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

1. Context and Rationale

Nowadays, human activities are estimated to have caused approximately 1.0°C of global warming in comparison with the pre-industrial levels and it could reach 1.5°C from 2030 if the temperature continues to increase at the current rate[1]. The IPCC[2] warns that +2°C is considered to be the maximum temperature rise before triggering significant risks to society. Staying below this threshold requires significant commitment to reduce fossil fuel burning.

According to the International Energy Agency[3] , coal accounts for approximately 28% of the world's primary energy demand and therefore is the second source of primary energy after oil.

However, coal is the most carbon-intensive fuel. Coal use in power alone surpassed, in 2018, 10 Gt $CO2$[4] and for the same amount of energy, burning coal produces nearly double the greenhouse gas emissions as burning gas [5].

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.

Acknowledging the importance of climate change issues and the active role financial institutions have to play in addressing the global energy transition, Natixis has been supporting the move towards a low-carbon economy for over 25 years by financing the development of renewable energies.

In this context, Natixis has decided to strengthen its financial and investment criteria by amending significantly its CSR coal policy.

2. Objective

The current policy (the "Policy") aims at ending the financing of coal-fired power plants, thermal coal mines, and thermal coal-related infrastructures[6] (each one referred to as a "Project"), and thereby ultimately leads to reducing the share of this type of fossil fuel energy in the global energy mix.

In addition, the Policy also defines the limitations and conditions to the delivery of corporate loans, products and services, along with the criteria applicable to investments.

3. Scope of application of the Policy

[1] https://www.ipcc.ch/sr15/
[2] Intergovernmental Panel on Climate Change
[3] World Energy Outlook 2018, https://www.iea.org/weo/
[4] https://www.iea.org/geco/emissions/
[5] https://www.eia.gov/tools/faqs/faq.php?id=73&t=11
[6] Such as railway tracks, rail cars, port facilities, equipments and other infrastructure installations, when primarily dedicated to or tailor made for the use of thermal coal.

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 Mirova and Ostrum Asset Management [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.

[7] Asset management affiliate of NIM (Natixis Investment Managers)

4. Implementation criteria

All transactions as defined in Part 3 of the Policy are examined in details by applying precise evaluation criteria and by complying with a set of exclusion rules.

4.1 Dedicated financing in the form of a *project-related financing or investment*

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

4.2 General purpose corporate financing

Natixis does not participate in any general purpose financing in favor of a borrower[8] whose activity[9] is relying by 25% or more on coal-fired power generation and thermal coal mining (based on the latest published financial statements).

4.3 Commodity trading

Natixis does not finance the sale or trading of thermal coal.

4.4 Acquisition financing

4.4.1 Thermal coal mining and thermal coal-related infrastructures:

Natixis does not participate in any acquisition financing of:

- One or several thermal coal mine(s) or thermal coal-related infrastructure(s),
- A company whose activity is relying by 25% or more in owning or operating thermal coal mine(s)[10].

4.4.2 Coal-fired power generation

Natixis intends to continue playing an active role in the Power Generation sector and to support its future mutations (including ownership changes). In this context, the following conditions apply when considering a credit or an investment for any transaction.

4.4.2.1 Natixis does not participate in any acquisition financing of a coal-fired power plant.

4.4.2.2. Natixis does not rule out participating in financing the acquisition of a company or an asset portfolio that hold one or several operating power plants, subject to the following conditions being met:

(i) the coal-fired generation accounts for less than 25% of the acquired company's or of the portfolio's total generation, and

[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 25% 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 by using revenues.

[10] Measured in revenues

(ii) the acquiring company’s energy generation business is less than 25%-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 decarbonize and diversify its energy mix (including by expanding its renewable energy generation capacity), and

(iv) when applicable, 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 severe controversies.

Furthermore, in the case where the acquiring company’s energy business is relying by 25% or more on coal-fired power generation, Natixis may finance the acquisition of a portfolio of assets or a company, only if such acquired portfolio or company contributes to decarbonization and has no activity related to the operation of coal-fired power generation, provided that the conditions outlined in sections (iii) to (v) are met.

4.5 Financial advisory

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

4.6 Merger & Acquisition

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 25%-reliant on coal-fired power generation and thermal coal mining.

4.7 Natixis Global Market’ investments[11]

4.7.1 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 activity is relying by 25% or more on coal-fired power generation and thermal coal mining (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 this section 4.7.1 for any capital market transaction to be executed as per instructions received from the client.

4.7.2 Natixis excludes trading or selling coal-related financial derivatives.

[11] Natixis Global Market is Natixis’ division whose activity is dedicated to capital market products and services

4.8 Ostrum Asset Management's investments

For assets it manages, Ostrum Asset Management excludes companies mentioned in section 4.7.1 above from all open-ended funds directly managed.

For dedicated funds and mandated asset management, Ostrum 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 Natixis Insurance's investments

As part of its investment policy, Natixis Assurances (the Insurance subsidiary of Natixis) applies the same criteria as mentioned in section 4.7.1 above.

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

4.10 Mirova's investments

It is not in Mirova's investment strategy to invest in thermal and fossil energies.

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 15% 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 25% of revenues threshold mentioned in the Policy is replaced by a 15% threshold of revenues in this specific case.

6 Clients' management system evaluation

In compliance with the terms and conditions of the Policy, prior to entering into business relations, and then on a regular basis[12], 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, safety, 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;

[12] 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;
- 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 a full part of the due diligence made by Natixis on his client. In case of significant failures against the best practices of the power sector 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 not to enter into a relationship or not to renew its commitments with the client.

7 Implementation and decision-making process

In order to ensure full compliance with the Policy, each transaction considered that relates to the coal 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 credit or investment committees.

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).

8 Date of implementation of the Policy

The Policy applies to any transaction as of the date the Policy is published, subject to the following provisions:

Financing and banking activities:

- All existing contractual commitments will be honored until maturity;
- At publication date, in the case where the transaction is not compliant with the Policy, the client will be notified that Natixis’ commitments will not be renewed at maturity, and a one-year phase-in period (from publication date) will apply.

Third-party asset management:

- All existing investment non-compliant with the Policy will be sold at the latest two years after the publication date[13];
- Any new investment in a company non-compliant will be excluded from the publication date[13].

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.

[13] By derogation to the Policy, Ostrum exempts from the exclusion policy two identified companies of its existing investment portfolio, due to the implementation of a consistent decarbonization program.