

# SUSTAINABILITY-LINKED FINANCING FRAMEWORK



NOVEMBER 2020



LafargeHolcim

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# I. LafargeHolcim Sustainability Strategy

As the world's global leader in building solutions, LafargeHolcim is reinventing how the world builds, to make it greener, smarter and healthier for all. We are accelerating green construction and taking a rigorous science-based approach to reach that goal.

## Four strategic sustainability pillars<sup>1</sup> 2019 performance



### 561 kg

Net CO<sub>2</sub> emitted per ton of cementitious material (Scope 1)  
(Scope 2: 37 kg)



### +4.3%

Increase in waste reused in operations (48M tons)



### -5.7%

Freshwater withdrawn per ton of cementitious material (299l) -15.2%



### +5.4%

Beneficiaries of our community investments (5.9m)



<sup>1</sup> Percentage change compares 2019 results to 2018 results at the same consolidation scope. Information on scope and methodology of data collection, as well as assurance on 2019 reported figures, can be found in the Sustainability Performance Report on our website at [www.lafargeholcim.com/sustainability](http://www.lafargeholcim.com/sustainability).

## 1.1 CLIMATE AND ENERGY

LafargeHolcim has joined the **Business Ambition for 1.5°C**, becoming the first global building materials company to sign the pledge with intermediate **targets for 2030, validated by the Science Based Targets initiative (SBTi)**.<sup>1</sup> This commitment builds on LafargeHolcim's leadership in green construction, with cutting-edge solutions such as ECOPact, its green concrete, and Susteno, its leading circular cement.

In its 2030 goals, LafargeHolcim is further lowering its target for CO<sub>2</sub> intensity in cement to **475 kg net CO<sub>2</sub> per ton of cementitious material (kg net CO<sub>2</sub>/t.cem.)**.

Going one step further, LafargeHolcim is partnering with the SBTi to develop a roadmap for aligning climate targets to a 1.5°C future in the cement sector, pushing the boundaries of green construction.

The SBTi has approved LafargeHolcim's commitment to **reduce Scope 1<sup>2</sup> and Scope 2<sup>3</sup> greenhouse gas (GHG) emissions by 21 percent** per ton of cementitious materials by 2030 from a 2018 base year. With this target, LafargeHolcim commits to reduce Scope 1 GHG emissions by 17.5 percent per ton of cementitious material and Scope 2 GHG emissions by 65 percent per ton of cementitious materials within the same timeframe.

In addition to its commitment to reduce Scope 1 and Scope 2 emissions, LafargeHolcim will expand its actions across its value chain to **include Scope 3 emissions**. With this holistic approach, LafargeHolcim will **reduce its transportation and fuel-related emissions by 20 percent**.

The company will use the coming decade to develop and deploy advanced technologies. This includes piloting over 20 **carbon capture usage and storage (CCUS)** projects across Europe and North America.

## By 2030, LafargeHolcim will:

- > Accelerate the use of low-carbon and carbon-neutral products such as ECOPact and Susteno
- > Recycle 100 million tons of waste and byproducts for energy and raw materials
- > Scale up the use of calcined clay and develop novel cements with new binders
- > Double<sup>4</sup> waste-derived fuels in production
- > Reach 475 kg net CO<sub>2</sub> per ton of cementitious material (kg net CO<sub>2</sub>/t.cem)

<sup>1</sup> In line with keeping warming to well below 2°C; the target boundary includes biogenic emissions and removals from bioenergy feedstocks.

<sup>2</sup> Direct emissions from the company operations: decarbonation of raw materials and fuel consumption for cement production.

<sup>3</sup> Indirect emissions from the generation of purchased electricity consumed in the company's owned or controlled equipment.

<sup>4</sup> Compared to 2018 baseline.

## 1.2 CIRCULAR ECONOMY

In our **Cement business**, waste products can be used as a **substitute for fossil fuels and other raw materials**, providing us with an excellent opportunity to address society's waste problem. This process – called co-processing – helps lower GHG emissions by reducing the quantity of fossil fuels and using more efficiently the materials needed in cement manufacturing. This also means less waste in landfills or incinerators.

**LafargeHolcim's global waste management business, Geocycle, transformed over 10 million tons of waste into energy or alternative raw materials in 2019, or the equivalent amount of waste from 2 million garbage collection trucks.**

In our **Aggregates, Ready-Mix Concrete and Asphalt businesses**, we use millions of tons of recycled material per year to make our products. Some of our products contain more than 50 percent of recycled content, and up to 100 percent for our recycled aggregate brand, AGGNEO. We are especially interested in targeting this aspect of our business as it would close the resource cycle on the built environment, solving the societal issue of construction and demolition waste (CDW).

On its net zero journey, LafargeHolcim will accelerate circular construction by increasing the use of recycled materials in its products and processes while recovering materials at the end of their life cycle. In 2019 alone, LafargeHolcim recycled 48 million tons of waste, making it a world leader in waste solutions – contributing to cleaner cities while preserving earth's finite resources.

## 1.3 ENVIRONMENT

Today our focus is to consider our total impact on **water resources** in the communities where we operate, particularly in water-scarce areas. We optimize and prevent the use of freshwater as well as reduce the risk of depletion or pollution by measuring our operational water footprint, reducing freshwater withdrawal, assessing water risks, engaging with stakeholders on sharing water and providing more water to communities.

**Freshwater withdrawal per ton of cementitious material decreased by 5.7 percent in 2019 due to strong efforts across our cement plants.**

**Air emissions** are a key environmental aspect of cement production. We expect that all our cement sites measure and manage air emissions. In 2019, we monitored dust, NOx and SO<sub>2</sub> emissions from 94 percent of the clinker we produced; 86 percent of clinker production is monitored continuously. The vast majority of LafargeHolcim plants operate within best practice emission ranges and some are among the best in the sector.

**In 2019, Group dust emissions were around 5 percent lower than the year before.**

To manage our impacts on biodiversity, our mandatory Quarry Rehabilitation and Biodiversity Directive sets out the framework for managing risks, and for protecting and enhancing biodiversity. The Directive mandates that all our operations have rehabilitation plans available for all quarry sites. In addition, quarries of high biodiversity importance are required to have a biodiversity management plan in place.

To ensure compliance with stringent company requirements, we expect all our cement plants to have an **environmental management system** in place.

**In 2019, 86 percent of our cement plants had an environmental management system equivalent to an ISO 14001 certification.**

#### 1.4 COMMUNITY

We regularly interact with stakeholders at all levels – customers, employees, investors and financial institutions, suppliers, regulators, media, non-governmental organisations (NGOs)/development agencies, and academia – to preserve our standing as good members of our communities.

**We are proud to support the communities where we live and work, with our CHF 240 million investments delivering benefits to more than 28 million people over the last five years.**

**Responsible sourcing:** We have short and predominantly local supply chains. With our large geographic footprint, this poses challenges, particularly in countries where business practices are not well regulated. We therefore identify high environmental, social, and governance (ESG) impact suppliers and ensure they are qualified to work with us.

**Promoting human rights:** Our approach to managing human rights is fully aligned with the United Nations (UN) Guiding Principles on Business and Human Rights. In February 2020, CEO Jan Jenisch signed the Call to Action for Business Leadership on Human Rights by the World Business Council for Sustainable Development (WBCSD), joining 40 other leaders in sending a clear message on the need to elevate companies' ambitions

concerning human rights. Together, our vision is to make human rights more than just a risk and compliance issue for companies – it should be actively promoted as part of a commitment to social responsibility. At LafargeHolcim, we promote transformative change in the human rights dimension through such long-standing policies as our Supplier Code of Conduct and our human rights due diligence methodology. At the same time, we champion human rights internally – for example, by setting concrete targets for diversity and inclusion across our operations. We make significant investments to support community development around the world, for example, by providing education and medical care in line with our human rights agenda.



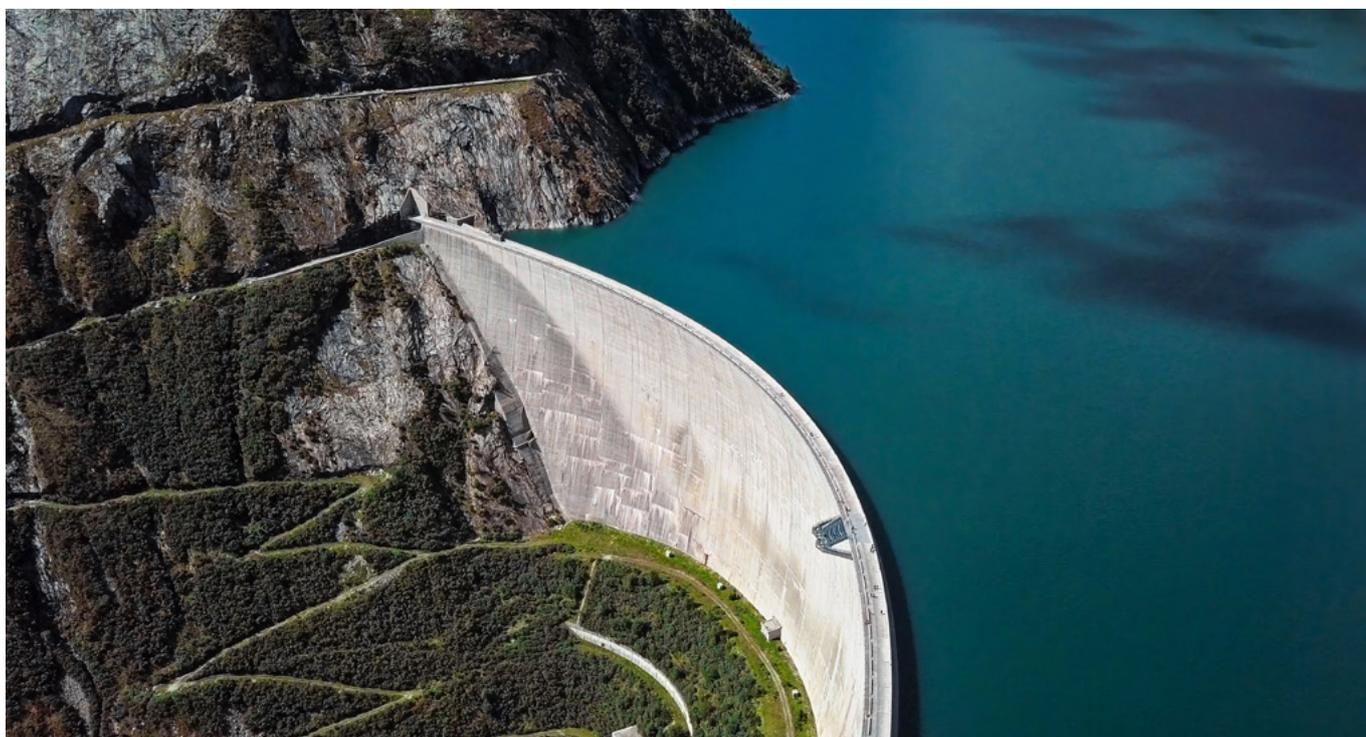
## II. Rationale for Sustainability-Linked Financing Framework

Recognizing the role of sustainable finance in supporting the transition to a low-carbon and more resource-efficient economy, we have decided to put in place a Sustainability-Linked Financing Framework to link our funding with our sustainability objectives, leveraging ambitious timelines to achieve sustainability performance that is relevant, core, and material to our business.

LafargeHolcim's previous sustainability-linked transactions on the loan market have comforted our belief that sustainable finance allows us to mobilize/partner with our stakeholders along our long-term environmental and social commitments. LafargeHolcim now intends to pursue its journey with sustainability-linked finance instruments in the debt capital and loan markets, which may include public bonds, private placements, promissory notes (*Schuldscheindarlehen*), loans, and any other sustainability-linked financing instruments.

This Framework is aligned with the five core components of the Sustainability-Linked Bond Principles published by the International Capital Markets Association (ICMA) in June 2020,<sup>6</sup> and also takes into account the Sustainability Linked Loan Principles, as published by the Loan Markets Association (LMA) in May 2020<sup>7</sup>:

- 1. Selection of Key Performance Indicators**
- 2. Calibration of Sustainability Performance Targets**
- 3. Characteristics of the Sustainability-Linked Notes**
- 4. Reporting**
- 5. Verification**



<sup>6</sup> See: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-linked-bond-principles-slbp/>

<sup>7</sup> See: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>

### III. Selection of the Key Performance Indicator (KPI)

While its business puts LafargeHolcim in a leading position to promote a circular economy, show positive impact in areas of water scarcity, and create value for the communities, LafargeHolcim recognizes decarbonization as the industry's main challenge and challenges itself to continuously reduce the carbon intensity of cement.

The selection of the Key Performance Indicator (KPI) is consistent with the comprehensive review of LafargeHolcim's material issues conducted in 2019, which involved external and internal stakeholders' views on which topics were most relevant for future value creation.

**KPI: Net CO<sub>2</sub> intensity calculated as net kg CO<sub>2</sub> emitted per ton of cementitious material (Scope 1)**

**Definition and methodology for KPI measurement**

LafargeHolcim uses the Global Cement and Concrete Association (GCCA) Sustainability Guidelines<sup>8</sup> for the monitoring and reporting of CO<sub>2</sub> emissions from cement manufacturing (previously WBCSD-CSI Cement CO<sub>2</sub> and Energy Protocol version 3.1) to calculate CO<sub>2</sub> emissions.

The GCCA Sustainability Guidelines for the monitoring and reporting of CO<sub>2</sub> emissions from cement manufacturing are part of a package of guidelines developed to support compliance with the GCCA Sustainability Charter. This document, in conjunction with the GCCA Sustainability Framework Guidelines, provides guidance to GCCA members to fulfill the requirements of the GCCA Sustainability Charter relating to Climate Change and Energy. It is based on the CEN Standard EN 19694-34.

*Cementitious material* is defined following the Cement Sustainability Initiative (CSI)/GCCA definition: Total clinker produced plus mineral components consumed for blending and production of cement substitutes, including clinker sold, excluding clinker bought.

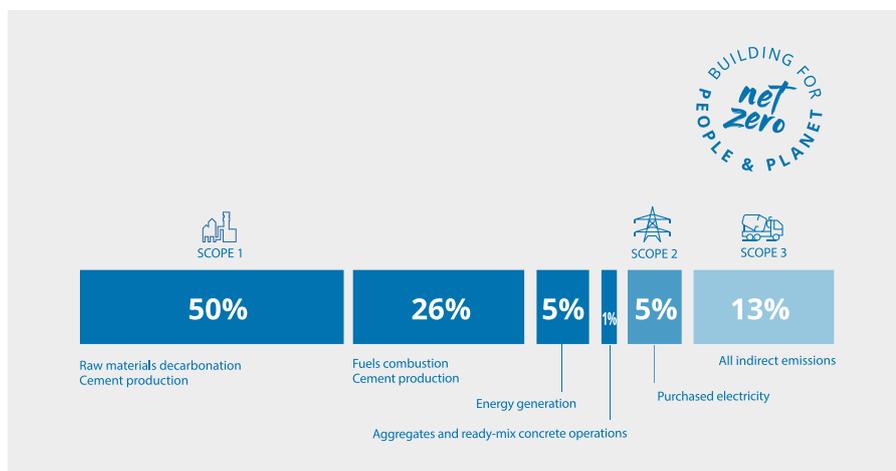
The net CO<sub>2</sub> intensity calculated as net kg CO<sub>2</sub> emitted per ton of cementitious material (Scope 1) KPI is audited and verified annually on a limited assurance basis by an independent external party.

**Rationale**

The cement industry contributes about 7 percent<sup>9</sup> to global industrial carbon emissions. As the global leader, LafargeHolcim has a key role to play to address today's climate crisis. Scope 1 emissions carbon intensity from cement production is thus core, relevant, and material to our business. Given the high materiality of Scope 1 emissions in our business (82 percent of Scope 1 emissions vs. 5 percent of Scope 2 and 13 percent of Scope 3 emissions), we have decided to focus on net kg CO<sub>2</sub> emitted per ton of cementitious material as the indicator for our sustainability-linked funding.

KPI	United Nations Sustainable Development Goals (SDGs)	EU Environmental Objective
<b>Carbon emissions per ton of cementitious material</b>	 <p><b>Climate Action</b></p> <p>LafargeHolcim's targets to reduce carbon intensity and the promotion of sustainable construction as well as innovative solutions contribute to this goal.</p>	<p><b>Climate Change Mitigation:</b> "The manufacturing of cement is associated with significant CO<sub>2</sub> emissions. Minimizing process emissions through energy efficiency improvements and switch to alternative fuels, promoting the reduction of the clinker to cement ratio and the use of alternative clinkers and binders can contribute to the mitigation objective."<sup>10</sup></p>

**LafargeHolcim CO<sub>2</sub> footprint**



<sup>8</sup> <https://gccassociation.org/sustainability-innovation/sustainability-charter-and-guidelines/>

<sup>9</sup> See: <https://www.iea.org/news/cement-technology-roadmap-plots-path-to-cutting-co2-emissions-24-by-2050>

<sup>10</sup> EU Taxonomy Report: Technical Annex, March 2020

## IV. Calibration of Sustainability Performance Target (SPT)

**SPT:** kg net CO<sub>2</sub> emitted per ton of cementitious material (kg net CO<sub>2</sub>/t. cem), Scope 1, equal to or lower than 475, by end of year 2030, i.e., a reduction of 17.5 percent from a 2018 baseline.

2018 has been defined as the baseline since it consisted in the most recent available data when LafargeHolcim initiated in 2019 the validation of its target by SBTi.

**Target observation date for SPT**  
31 December 2030

Note: SPT will not be adjusted in case of future changes of scope.

### Historic values<sup>11</sup>

Performance data on net CO<sub>2</sub> emitted per ton of cementitious material, Scope 1 as published in the reporting year.

### Specific CO<sub>2</sub> emissions – net (Scope 1) as published in reporting year

2017	581 kg net CO <sub>2</sub> /t
2018	576 kg net CO <sub>2</sub> /t
2019	561 kg net CO <sub>2</sub> /t

### External validation of SPT by SBTi and rationale

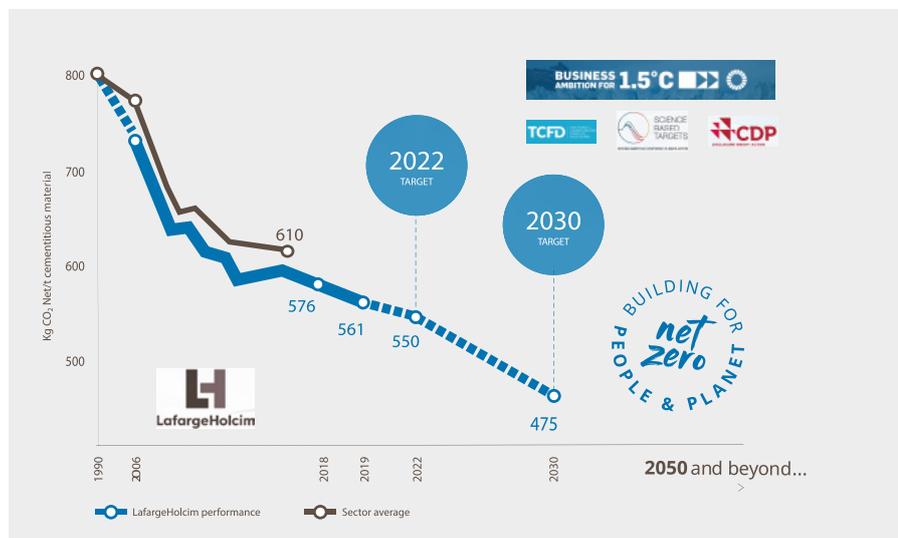
SBTi validated in September 2020 LafargeHolcim's reduction targets for Scope 1 and Scope 2 as consistent with a well-below 2°C scenario.

SPT represents our 2030 target of reaching 475 kg net CO<sub>2</sub> per ton of cementitious material on Scope 1.

SPT has been validated by SBTi as aligned with a well-below 2°C scenario and complies notably with the following SBTi criteria<sup>12</sup>:

- It consists of a 17.5 percent reduction by 2030 compared to 2018 baseline on Scope 1, which has been considered by SBTi sufficiently ambitious and consistent with the level of decarbonization required to keep global temperature increases to well below 2°C compared to preindustrial temperatures.
- It has been set 10 years from the date of target submission and therefore complies with the minimum five-year and maximum 15-year thresholds of SBTi.
- Like all SBTi-validated targets, it has been developed in line with the GHG Protocol Corporate Standard and notably covers all relevant GHGs. SBTi requires companies to set targets based on emission reduction through direct action within their own operations and/or value chains.
- SPT is in line with the latest SBTi criteria (4.1) as of September 2020.

### Our net zero roadmap



Source: <https://gccassociation.org/sustainability-innovation/gnr-gcca-in-numbers/>

<sup>11</sup> Source: LafargeHolcim Integrated Annual Report 2019

<sup>12</sup> SBTi Criteria and Recommendations: <https://sciencebasedtargets.org/wp-content/uploads/2019/03/SBTi-criteria.pdf>

## V. Characteristics of the Sustainability-Linked Notes

### **If the SPT has not been reached at the target observation date, as per the annual reporting published following the target observation date, a premium will be payable by LafargeHolcim.**

The mechanism for payment of the premium will be specified in the final terms of the notes and may include the following:

- An increase in the coupon margin by an amount specified in the documentation of the Sustainability-Linked Finance Instruments payable from the first coupon payment date following the target observation date until maturity or at the point of maturity as specified in the documentation (or until but excluding the coupon payment following the next target observation date if multiple observation dates have been defined).
- A payment of up to 75bps of notional to a research institute or NGO, of international standing, active in the fields of climate research or climate change mitigation, or the LafargeHolcim Foundation for Sustainable Construction.

- A top-up of the R&D budget of up to 75bps of notional earmarked to projects aimed specifically at reducing the carbon intensity of cement production in LafargeHolcim's operations.
- A combination thereof.

If, for any reason, the performance level against each SPT cannot be calculated or observed, or not in a satisfactory manner (non-satisfactory manner to be understood as a verification assurance certificate provided by the independent auditor containing a reservation or the independent auditor not being in a position to provide such certificate), the increased coupon margin (as defined above) will be applicable.

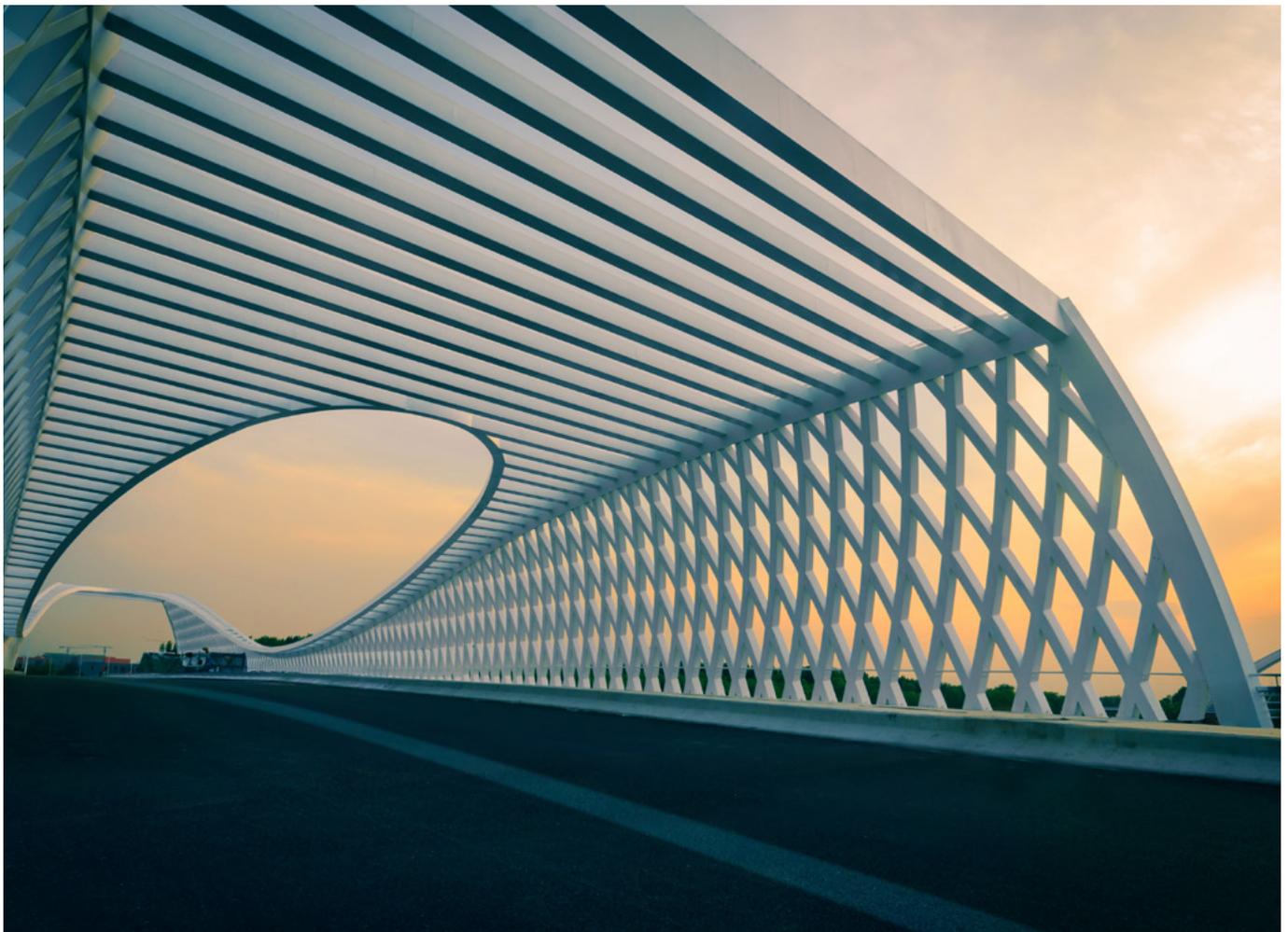
If, for any reason, the company does not publish the relevant SPT within the time limit as prescribed by the terms and conditions of the notes, the increased coupon margin will be applicable.

<sup>13</sup> See: <https://www.lafargeholcim.com/sustainability-reports>

## VI. Reporting

LafargeHolcim will communicate annually on the relevant KPIs and SPT, making up-to-date information and reporting available on its website<sup>13</sup>:

- LafargeHolcim's integrated annual report and sustainability performance report will include the performance of the selected KPIs, including baselines where relevant, covered by an assurance statement of the statutory auditor.
- Following a target observation date, a verification assurance certificate confirming whether the performance on the KPI meets the relevant SPT will be published on LafargeHolcim's website.
- Any information enabling investors to monitor the level of ambition of the SPT (e.g., any update in the LafargeHolcim's sustainability strategy or on the related KPI/ ESG governance, and more generally any information relevant to the analysis of the KPIs and SPT) will also be published on LafargeHolcim's website.
- In addition, LafargeHolcim will publicly disclose its environmental and climate-related data through the CDP Climate Disclosure questionnaire on a yearly basis.



<sup>13</sup> See: <https://www.lafargeholcim.com/sustainability-reports>

## VII. Verification

This Framework and the associated annual reporting will benefit from three layers of external verification:

**Second- party opinion by a recognized ESG agency** on the alignment of the Framework and the associated documentation with the Sustainability-Linked Bond Principles, including an assessment of the relevance, robustness and reliability of selected KPIs, the rationale and level of ambition of the proposed SPT, the relevance and reliability of selected benchmarks and baselines, and the credibility of the strategy outlined to achieve them, based on scenario analyses, where relevant.

**An assurance statement by an auditor** on the KPI information included in our integrated annual report and sustainability performance report annually.

**A verification assurance certificate** confirming whether the performance of the KPI meets the relevant SPT, published on LafargeHolcim's website following a target observation date.

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