

4 Placing CSR at the heart of our businesses

4.1.2 Social and environmental criteria



In March 2007, the SERA approach (Socially and Environmentally Responsible Approach) resulted in the establishment of a new team to deal specifically with environmental and social issues and situated in a division horizontal to the business lines of the Capital Markets and Finance Division (CAFI). The "Projethic" procedure, which has been operational since July 2007, was formalized to ensure particular care is taken in the environmental and social evaluation of transactions directly linked to actual projects.

✓ In the case of project financing transactions, the procedure enables the implementation of the Equator Principles that the Group adopted in September 2007. An interactive intranet site dedicated to environmental and social issues has been developed to improve the dissemination of information and share the responses to staff questions.

At the same time, around 150 front-officers and support functions from the different business lines have been made aware of and received training in the environmental and social issues linked to financing activities with the assistance of the specialist firm Sustainable Finance. An online training system is expected to be introduced in 2008 to supplement the initial training programs and will enable both a wider and "à la carte" distribution of training programs.

There are three stages in managing files:

- **categorization**, the first stage in the environmental and social study for a project, based on an estimate of the associated risks (the project itself and the client's ability to deal with any problems). There are three categories of risk in accordance with the Equator Principles: the categories A (highest risk), B (medium risk) and C (limited risk) determine the environmental and social risk of the project itself. Each of the categories is then divided into "1, 2, and 3" corresponding to the client's environmental and social rating: this is based on the client's commitment to environmental and social issues and ability to react effectively in the event of a problem ("1" corresponds to the highest risk). Front officers have access to specific, comprehensive procedures enabling them to rapidly and effectively integrate environmental and social aspects in their project analysis (via the Projethic tool and procedure), based on information provided by the sponsors, the project's promoter. The categorization of projects prior to any analysis is submitted to the environment team for approval.

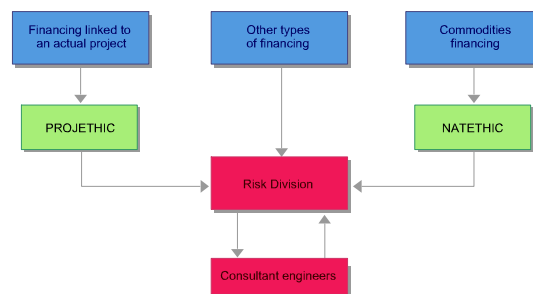
- **an environmental and social impact study** is also carried out by a firm commissioned by the sponsor and is reviewed, if necessary, by independent experts: the study is essential for a detailed, exhaustive understanding of the environmental and social issues raised by a project.

An **action plan** needs to be drawn up in response to this study setting out the initiatives taken and actions to be carried out in order to limit the project's anticipated impact on the environment and the local population.

- **approval circuit** : project financing files exhibiting a potential environmental and social impact follow a specific approval circuit: all categorized projects, whatever the category, are sent to the environmental team for approval. The projects are then subject to a detailed environmental and social analysis by this team (except for projects in category C (low risk) and category B located

in high income OECD countries for which compliance with local regulations is deemed to be sufficient). If the project is deemed to comply with international standards, it is then referred to the Risk Division which conducts its own control of the environmental and social analysis by a dedicated consultancy engineer.

Simplified approval circuit chart for environmental aspects



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THE EXAMPLE OF COMMODITIES FINANCING



In terms of its commodities financing projects, the Commodities business line's evaluation now concerns not only emerging country producer counterparties, but also its intermediaries portfolio (trading activities). The analysis covers environmental and social aspects.

The rolling out of the "NATETHIC" environmental and social evaluation process, which started in 2006, continued in 2007 in all the departments of the Natural Resources and Energy Financing business line:

151 sales staff around the world are now trained in the use of this process and more than 97 clients were analyzed in 2007.

The audit conducted by Ernst & Young helped identify areas for improvement in terms of both processes and ratings. This will form part of the projects to be carried out in 2008.

At the same time, the Projethic tool was rolled out in the project financing business line.

EXPERT ENVIRONMENTAL ANALYSIS



An environmental analysis can be carried out at different levels depending on the scale of the loan file and scope of the risk incurred:

- the sales teams have a number of tools at their disposal (online) which they can use to diagnose certain social and environmental risks when analyzing a loan (including Natethic);
- the largest projects, which are generally syndicated, are subject to an environmental evaluation by external firms;
- operational departments dealing with major financing projects can call on the assistance of experts (team dedicated to environmental and social issues);
- a team of experts from the Risk Division (consultant engineers) is also on-hand to assist operating staff.

Risk Division Consultant Engineers

Claude Pouilloux manages a unit of thirteen consultant engineers whose role is to assess the economic and industrial viability of the projects or companies it is asked to evaluate.

These assessments cover all economic sectors apart from the finance industry, namely: food, textiles, transport, construction, energy, waste, defense, etc. with one consultant engineer specifically devoted to sustainable development who handles all environment-related issues across each of the various sectors.

How many files do you review in a given year? And how are they chosen?

We looked at a total of 540 files in 2007 (360 in 2006), almost half of which originated from the Group's Business Financing arm. It is the business lines, credit analysts and network agents that ask us to intervene. That said, certain business lines like the Leveraged Finance Department systematically send us their dossiers.

Do you always provide an opinion on the social or environmental impact of the files you are sent? And what criteria do you use in their evaluation?

- When we provide an opinion on a given project or company, we systematically assess the social and environmental risks at hand. For the French network, we do so via a pre-defined questionnaire that is improved each year and helps us in our diagnosis. Our consultant engineer who is specialized in a given economic sector then draws upon his experience within the industry and his knowledge of the applicable legislation in assessing the contents of a file. It is not mandatory for Projethic procedure files to be referred to us.

What bearing do you have on the final decision?

- Our role is two-fold: first, we can draw the attention of the operating staff concerned to certain information (regulatory changes, such as the implementation of REACH¹) and we participate in discussions on sector-based commitment policies.

1 (European Directive) Registration, Evaluation and Authorization of Chemicals

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ADOPTION BY THE GROUP OF THE EQUATOR PRINCIPLES



The highlight of 2007 was Société Générale's membership of the Equator Principles. Announced on September 3, this represents the concrete expression of its desire to incorporate measures in the major projects its finances aimed at preserving the environment and ensuring proper social conditions not only for the inhabitants of the sites concerned but also for the people subsequently employed in the construction and operation of the projects. Société Générale is ranked No. 3 in the world in project financing consulting and No.6 for the total amount of loans granted for project financing².

Membership of the Equator Principles has necessitated the implementation of a team of specialists dedicated to environmental and social aspects within the Capital Markets and Finance entity. Major projects have been carried out involving, in particular, the implementation of procedures (PROJETHIC) to ensure sales teams are made immediately aware of the environmental and social issues relating to the projects on which they are working around the world and to inform the team responsible for evaluating the impact as far upstream as possible of any involvement by the Bank in a project.

Some project financing, albeit very limited, is carried out by the division Banking Outside Mainland France, which has also developed a procedure aligned on the Equator Principles. Société Générale has decided not to confine itself strictly to project financing but to extend this environmental and social vigilance to all financing directly linked to an actual project (e.g. export financing).

INTERVIEW WITH THE MANAGING DIRECTOR OF THE MINING SECTOR

Managing Director in the project financing department – mining sector



1/ Do you feel that your teams have fully taken on board the Equator Principles and the resulting Projethic procedure? Have the teams adhered to this approach and do they feel that it is useful?

Yes, absolutely. Environmental and social issues have always been an important factor in our project risk assessment. The internal formalization of these aspects via Projethic is the concrete expression of this policy.

2/ What are the practical consequences of applying this procedure on a daily basis? Do you consider the tools available to the teams to be appropriate?

- In administrative terms, Projethic has added an additional stage in the loan approval circuit. However, the information needed for the environmental and social study was generally already available given the systematic involvement of technical experts in the evaluation of mining sector projects.

On the other hand, I feel that the increasing importance given to environmental and social aspects within SG will necessitate an increase in the headcount in order to at best sustain this process.

3/ Do you think that the bank's membership of the Equator Principles is well perceived by our clients?

- Compliance with the Equator Principles is now a pre-requisite in the financing of mining projects. As this has already been a requirement for most syndicated financing for some time now, it is important for our clients to know that SG has adopted the Equator Principles and has a dedicated team and efficient tools.

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REPORTING TABLE – EP PROJECT FINANCING

The reporting below relates to the second half of 2007. It lists project financing for Corporate & Investment Banking that comes under the scope of the Equator Principles and has received final approval from the Risk Division.

Projects by category and sector of activity

Sectors of activity	Category A	Category B	Category C	TOTAL
Oil products	1	7	1	9
Mining	3	1	0	4
Energy	0	8	0	8
Infrastructure/transport	0	6	3	9
Total	4	22	4	30

Projects by category and region

Region	Category A	Category B	Category C	TOTAL
Europe - EU	0	12	2	14
Europe – non-EU	0	1	0	1
North America	0	3	0	3
South America	1	1	0	2
Africa	3	0	0	3
Asia/Oceania	0	3	1	4
Middle East	0	2	1	3
Total	4	22	4	30