

# **THERMAL POWER SECTOR POLICY**

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## 1. INTRODUCTION

In the frame of its Corporate Social Responsibility policy, and as a signatory of the Principles for Responsible Banking, the Group (as defined in 2.2 of this sector policy) intends to consider the environmental, social (E&S) and governance issues associated with all its activities, to better control its impact and promote good practices, with an objective of continuous improvement. The Group published E&S general principles which define the overall framework of its E&S risk management system for the responsible conduct of its banking and financial activities. Within this framework, transversal statements addressing issues common to all sectors have been developed, as well as sector policies where the Group looks more specifically into certain sectors identified as sensitive from an E&S standpoint and in which it plays an active role.

The Thermal Power sector has been identified as one such sector.

The Group provides a range of banking and financial products and services to the Thermal Power sector, which is part of the Energy sector value chain. The Group's Energy sector policies seek to identify and manage E&S issues throughout the whole value chain in which the Group is active, from the extraction of energy resources, to transportation, distribution and storage, power and heat production, and end user energy consumption. If necessary, the Group will identify and develop additional sector policies in the future to better address E&S issues within this value chain.

Energy is at the core of the economy and a priority sector for the achievement of the Paris Agreement objectives. The Group recognizes it has a role to play in the transition to a low-carbon economy and supports governments and private sector efforts towards the diversification of energy sources and wider use of renewable energy in markets in which it operates. The Group has joined the [Net Zero Banking Alliance](#) which defines concrete and time-bound actions to align portfolios with an objective of net zero emissions by 2050.

Energy transition challenges are particularly acute for the actors of the Thermal Power sector. The Group is willing to remain a value-adding partner to its clients in the Thermal Power sector and assist them in their transition, while ensuring that such support is provided in a responsible and considered manner. The thermal power infrastructures covered by this sector policy burn fossil fuels or biomass to generate electricity and heat. In many countries, these infrastructures provide essential, secure and dispatchable power, available as required to meet demand. Their contribution to global climate change through emissions of Greenhouse Gases (GHG) and especially CO<sub>2</sub>, which closely derive from the use of fossil fuels and implemented technology, has however a strong environmental impact. In addition, regional or local E&S risks are potentially associated to the different types of thermal power plants. It is therefore of primary importance for this sector to heighten efficiency and focus on E&S performance. This is why the Group aims for the highest E&S standards when considering the provision of banking and financial products and services to the Thermal Power industry.

## 2. SCOPE

### 2.1. Geographical scope

This sector policy is applicable worldwide.

### 2.2. Scope of the Group's activities

This sector policy applies to Societe Generale and all consolidated companies over which it exercises exclusive control (together, "the Group"). It applies to the following banking and financial products and services: credit, debt and equity markets, guarantees and advisory activities.

### 2.3. Scope of sector activities

This sector policy covers the following thermal power assets and client companies owning them:

- Gas-Fired Power Plants.
- Liquid fuel-Fired Power Plants (HFO and LFO<sup>1</sup>).
- Waste-to-energy (WtE) Plants.
- Biomass-firing Power Plants.
- Combined Heat and Power (CHP or Cogeneration) Plants.

## 3. THERMAL POWER SECTOR ESG RISKS

A non-exhaustive list of potential E&S and governance risks considered by Societe Generale in its risk management framework is provided in the E&S general principles.

When evaluating corporates' activity in the Thermal Power sector, particular attention will be paid to the following risks:

- Energy efficiency and GHG emissions:
  - Thermal efficiency of the power plant(s), which has a direct influence on both GHG and other air pollutants level of emissions.
  - Applicable regulatory framework regarding GHG emissions in the country or region where the power plant(s) are operated, including existing and reasonably foreseen regulations.
- Air emissions with a local or regional impact, in particular when they affect locations where air quality is already poor, from:
  - Fossil-fuel power at levels depending on the fuel type, including sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), particulate matter (PM) and carbon monoxide (CO).
  - Waste incineration, including CO, NO<sub>x</sub>, SO<sub>2</sub>, PM, polychlorinated biphenyls (PCBs), polycyclic aromatic hydrocarbons (PAHs).
- Water use and effluents discharge.
- Waste and hazardous materials management.
- Noise and other disturbances.
- Employees' health & safety.
- Facility siting and social context.
- Environmental legacy of past operations such as soil contamination in the case of projects involving revamping or repowering, or where projects are being implemented on brown-field sites.

In addition, governance risks are managed as part of the Know Your Customer (KYC) and other Compliance processes to guarantee alignment of the Group with applicable laws and regulations, including exclusions based on international sanctions.

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<sup>1</sup> Light Fuel Oil and Heavy Fuel oil.

## 4. SECTOR SPECIFIC E&S STANDARDS AND INITIATIVES

The Group requests its clients to comply with the laws and regulations of each relevant country or region while encouraging them to apply the following E&S standards and initiatives.

A number of institutions, business associations of the Thermal Power industry, and other civil society organizations have developed standards and initiatives<sup>2</sup> addressing the E&S impacts resulting from the sector activities. The standards and initiatives listed below provide guidance for Societe Generale E&S assessment framework in the Thermal Power sector:

- The UN [Framework Convention on Climate Change \(UNFCCC\)](#), related protocols and agreements.
- The [IFC Performance Standards](#) and [World Bank Group Environmental, Health and Safety Guidelines \(EHS\) for Thermal Power Plants](#).
- The [World Bank Group Environmental, Health and Safety Guidelines for Waste Management Facilities](#).
- The [EU Emissions Trading Scheme \(EU ETS\) Directive \(EU\) 2018/410](#).
- The [World Resource Institute \(WRI\)](#) and [Greenhouse Gas Protocol](#).
- The [CDP Climate Change Program](#).
- The WWF [Water Risk Filter](#) and [WRI Aqueduct](#).
- The [Recommendations of the Task Force on Climate-related Financial Disclosures \(TCFD\)](#).
- The [Science Based Targets Initiative \(SBTI\)](#).

New regulations and voluntary standards will be developed in the future. The Group will closely follow these developments, use them as references in implementing its Thermal Power sector policy and update it if necessary.

## 5. IMPLEMENTATION PROCESS AND COMMITMENT

### 5.1. Implementation process

While it is incumbent on the Group's clients to manage the E&S risks associated with their operations and to comply with the applicable E&S laws and regulations, the Group evaluates, for its part, the consistency of their activities with the Group's E&S commitments.

The Group's E&S general principles set out the main features and implementation processes of the Group's E&S risk management system. The Group's decisions are based on public information, information made available by its clients or from external data providers. The Group shall make its reasonable endeavors to ensure the quality and reliability of this information but accepts no liability whatsoever in connection with any such information.

Three types of application criteria have been defined:

The **E&S exclusion criteria** are intended to exclude certain types of corporates, dedicated transactions or services or financial products from the Group's activities.

<sup>2</sup> These standards and initiatives may take the form of conventions, directives, standards, recommendations or guidelines...

The **E&S priority evaluation criteria** are criteria for which an analysis is requested as part of the evaluation process. For client's evaluation, if the relevant criteria are not fulfilled, a positive evolution from the company current practices is expected in a limited and reasonable timeframe and can be formalized through action plans or contract clauses. For dedicated transactions on projects, alignment with the criteria is expected as part of the project development; for dedicated advisory services ahead of a project's development, the client's commitment to develop the project according to these criteria is evaluated.

The **other E&S evaluation criteria** aim to identify the other risk factors of the sector, that will also be considered as part of the evaluation, and also to specify the best practices that the Group wishes to encourage.

These E&S criteria are applicable:

- in a proportionate manner based on the importance of the E&S risks inherent to the clients' activities and to the underlying activities related to dedicated transactions, products and services; and
- in any jurisdiction in which the Group operates to the extent not contradictory to provisions of any applicable local law, rule, regulation or regulatory guidance or directive in such jurisdiction.

## 5.2. Commitment

The results of the evaluation regarding the different criteria will provide evidence for decision-making process to the Group. The Group will work with clients within the implementation scope of the policy who meet or aim at meeting the applicable E&S criteria.

Based on an objective, risk-based and individualized assessment, the Group reserves the right to refuse to provide banking or financial products or services to any client or not to participate in certain transactions following this assessment, even if the exclusion criteria defined in this sector policy do not apply. The Group may also require additional actions or engage in an additional due diligence process before concluding on the acceptability of a client or a transaction.

In particular, the review of clients and transactions of the Thermal Power sector is also guided by the long-term commitment made by the Group to align its portfolios with a climate scenario, which was reinforced when joining the Net Zero Banking Alliance. This commitment has led the Group to set a new carbon emission intensity target for its exposure to the power generation sector of 125g of CO<sub>2</sub> per kWh by 2030.

Any deviation from this policy may be granted, on an exceptional basis, by a Societe Generale group oversight committee chaired by senior management.

## 6. APPLICATION CRITERIA OF THE POLICY

Based on the analysis of the initiatives listed in Section 4. and of best practices of multilaterals and other financial institutions, the Group has defined the following E&S criteria which are incorporated into its decision-making process when considering provision of banking and financial transactions, products and services in the Thermal Power sector.

In addition, client companies with civil nuclear activities (and related dedicated transactions, products and services) fall in the scope of Societe Generale Civil Nuclear Power sector policy and client companies with thermal coal power activities (and related dedicated transactions, products and services) in the scope of Societe Generale Thermal Coal sector policy. Applicable criteria of these sector policies will be used in addition to the criteria listed below.

## 6.1. Client criteria

### Priority evaluation criteria

When conducting a corporate E&S assessment of a client involved in this sector, the Group considers the following criteria:

- Whether the client company has E&S risks management measures in place, commensurate to its impacts, and addressing in particular health and safety.
- Whether the client company publicly discloses the GHG emissions generated by its activities.

### Other evaluation criteria

When conducting a corporate E&S assessment of a client involved in this sector, the Group also considers the following criteria:

- Whether the client company addresses climate change as part of its E&S management policy, including climate adaptation and transition risks and publicly reports on its climate change strategy using the TCFD framework.
- Whether the client company has a strategy for carbon intensity reduction.
- Whether the client company addresses water risks as part of its E&S management policy.
- Whether the client company addresses responsible supply as part of its E&S management policy.

In addition, the Group encourages its clients to set Science Based Targets (for instance through joining SBTI).

## 6.2. Dedicated transactions, products and services criteria

### Exclusion criteria

The Group will not provide dedicated financial transactions, products and services when the underlying activities are:

- Thermal power generation activities under development, construction or expansion within a UNESCO World Heritage Site, a Ramsar site, a nationally protected area (IUCN categories I-IV) or a site of the Alliance for Zero Extinction.
- Any operation with material adverse impacts on the Outstanding Universal Value of a World Heritage Site.

### Priority evaluation criteria

When conducting an E&S assessment of a dedicated transaction, product or service in this sector, the Group considers the following criteria:

#### E&S risk management

- When located within the European Union, whether the thermal power plant is compliant with EU ETS when applicable.
- For new thermal power plants projects and/or major expansion of existing power plants, whether it is compliant with international environmental standards such as the World Bank Group EHS Guidelines for Thermal Power Plants or Waste Management Facilities as applicable.

## Environmental impacts

- Whether the thermal power plant is compliant with national regulations regarding GHG emissions.
- For new Combined Cycle Gas Turbines (CCGT) above 300 MW, whether it is compliant with a maximum emission intensity of 420 kg CO<sub>2</sub> eq/MWh.
- For thermal power plants combusting waste, whether an evaluation of the energy efficiency based on international standards has been conducted and evidence provided that an appropriate waste segregation has been applied to the power plant's feedstock.
- For thermal power plants combusting Heavy Fuel Oil (HFO) and Diesel (LFO), whether the alternatives analysis confirms application to the project of the best appropriate available technology including fuel choice<sup>3</sup>.
- For new thermal power plants projects and/or major expansion of existing power plants, when combined Scope 1 and Scope 2 emissions are expected to be more than 100,000 tons of CO<sub>2</sub> equivalent annually, during the operational phase:
  - Whether an alternatives analysis which evaluates lower Greenhouse Gas (GHG) intensive alternatives has been conducted and justifications for the project provided.
  - Whether an analysis of the relevant Climate Transition Risks (as defined by the TCFD) has been conducted.
- When the activities associated with the transaction or service are located within, or with potential material impacts on Key Biodiversity Areas or protected areas, whether a third-party assessment of the potential impacts on biodiversity and related ecosystem services has been carried out. The assessment will have demonstrated that:
  - The client is implementing a mitigation strategy which prioritizes efforts to prevent or avoid adverse impacts to biodiversity, then to minimize and reduce those effects, to repair or restore them, and finally to offset or compensate them, with a view to achieving no net loss, and preferably gain of biodiversity.
  - Adequate consultation of local population and other stakeholders, where relevant.

For activities located within, or with potential material impacts on a protected area, if the exclusion criteria are not triggered, evidence is provided that the development is legally permitted and consistent with any regulatory management plans for such area.

## Carbon capture and storage

- In countries where a regulatory framework has been or is being developed for Carbon Capture and Storage, whether the thermal power plant is compliant with related local regulations and can be considered as "CCS ready", according to the IEA definition<sup>4</sup>.

<sup>3</sup> Best appropriate available technology should be determined by taking into account economically and technically viable conditions in a specific region, by reference to techniques available on a scale which allows implementation in the relevant sector.

<sup>4</sup> The International Energy Agency's definition of CCS readiness includes that "Developers of capture-ready plants should take responsibility for ensuring that all known factors in their control that would prevent installation and operation of CO<sub>2</sub> capture have been eliminated. This might include: (i) A study of options for CO<sub>2</sub> capture retrofit and potential pre-investments, (ii) Inclusion of sufficient space and access for the additional facilities that would be required, (iii) Identification of reasonable route(s) to storage of CO<sub>2</sub>."

- For transactions related to the financing of a CCS project or one of its components, whether an independent third-party assessment confirms that the project is in line with the UNFCCC Modalities and Procedures for CO2 capture and storage. These criteria are also applicable to CCS developments in the industry sector.

The Group applies the [Equator Principles](#) to the transactions and services falling in the scope of this initiative. The criteria above are applied in conjunction with, or addition to the underlying standards of this initiative.

## 7. APPLICATION DATE AND UPDATES

This sector policy is applicable from the date of its publication for any jurisdiction in which the Group operates to the extent not contradictory to provisions of any applicable local law, rule, regulation or regulatory guidance or directive in such jurisdiction, with exceptions for pre-existing business commitments or opportunities at an advanced stage of negotiation.

This sector policy may evolve in time, in accordance with legislative or regulatory evolutions and as a result of the discussions between the Group and its various stakeholders. Therefore, the Group reserves the right to modify this sector policy at any time. Updated versions will be posted on the Group's website, where the E&S general principles and the E&S transversal statements and other sector policies are also available.

This sector policy has been established in French and in English. In case of inconsistency between the French and the English version, the French version shall prevail.