to decarbonise and diversify its energy mix (including by expanding its renewable energy generation capacity), and

(iv) technical, environmental and social due diligences demonstrate the satisfactory performance level of the assets to be acquired in compliance with applicable regulations and sector standards, and

(v) the acquiring company’s track record reveals high-quality environmental, social and safety governance and is not subject to recurring external complaints.

- The acquisition of a company subject to coal-fired generation accounting for a minority share of its total generation (based on the latest published financial statements), and if the conditions outlined above in sections (ii), (iii), and (v) are met.

4.5 Natixis can carry out financial advisory mandates provided that the conditions outlined above in sections 4.1 to 4.4 are met.

4.6 Natixis can execute sell-side or buy-side M&A advisory mandates regarding the acquisition or sale of a company whose business is less than 50%-reliant on thermal coal.

4.7 Natixis does not participate in:

i. bond or equity primary issues,

ii. the origination of capital market transactions on shares of a listed company (apart from any index-linked transaction) when Natixis is responsible for discretionary asset management,

if the issuing company’s energy generation and/or mining business is relying by 50% or more on the thermal coal sector (based on the latest published financial statements).

Conversely, when it is not responsible for discretionary asset management, Natixis shall communicate the Policy to its client but shall not be bound by exclusions mentioned above in section 4.7 ii for any capital market transaction to be executed as per instructions received from the client.

4.8 For assets it manages, Natixis Asset Management excludes companies mentioned in section 4.7 above from all open-ended funds directly managed.

For dedicated funds and mandated asset management, Natixis Asset Management shall consult its clients on whether they wish to apply or not such exclusion Policy, and shall factor their decision into future fund management on their behalf (and where necessary, in the case of delegated fund management, shall inform the delegatee). Index-linked asset management is excluded from the scope of application of the Policy.

4.9 As part of its investment policy, Natixis Assurances (the Insurance division of Natixis) applies the same criteria as mentioned in section 4.7 above.

The present Policy applies to assets held directly by Natixis Assurances as well as to open or dedicated funds managed by Natixis Asset Management on behalf of Natixis Assurances.

4.10 Natixis excludes financing the sale or trading of thermal coal, as well as trading or selling coal-related financial derivatives.

5. Specific situation of coal mines using the mountain-top-removal (MTR) technique

The Policy covers dedicated financing of coal mines using the mountain-top-removal technique, as well as any general purpose corporate financing or any investment in companies whose business is relying by 25% or more on operating coal mines using such technique (for the group it belongs to and based on the latest published financial statements).

Therefore, any reference to a 50% of revenues threshold mentioned in the Policy is replaced by a 25% threshold of revenues in this specific case.

6. Implementation and decision-making process

In order to ensure full compliance with the Policy, each foreseen transaction in the coal sector will be subject to particular scrutiny from all parties involved within Natixis at all stages of the transaction, from origination, analysis and structuring, sales, through to final approval by the various credit or investment committees.

In the event of uncertainty as to whether a transaction complies with the Policy, an additional analysis may be carried out in order to evaluate the level, permanency and maturity of the client's strategy to decarbonise its activity in order to comply with the Policy. If such actions (including scheduled investment decisions) are deemed credible and can be expected to comply with the Policy in the foreseeable future, the transaction may be presented to Natixis' highest level credit committee, chaired by Natixis CEO (or his designated representative) in order to reach the bank's final position.

7. Date of implementation of the Policy

The Policy applies to any new transaction as of the date the Policy is published.

The Policy has been drafted under the current state of technologies.

The Policy may, when necessary, be subject to amendments should situations not foreseen by the Policy arise.