

Social Framework Alignment Opinion

EDF's Social Bond Framework

May 18, 2021

Social Bond Framework Overview

In our view, Électricité de France's (EDF's) proposed social bond framework is aligned with the four components of the Social Bond Principles 2020 (SBP).

EDF is an integrated electric utility company, operating mainly in France and the U.K. The company's activities span the full lifecycle of electricity production from generation to distribution and trading, generating electricity mainly through renewable sources, including nuclear, solar, and wind; but also some fossil fuels, predominantly coal and natural gas. In line with EDF's sustainability goal to drive economic development while achieving carbon neutrality and greater wellbeing, the company has developed its social financing framework outlining its aims to prioritize contracts with small and midsize enterprises (SMEs) within the value chain.

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Framework Alignment Overview



1. Use of proceeds

The social bond framework is aligned with this component of the SBP because it commits to using the net proceeds of bonds issued under the social framework to fund eligible projects that fall under the SBP eligible category: Employment generation, designed to prevent or alleviate unemployment through contracting with SMEs.



2. Process for project evaluation and selection

EDF's social bond framework is aligned with this component of the SBP because it outlines the process through which eligible projects are selected and approved. Each finance department within the relevant EDF division will propose in-scope eligible projects and be responsible for documenting the project assessment process.



3. Management of proceeds

EDF's social bond framework is aligned with this component of the SBP because the framework states proceeds will be tracked and managed through a dedicated process in EDF's Treasury to ensure fund traceability.



4. Reporting

The social bond framework is aligned with this component of the SBP because the framework indicates EDF will report the allocation of proceeds and social impacts of financed projects at the portfolio level. Allocation and impact reporting will be done annually until the full allocation of proceeds or the bond matures.

Issuer Sustainability Objectives

EDF revised its corporate social responsibility (CSR) strategy to implement its raison d'être statement published in 2020. The strategy focuses on supporting economic development and social wellbeing while achieving the company's 2050 carbon neutrality goal. To support these goals, EDF has been at the forefront of green bond issuance, being one of the first corporates to issue a green bond and issuing an amount equal to €6.9 billion since 2013. The company seeks to expand the scope of its sustainable finance activities, and has identified four key priorities under its CSR commitments, one of which includes "responsible development," seeking to make a positive economic and social contribution to the territories in which EDF operates through employment generation. To achieve this, EDF aims to focus on local supply chain procurement, prioritizing suppliers characterized as SMEs, microenterprises, and start-ups. Maintaining a network of SME and local subcontractors, critical to the issuer's power generation and distribution activities, supports EDF's commitments to contribute to the low carbon transition and achievement of the UN's Sustainable Development Goals. Also, these aims support the Just Transition by providing a source of local employment in line with decarbonization goals.

Framework Description

1. Use of proceeds



The SBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible social projects. According to the SBP, following eligible project categories capture the most common social issues: 1) affordable basic infrastructure, 2) access to essential services, 3) affordable housing, 4) employment generation, and programs designed to prevent and/or alleviate unemployment, 5) food security and sustainable food systems and 6) socioeconomic advancement and empowerment.

EDF has committed to allocate the net proceeds of bonds issued under the social framework to social projects supporting local procurement with SME suppliers. Proceeds from issuance under this framework are dedicated to finance or refinance capital expenditure contracted with SMEs that support EDF's activities within the EU and U.K. Within this category, the company will seek to finance social projects to achieve a positive social outcome by generating employment opportunities.

Eligible projects considered under this framework fall under the following SBP category: Employment generation, and programs designed to prevent or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance. SMEs are an essential source of local employment, so contracting with them also contributes to the local economic development of the regions in which the company operates.

EDF's program targets employees and subcontractors of SMEs near the company's production zones that have been identified as retaining the critical technical skills necessary to achieve EDF's low carbon transition goals. This is aligned with the SBP statement that social projects may address or mitigate a specific social issue or seek to achieve positive social outcomes, especially but not exclusively for a target population, because target populations may also be served by addressing the general public.

2. Process for project evaluation and selection



To align with the second component of the SBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable, and the overall sustainability objectives that underpin the selection process.

EDF's social bond framework outlines its process to identify and approve eligible social projects. Finance departments within each division are responsible for identifying eligible capital expenditures contracted with SMEs. EDF has adopted SME criteria for eligible social projects: a workforce of less than 250 people; annual turnover less than €50 million; and less than 25% ownership by a group. EDF's framework defines a lookback period as no more than two years before the social bond issuance date. Finance departments are also responsible for documenting the project evaluation and selection process.

3. Management of proceeds



The SBP require a seeker of finance to monitor the net proceeds of all outstanding social bond transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible social projects. The SBP also require a seeker of finance to disclose to investors the intended types of temporary placement it intends to use for unallocated proceeds.

EDF has committed to allocating all proceeds from bonds issued under the social framework toward eligible projects in line with the framework criteria. The issuer intends to track proceeds through a dedicated process within the company's Treasury, to ensure traceability of proceeds.

Unallocated proceeds will be invested in short-term financial assets labelled "Socially Responsible Investments" certified by the French Ministry of Finance's Label ISR, as is standard practice by EDF for all unallocated proceeds. The issuer has stated it intends for all proceeds to be allocated within 12-24 months of issuance.

4. Reporting



The SBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected social impact.

EDF has committed to annual reporting on the allocation of proceeds, which will be available on the company's website. Allocation reporting will include information at the portfolio level, reporting the amount of proceeds allocated toward eligible projects and the remaining balance of unallocated proceeds. This will also include the distribution of total proceeds allocated by the company, by subsidiary and by geography, as well as implementation date of financed projects. In addition, EDF has committed to disclose the expected social impacts of financed projects at the portfolio level annually until the former of full allocation of proceeds or bond maturity. EDF has provided examples of what indicators might be covered in impact reporting, including the number and type of SMEs contracted; estimated of the number of people employed; number of jobs generated; and territorial impact, where data is available.

Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the SBP and goes beyond minimum requirements. This section does not affect on our alignment opinion with the stated principles.

EDF's social bond framework contains many elements in line with the voluntary guidelines outlined in the SBP. In our opinion, the company's framework has the following strengths:

- EDF clearly states the alignment of the use of proceeds with its CSR strategy, specifically its CSR commitment of "Responsible development" a commitment we view as well integrated into EDF's primary business operations.
- The company follows the SBP's recommendation to appoint an independent auditor to verify the allocation of proceeds financed under the social bond framework. We view this as a framework strength, providing a credible external review to ensure proceeds are appropriately allocated and enhancing the level of transparency within the framework.
- We also view as a strength EDF's intention to use quantitative metrics to track the impacts of financed projects and engage an independent auditor to verify the methods used to estimate the impacts where applicable. The estimated social impact data will not be covered by the audit, only the methodology.

Offsetting the above strengths are the following:

- EDF's social bond framework provides limited information on the assessment applied to eligible projects and contractors under its process for project selection and evaluation. The SBP encourage disclosure on practices to identify and manage social and environmental risks associated with eligible projects.
- EDF has not committed to disclose the share of allocation of proceeds between existing projects (refinancing) and new projects, as per the recommendations by the SBP. However, S&P Ratings notes that EDF will disclose the implementation date of the projects financed.

Conclusion

Based on our assessment of the contents of EDF's social bond framework, we regard this framework as being aligned with the four components of the SBP given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of bonds to eligible social projects, as defined by the seeker of finance;
- Use clear "social" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Report on the social impact and use of proceeds.

Mapping To The UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by the year 2030. We use the International Capital Market Assn. (ICMA) SDG mapping for this part of the report. We acknowledge that the ICMA mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

The EDF Social Bond Framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

Employment generation



4. Quality Education



* 8. Decent Work and Economic Growth



* 9. Industry, Innovation and Infrastructure



10. Reduced Inequalities



11. Sustainable Cities and Communities



17. Partnership for the goals

*The eligible project categories link to these SDGs in the ICMA mapping.

Social Bond Framework Alignment Opinion

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