November 23th, 2018

ESR sector policy applicable to oil & gas industry

1 Context and Rationale

Energy consumption is closely driven by demographics and the economic development of countries.

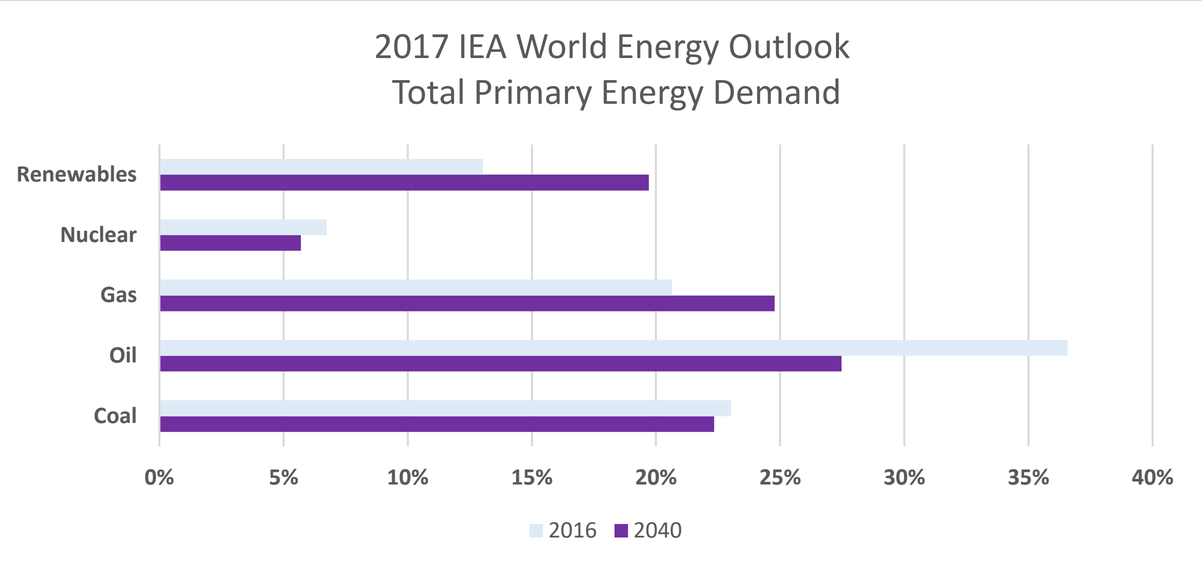
In the coming years, significant demographic changes are expected:

- Global population looks set to rise above 9.4 billion by 2040 (compared with 7.6 billion today)[1]. At the same time, the proportion of the world's population living in urban areas is expected to increase steadily, reaching 66% by 2050[2];
- GDP per capita, although set to grow more slowly than previous estimates, should double.

These trends raise a number of concerns regarding the energy supply, which cannot be ensured without environmentally friendly technological solutions, increased use of renewable energy sources, changes in the behavior of market actors, energy reduction and recycling programs.

By 2040 global energy demand (see diagram below) will be 30 percent higher than today, the IEA stated, while acknowledging that without improved energy efficiency the increase would be twice as high.
The IEA's baseline scenario "New Policies Scenario", established on the broad policy commitments and plans that have been announced by the signatory countries of the Paris Agreement, also predicts a gradual change in the global energy landscape as efforts intensify to make a low-carbon transition.
In fact, in 2040, total primary energy demand is expected to be broken down as follows: 27% oil, 25% gas (unconventional sources will account for more than half of the incremental gas output), 22% coal, 20% renewables, 6% nuclear[3].

[1] Source: United Nations, Department of Economic and Social Affairs, Population Division (2017)
[2] Source: United Nations, World Urbanization Prospects, The 2014 Revision
[3] Source: New Policies Scenario (NPS), World Energy Outlook 2017



In this context, and despite the regular decrease of renewable energy cost, oil and gas should remain predominant in the world primary energy mix, driven by population growth and demand in transportation, building and power generation sectors.

Acknowledging the importance of climate change issues and the active role that financial institutions have to play in addressing the global energy transition, Natixis has been supporting the move towards a low-carbon economy for over 20 years by financing the development of renewable energies.[4] Natixis is also aware that the outlook for the global economy still needs to rely partly on oil and gas during the necessary transition period, and as such, Natixis will support this transition by financing a large and diverse energy sector.

In this context, Natixis supports its clients of the oil and gas sector after special attention of their business conducts and practices, by establishing specific assessment and exclusion criteria which are described in this policy.

This policy (the "Policy") provides a list of criteria, applicable either to *dedicated project* financing or *corporate* financing or investment in the oil and gas sector, as defined in Part 2, by incorporating the commitments made in December 2017 related to tar sands and the Arctic region due to irremediable damage they may generate. This policy also presents the assessment framework applicable to non-conventional hydrocarbons, including oil and shale gas.

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[4]*Natixis supports the development of renewable energies around the world by financing offshore and onshore wind farms, solar parks and other types of power generation. At end 2017, the resulting total portfolio thus financed represented more than 26 GW. Natixis is also active in the development of green bonds and contributed to arrange the issuance of 17 green and/or social bonds.*

2 Scope of application of the Policy

The Policy applies on a worldwide basis.

The Policy covers the following activities: oil & gas exploration and production (offshore and onshore), transportation (pipelines), processing (oil refineries, liquefaction and regasification terminals, etc.), storage, and other related activities.

Banking

The Policy applies to the following banking financial products and services provided by Natixis:

- Dedicated financing – in the form of *project finance* – aiming to (i) finance or refinance a new Project (defined as *greenfield*) to build or under construction, or (ii) finance or refinance investment to expand, revamp or transform an existing Project in operation (defined as *brownfield*) (*see 3.1 below*);
- Dedicated acquisition financing aiming to finance or refinance the acquisition of one or several Project(s) or an entity holding one or several project(s) that are in operation (*see 3.2 below*);
- Corporate financing, when facilities are to be used for general corporate or operation-related purpose financing (working capital, pre-export financing, sale and trade of oil and gas products, etc.) (*see 3.2 below);*
- Financial advisory associated with the hereabove financing *(see 3.1 and 3.2 below);*
- All types of related banking or capital market products and services, including guarantees, letters of credit, swaps, and other associated facilities *(see 3.1 and 3.2 below);*
- Others market activities: debt and equity offerings for oil and gas companies *(see 3.1 and 3.2 below);*
- Merger and Acquisition activities *(see 3.1 and 3.2 below).*

Insurance

- Third-party asset management activities of Natixis Assurances on all portfolios under management agreement and dedicated funds[5].

3 Implementation criteria

All transactions as defined in Part 2 of the Policy are examined in details by applying precise evaluation criteria and by complying with a set of exclusion rules.

[5] With the exception of any kind of index-linked solution

3.1 Dedicated financing – in the form of *project finance* and all types of related banking or capital market products and services.

3.1.1 Evaluation criteria

For dedicated financing, a framework for comprehensive E&S risk and impact assessment applies in the credit analysis process, in particular with respect to:

- the environment: greenhouse gas emissions and other pollutants, venting and flaring, effluent discharges, waste, use of natural resources, degradation of flora and fauna, etc.;
- human activities: living conditions, workers' health and safety, health, safety & security of communities, and stakeholders affected by the project, etc.;
- cultural heritage: protection of cultural sites and historical landmarks.

This assessment reviews the borrower's management practices and procedures to avoid and minimize the impacts caused by the project, and where residual impacts remain, to compensate/offset risks.

The analysis takes into account compliance with the host-country regulations and laws, with IFC's[6] Environmental and Social Performance Standards, with World Bank Group Environmental, Health, and Safety Guidelines (EHS Guidelines) as well as other relevant industry's guidelines (*see Part 7 References*).

In the assessment process, the following factors are taken into consideration:

- major controversies surrounding the project;
- quality of risk management plans;
- prevention and management of greenhouse gas emissions, pollution-related risks and other hazards;
- consultation with communities and grievance mechanism procedures;
- resettlement and compensation action plan;
- prior and informed consent of the indigenous people when applicable, with particular focus on project with heavy land pressure (e.g. pipeline);
- respect of human rights and working conditions;
- conservation and sustainable management of biodiversity and critical habitat;
- protection of cultural heritage.

This process may require the appointment of an independent consultant, in accordance with the Equator Principles, of which Natixis is a signatory since December 2010.

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[6] For designated countries, as characterized by the Equator Principles, assessment according to IFC's Performance Standards is not required, unless otherwise required by Natixis in the due diligence process.

Based on the finding of the assessment, an action plan listing all necessary remediation, mitigation measures, corrective actions, reporting and monitoring actions, is prepared and annexed to the loan agreement. Post financial close, the progress of the action plan is closely monitored at regular interval throughout the financing period.

→ **Specific case of offshore oil and gas installations**

In the case of a transaction related to offshore installations (e.g. *special purpose ship*[7]*)*, Natixis carries out a specific due-diligence process, covering the following issues:

- compliance with local and international regulations, including marine conventions in force[8] ;
- category of ships or offshore units[9];
- ratification of marine conventions and regulations by the country to which installation is registered;
- the ship's or offshore unit's flag and the country assessment [10] ;
- quality of the classification society[11] having certified the installations;
- implementation of management systems consistent with international standards throughout the construction, deployment, exploitation and maintenance phases.

This process may require the appointment of an independent consultant.

→ **Specific case of shale oil and shale gas:**

In the case of a transaction dedicated to a shale oil or shale gas Project*,* Natixis carries out a complementary due-diligence process.

Natixis's assessment criteria applicable to such financing are presented below (*see 3.2 below*).

3.1.2 Exclusions

Independently of the above due diligence process, Natixis does not finance oil and gas installation whose environmental and social risks and impacts are considered too high and cause irreparable damage, and/or have a weak economic justification as regards to the risks incurred.

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[7] Special purpose ships: Floating Production Storage and Offloading unit (FPSO), Floating Storage and offloading unit (FSO), Floating Liquefied Natural Gas unit (FLNG), Mobile Offshore Drilling Unit (MODU), Floating Storage and Regasification Unit (FSRU) and any other assets related to offshore exploration and production are included in this classification.

[8] Solas, Marpol, quality and security standards defined by the International Maritime Organization (IMO)

[9] On the basis of the list issued by the Paris Memorandum and Tokyo Memorandum

[10] On the basis of countries rating list issued by International Chamber of Shipping (ICS)

[11] On the basis of the list issued by the International Association of Classification Societies (IACS)

3.1.2.1 Natixis will not participate in any dedicated facility to finance the oil exploration and production extracted from tar sands.

3.1.2.2 Natixis will not participate in any dedicated facility to finance extra-heavy oil[12] exploration and production.

3.1.2.3 Natixis will not participate in any dedicated facility to finance pipeline, storage installations export terminal, and other related infrastructures supplied at 30% or more with oil from tar sands and/or *extra-heavy oil*[12].

3.1.2.4 Natixis will not participate in any dedicated facility to finance a *coal-to-liquids* project[13].

3.1.2.5 Natixis will not participate in any dedicated facility to finance onshore or offshore oil exploration and production in the Arctic region[14].

3.1.2.6 Natixis will not participate in any dedicated facility to finance projects located in an area classified as UNESCO World Heritage Site, or registered by the Ramsar Convention, or covered by the International Union for Conservation of Nature (IUCN) I-IV.

3.2 In all cases other than those referred to in point 3.1 above, as well as all types of related banking and capital market products and services

3.2.1 Evaluation criteria

Prior to entering into business relations, and then on a regular basis[15], Natixis ensures that the technologies used by the client and its environmental and social risk management system are consistent with the industry's best practices and standards.

Thus, as part of the client knowledge, Natixis pays particular attention to the following domains:

- Quality of reporting, as assessed on the basis of regular indicators (e.g. energy performance, water management, greenhouse gas emissions, pollution and accident, preventive and corrective action, etc.);
- Occurrence of potential major events (heavy pollution, remediation plan and its follow-up);
- Disclosure of information on impacts management (incl. prevention and response plan) in accordance with regulatory requirements and industry's best practices;

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[12] *Extra-heavy oils* are oils having an API gravity < 10 (*American Petroleum Institute).*
[13] A *coal-to-liquids* project is a project in which a liquefaction process is used to convert coal into liquid fuels or petrochemicals.
[14] All waters identified as polar waters in the International Code for Ships Operating in Polar Waters (the Polar Code -adopted by the International Maritime Organization), and all lands north of the 10°C July isotherm.
[15] This review is carried out on an annual basis, or every one-to-three years, depending on client's governance quality.

- Client's adherence or recognition of industry's standards and initiatives such as IPIECA, EITI, AIE, IOGP, GGFR, EBI, etc., see point 7 – *References* below);
- Major controversies remained unanswered from the client or for which client's response was not deemed satisfactory;
- Extra-financial ratings from extra-financial rating agencies or any other external source deemed credible;

In order to better understand how a client/ or a prospect addresses its environmental & social risks, Natixis uses the relevant sources of information available, exchanging views with the client.

This preparatory phase is full part of the due diligence made by Natixis on his client. In case of significant failures against the best practices of the oil and gas industry, Natixis looks for the cause and engages with the client in order to find an acceptable solution as soon as possible. In the absence of an acceptable solution, Natixis may decide on its own to not enter into relationship or to not renew its commitments with the client.

→ **Specific case of shale oil and shale gas:**

Oil and shale gas are trapped in their original source rock. Because of the very low permeability of these shales, specific techniques using hydraulic fracturing are required.

Acknowledging the concerns raised against these techniques, Natixis has implemented an enhanced due diligence mechanism.

Thus, prior to entering into business relations, and then on a regular basis, Natixis reviews and assesses the client's policies and procedures (or those required by the client to its subcontractors) in the following additional areas:

- Management of communities relations;
- Use of best practices for selecting well sites in order to reduce the total land-use footprint and reduce the seismic risk;
- Use of best practices for well-bore design, well integrity during the life of the well, and fracturing;
- Employee safety management;
- Environmental management programs aiming to preserve water quality (surface water and groundwater), including wastewater management;
- Minimization of methane and greenhouse releases to the environment;
- Subcontractors control.

Similarly to the mechanism described in 3.2.1 above, Natixis has developed a specific due diligence process applicable to the shale oil and shale gas industry.

3.2.2 Exclusions

In addition to the exclusion criteria detailed in section 3.1, the following exclusion criteria apply to all companies in the oil and gas sector:

3.2.2.1 Natixis will not participate in any general purpose financing in favor of a borrower whose activity[16] is relying by 30%[17] or more on the exploration, production, transport, storage or export of oil from tar sands or extra-heavy oil, or on the operation of *coal-to-liquids* facilities;

3.2.2.2 Natixis will not participate in any acquisition financing of a company whose activity[16] is relying by 30%[17] or more on the exploration, production, transport, storage or export of tar sands or *extra-heavy oil*, or on the operation of *coal-to-liquids* facilities;

3.2.2.3 Natixis Assurances will not invest in a company whose activity[16] is relying by 30%[17] or more on the exploration, production, transport, storage or export of tar sands or *extra-heavy* oil, or on the operation of *coal-to-liquids* facilities.

4 Date of implementation of the Policy

The Policy applies to any new transaction as of the date the Policy is published. All existing contractual commitments non-compliant with this Policy will be honored but will not be renewed at maturity.

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

The Policy may, when necessary, be subject to amendments.

5 Implementation and decision-making process

In order to ensure full compliance with the Policy, each transaction expected in the oil and gas sector is subject to particular scrutiny from all parties involved within Natixis at all stages of the transaction, from origination, analysis and structuring, to final approval by the various levels of the credit approval process.

In the absence of an agreement on whether a transaction complies with the Policy, the final decision will be made by Natixis' highest level credit committee and, whenever appropriate, the Global Conduct Committee, chaired by Natixis CEO (or his designated representative).

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[16] Depending on data availability, in revenues or in reserves of oil extracted from tar sands.

[17] If the borrower belongs to a group (i.e. holding or subsidiary), the share of revenues derived from tar sands or extra-heavy oil 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 30% or more.

6 Glossary

- **Equator Principles:** *The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. It is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.*
  http://equator-principles.com/

- **Non-conventional hydrocarbons:** *Unconventional hydrocarbons are sources of oil and gas which require methods for extraction which are not normally necessary in the conventional extraction of hydrocarbons. Sources of unconventional oil and gas include: shale gas, shale oil, tight sands, gas hydrates… Extraction methods include "unconventional" techniques. In shale gas these techniques are a combination of commonly used conventional methods: horizontal drilling and hydraulic fracturing (or fracking).*

- **IUCN protected areas***: IUCN protected area management categories classify protected areas according to their management objectives. The categories are recognized by international bodies such as the United Nations and by many national governments as the global standard for defining and recording protected areas and as such are increasingly being incorporated into government legislation.*
  - *Strict Nature Reserve: Ia*
  - *Wilderness Area: Ib*
  - *National Park: II*
  - *Natural Monument or Feature: III*
  - *Habitat/Species Management Area: IV*

- **Ramsar sites :** *« Sites containing representative, rare or unique wetland types » and « Sites of international importance for conserving biological diversity » listed in the Convention on Wetlands adopted in Ramsar, iran in 1971 (Ramsar Convention).*

7 References

- **CLC : International Convention on Civil Liability for Oil Pollution Damage -** *The International Convention on Civil Liability for Oil Pollution Damage, 1969, renewed in 1992, is an international maritime treaty administered by the International Maritime Organization that was adopted to ensure that adequate compensation would be available where oil pollution damage was caused by maritime casualties involving oil tankers*
  http://www.imo.org/en/About/conventions/listofconventions/pages/international-convention-on-civil-liability-for-oil-pollution-damage-(clc).aspx

- **EBI : Energy and Biodiversity Initiative -** *The Energy and Biodiversity Initiative is a joint industry/NGO initiative that produced a series of best practice guidelines and tools to improve the environmental performance of energy operations.*
  http://www.theebi.org/abouttheebi.html

  EITI : Extractive Industries Transparency Initiative - *The EITI is an international standard for transparency in extractive industry payments and receipts. In countries participating in the EITI, companies are required to publish what they pay to governments and governments are required to publish what they receive from companies.*
  https://eiti.org/

- **GGFR : Global Gas Flaring Reduction Partnership -** *The Global Gas Flaring Reduction Partnership (GGFR) is a public-private initiative comprising international and national oil companies, national and regional governments, and international institutions. GGFR works to increase use of natural gas associated with oil production by helping remove technical and regulatory barriers to flaring reduction, conducting research, disseminating best practices, and developing country-specific gas flaring reduction programs.*
  http://ndcpartnership.org/funding-and-initiatives-navigator/global-gas-flaring-reduction-partnership-ggfr-zero-routine-flaring

- **ICS : International Chamber of Shipping -** *ICS is the world's principal shipping organization for the shipowners, concerned with all regulatory, operational, legal and employment affairs issues. ICS acts also as a consultative body to the International Maritime Organization (IMO), a United Nations agency with responsibility for the safety of life at sea and the protection of the marine environment.*
  http://www.ics-shipping.org/

- **IEA : International Energy Agency -** *The International Energy Agency (IEA) is a Paris-based autonomous intergovernmental organization established in the framework of the Organisation for Economic Co-operation and Development (OECD) in 1974 in the wake of the 1973 oil crisis. The IEA was initially dedicated to responding to physical disruptions in the supply of oil, as well as serving as an information source on statistics about the international oil market and other energy sectors.*
  https://www.iea.org/

- **IOGP : International Association of Oil & Gas Producers -** *The International Association of Oil & Gas Producers (IOGP) is the voice of the global upstream industry.*
  https://www.iogp.org/

- **IPIECA : international petroleum industry environmental conservation association -** *IPIECA is the global oil and gas industry association for environmental and social issues. IPIECA develops, shares and promotes good practice and knowledge to help the industry and improve its environmental and social performance. IPIECA is the only global association involving both the upstream and*

downstream oil and gas industry. It is also the industry's principal channel of communication with the United Nations.
http://www.ipieca.org/about-us/

- **IUCN : International Union for Conservation of Nature -** *The International Union for Conservation of Nature (IUCN) is a membership Union uniquely composed of both government and civil society organisations. It is the global authority on the status of the natural world and the measures needed to safeguard it.*
  https://www.iucn.org/

- **MARPOL : International Convention for the Prevention of Pollution from Ships -** *The International Convention for the Prevention of Pollution from Ships (MARPOL) is the main international convention covering prevention of pollution of the marine environment by ships from operational or accidental causes.*
  http://www.imo.org/fr/KnowledgeCentre/ReferencesAndArchives/IMO_Conferences_and_Meetings/MARPOL/Pages/default.aspx

- **OSPAR : Convention for the Protection of the Marine Environment of the North-East Atlantic -** *The Convention for the Protection of the Marine Environment of the North-East Atlantic or OSPAR Convention is the current legislative instrument regulating international cooperation on environmental protection in the North-East Atlantic.*
  https://www.ospar.org/convention

- **Ramsar Convention: Convention on wetlands -** *The Convention on Wetlands, called the Ramsar Convention, is an intergovernmental treaty that provides the framework for national action and international cooperation for the conservation and wise use of wetlands and their resources.*
  https://www.ramsar.org/

- **UNESCO: United Nations Educational, Scientific and Cultural Organization -** *The United Nations Educational, Scientific and Cultural Organisation is a specialized agency of the United Nations (UN). Its declared purpose is to contribute to peace and security by promoting international collaboration through educational, scientific, and cultural reforms in order to increase universal respect for justice, the rule of law, and human rights along with fundamental freedom proclaimed in the United Nations Charter.*
  https://en.unesco.org/

- **Voluntary Principles on Security and Human Rights -** *The Voluntary Principles are the only human rights guidelines designed specifically for extractive sector companies. Participants in the Voluntary Principles Initiative — including governments, companies, and NGOs — agree to proactively implement or assist in the implementation of the Voluntary Principles.*
  http://www.voluntaryprinciples.org/