Sustainable Procurement

Integrating sustainability in procurement and contractors management

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Supply Chain Overview
Make-to-Stock: a production strategy that balances inventory and opportunity loss due to stock out. It also reduces operating cost, utilizes present idle capacity and prepare the company to better meets future demand (forecasted).
## Characteristics of the Supply chain in the cement sector [2/2]

### Other facts

<table>
<thead>
<tr>
<th>Capital and Energy intensive.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertical integration with quarries (main raw materials)</td>
</tr>
<tr>
<td>Continuous process highly automated</td>
</tr>
<tr>
<td>Cost efficiency driven by assets utilization and benefits from scale</td>
</tr>
<tr>
<td>The industry operates in a oligopolistic market strongly regulated by the Government and competition authorities</td>
</tr>
<tr>
<td>Local business (Production and Sales). Transportation is a relevant cost element of the product:</td>
</tr>
</tbody>
</table>

**Demand:**
- Bulk cement is dominant in mature markets;
- Bagged cement is dominant in emerging markets.
Two functions responsible for the sourcing of materials and services
Procurement and Geocycle

**Procurement**

Traditional goods and services purchased following a global, regional or country sourcing strategy.

**Geocycle**

Alternative fuels, energy and raw materials sourced from repurposing waste through co-processing technologies.

3rd Party Spend FY 2020
~15 bio CHF; ~100 k suppliers;
~92% suppliers from national markets where we operate

46 Mt Waste recovered
Responsible Sourcing Framework
Responsible business conduct in our supply chain
in alignment with OECD guidelines for multinational enterprises

01 Governance and sourcing decisions
Sustainability compliance and performance is integrated in the sourcing decisions, the supplier selection and the “purchase-to-pay” process, through our Group Procurement Policy, our Minimum Internal Control Standards and formal contractual terms and conditions aligned with SA 8000.

02 Identify impact (Supplier prioritization)
We identify potential ESG/H&S impact in our supply chain, by applying a risk-based screening methodology on our supplier base.

03 Verify compliance (Supplier qualification)
We verify compliance, following a 3-steps verification approach, based on risk level: Self-assessment questionnaire; Fact-Finding; Audits.

04 Prevent, Mitigate, Cease
We work with our suppliers to “identify breaches” to the requirements specified in our Supplier Code of Conduct and to “implement improvement action plans”, supporting supplier development, when appropriate. We terminate business relationships with non-compliant suppliers that refuse to implement improvement plans.

05 Monitor performance
We monitor ESG/H&S performance from our suppliers through our ongoing performance evaluation process, which involves conducting regular meetings and post-job evaluations with suppliers.

06 Communicate
We report the progress of sustainable procurement actions in our Group Sustainability Performance Reports, according to GRI standards.
Sustainability is integral part of sourcing decisions, supplier selection and P2P process

7. Legal & Sustainability

7.1 Sustainability - Responsible sourcing in the supply chain

Responsible sourcing means driving purchasing decisions that integrate ESG/H&S impacts with financial and quality criteria, in other words, complying with the United Nations Global Compact principles and the OECD Guidelines for multinational enterprises to respect Human rights.

In doing so, Procurement shall:

7.1.1 “Doing the things right”:
Ensuring business is conducted with suppliers who comply with the supplier Code of Conduct. Compliance is verified through a qualification process to “check compliance, prevent and remedy breaches” (pre-qualification and ongoing performance evaluation, as per minimum control standard:

• with priority given to categories representing the highest risk in terms of company reputation and/or supply disruption
• with a formal dialogue and remediation process, to set and monitor improvement actions with suppliers, when applicable
• with a formal consequence management process, to terminate business relationships with non-compliant suppliers that are not open for dialogue and do not demonstrate willingness to work on performance improvement (in accordance to group risk tolerance and market complexity).

7.1.2 “Doing the right things”:
Partner with suppliers to minimize environmental impacts from purchased goods and services:

• Reduce CO2 emissions (main focus: energy, fuels and transportation).
• Increase circularity (main focus: waste, parts, consumables, packaging & pallets).
• Reduce freshwater consumption and pollution, air emissions, waste and plastic.
• Act for responsible forest and responsible mining (main focus: packaging and extractive raw materials).

7.1.3 ESG/H&S Compliance

Formalize ESG/H&S compliance in all contracts and Purchase Orders through contractual terms and conditions (in line with Social Compliance Audits + SA8000 Standards) and key performance indicators agreed with the supplier.

7.1.4 Performance Objective

Set performance objectives with targets on sustainability, to everyone working in Procurement*.

*Detailed information is provided in Annex 17.

7.2 Third Party Due Diligence

LH often uses the services of Third Parties where it lacks internal resources or the requisite expertise. Sometimes we are even required by law to use Third Parties. A
We have the right Governance and systems in place

- "Supplier Code of Conduct" embracing the UNGC principles
- Policy landscape and "Minimum Control Standards" system
- "Supplier ESG/H&S Qualification Standard" adopting the [OECD Due Diligence Guidance for Responsible Business Conduct](https://www.oecd.org)
- Public statements of [company governance](#), respect for [Human Rights](#) and [UN Pledge to eradicate child labour in the supply chain](#)
- Disclosure of sustainability performance in accordance with [GRI](#)
- Signature of the WBCSD "[Call to Action for Business Leadership on Human Rights](#)"
- Grievance mechanisms for employees, suppliers and communities ([Integrity Line Platform](#))
- [Health & Safety Standards](#) and Audits (employees and contractors on-site)
- Supplier assessment by third parties ([AVETTA](#), [Dun & Bradstreet](#), Damstra…)
- Third Party Due Diligence ([Anti-Bribery and Corruption](#))
- Suppliers Field Audits (protocol and toolbox) and ongoing Dialogue to improve sustainability performance
We have the right programs and standards
To actively verify compliance across Group companies and the Supplier base

**Sustainable Procurement**
Suppliers Sustainability Management Standard aligned with ISO 20400

**Supplier Engagement Leader**
Holcim recognized as a
In 2020 with an A score, raising the level of climate ambition across our value chain

**CHRB**
Holcim Human rights due diligence

**Highest score**
in the building materials sector, in 2020

**ecovadis**
Holcim Sustainable Procurement Program
Top rated
By Ecowadis

Focus
to improve implementation in MEA, EU and APAC
by 2022
We proactively address ESG / H&S impact in our supply chain

**Conducting due diligence in the supply chain**

*Doing the things right …*

- Work with approved suppliers
- Compliance with law and regulation

1. **WHO** is the supplier and what risks/opportunities bring to Holcim? (prioritization)
2. **Verify** compliance (qualification)
3. **Remediate** non-compliance
4. **Monitor** ongoing performance

- OECD Guidelines for multinational enterprises (due diligence)
- SAPIN II
- Devoir de Vigilance
- Responsible Business initiatives (EU, CH…)
- Modern slavery Act
- OSHA
- etc

**Reducing environmental & social impact**

*… and doing the right things.*

- Buy sustainable products/services
- Raise market standards

**Reduce negative ESG impact:**
- CO2 emissions (Scope 3)
- Air emissions
- Water consumption
- Deforestation
- Plastic pollution
- Depletion of natural resources
- Labor standards (contractors & extractive raw materials)

**Main focus markets:**
1. BCC China
2. MEA
3. APAC
4. Latam
5. Eastern Europe
We set actionable targets and monitor performance across the Group.

2020 results at a glance

**Due diligence in the supply chain**

<table>
<thead>
<tr>
<th>Year</th>
<th>Business with ESG approved suppliers</th>
<th>% Spend ESG suppliers qualified</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>77</td>
<td>77 [% Spend ESG suppliers qualified]</td>
</tr>
<tr>
<td>2020</td>
<td>72</td>
<td>72 [% Spend ESG suppliers qualified]</td>
</tr>
<tr>
<td>20 vs 19</td>
<td>▼ -6.5% (1)</td>
<td></td>
</tr>
</tbody>
</table>

1) COVID impact = 10% reduction Procurement Spend (LFL); 5% Reduction Supplier Base. Both reductions diluted the supplier qualification efforts
2) 33 mio tons CO2 estimated using 2020 methodology. CDP 2019 = 19.3 mio tons CO2

**Scope 3 emissions**

<table>
<thead>
<tr>
<th>Year</th>
<th>CO2 emissions in the supply chain</th>
<th>2020 baseline for reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>n/a (2)</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

100% High ESG impact suppliers qualified by 2022

-20% Fuels & Transportation by 2030
Sustainable Procurement Program
Due diligence in the supply chain
We actively verify compliance across our supplier base
72% of business (annual spend) with high ESG impact was conducted with approved suppliers

• The sustainable procurement program is measured through a “compliance” KPI: working with suppliers that adhere to Holcim Supplier Code of Conduct

• This requires conducting due diligence in the supplier base:
  • Screening and pre-qualifying NEW suppliers by applying a prioritization methodology to identify ESG impact from product and service categories
  • Ongoing verification of compliance from suppliers identified as high ESG impact following a standard approach (3-steps verification based on risk level)

• KPI is monitored since 2016.
• Countries developed their own roadmap to reach 100% of the compliance by 2022 (ram-up of the existing supplier base).
Due Diligence - YoY Performance

Source: iCare Sustainable Procurement FY 2020

Risk identification
Supplier Prioritization

Suppliers with high ESG impact
[% ACTIVE SUPPLIERS]

2018
34 %
of 109k active suppliers
covering 34% of Total Spend (18.1 bio CHF)

2019
34 %
of 106k active suppliers
covering 33% of Total Spend (16.3 bio CHF)

2020
35 %
of 101k active suppliers
covering 35% of Total Spend (14.5 bio CHF)

2022
n/a

Risk management
Due diligence

Business with ESG approved suppliers
[% SPEND of high ESG suppliers qualified]

2018
62 %
of 7.8 bio CHF Spend with high ESG risk

2019
77 %
of 7.9 bio CHF Spend with high ESG risk
+24%

2020
72 %
of 9.3 bio CHF Spend with high ESG risk
-6.5%

2022
100 %

TARGET
Supplier base prioritization
Suppliers with potential high ESG impact
Our approach to build supplier relationship
From supplier segmentation to sourcing strategy

Supplier relationship based on a good understanding of the strategic importance and the risks / opportunities that suppliers bring to our company. Aiming to enhance the value we get from them and reduce the risk related to supply disruption and company reputation.

The strategic importance and risks are related to:

- product & market complexity (strategic and/or critical quadrant)

- High ESG risk (any quadrant as risk is related to the product / service impact on environment, H&S, working conditions, human rights and governance)
We focus the effort on suppliers with high potential ESG impact

Due diligence

Doing the things right …

Work with approved suppliers

1. **WHO** is the supplier and what risks/opportunities bring to Holcim? (prioritization)
2. Verify compliance (qualification)
3. Remediate non-compliance
4. Monitor ongoing performance

A 3-steps standard methodology to prioritize the supplier base based on ESG/H&S impact

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Filter the supplier base, based on ESG/H&amp;S risks related to the product/services provided = 1st List</td>
</tr>
<tr>
<td>2</td>
<td>Filter the supplier 1st List, based on risks exposure related to business relationship (volumes and spend)¹</td>
</tr>
<tr>
<td>3</td>
<td>Based on country risk level, adjust Final List of suppliers in scope (increase/decrease suppliers in scope)</td>
</tr>
</tbody>
</table>

Main procurement categories in scope:
- Raw material
- Maintenance, Engineering, Quarry services, Transportation (contractors)
- Energy
- Equipment
- Capex
- Packaging

- 80% spend
- 80% volume/transactions

Countries with high risk business environment:
- Human Development Index < 0.79
- Freedom House Index = Not Free or Partially Free

¹ Exception: “Contractors” risk exposure is not related to volume but to the risk of the work executed
We verify compliance according to risks levels

Due diligence

Doing the things right …

Work with approved suppliers

1. **WHO** is the supplier and what risks/opportunities bring to Holcim? (prioritization)
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4. Monitor ongoing performance

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Assessments provide suppliers with the opportunity to demonstrate compliance and provide LH with the basis to monitor performance of high risk suppliers

1. **Self-assessment** (questionnaire)
   - Qualification platforms (e.g. Avetta) make this step more efficient, consistent and transparent

2. **Fact-finding** (evidences)
   - To verify breaches identified in the self-assessment. High risk countries are expected to conduct this step and not to rely on self-assessments.

3. **On-site Supplier Audit**
   - To confirm breaches with stronger evidences and trigger specific remediation actions. Suppliers of extractive raw materials in high risk countries are to be audited annually / bi-annually
We guide suppliers to close ESG breaches

Due diligence

Doing the things right …

Work with approved suppliers

1. WHO is the supplier and what risks/opportunities bring to Holcim? (prioritization)
2. Verify compliance (qualification)
3. Remediate non-compliance
4. Monitor ongoing performance
We monitor implementation across the Group

Due diligence

Doing the things right …

Work with approved suppliers

1. **WHO** is the supplier and what risks/opportunities bring to Holcim? (prioritization)
2. **Verify** compliance (qualification)
3. **Remediate** non-compliance
4. **Monitor ongoing performance**
Deep verification on contractors conducted in low regulated markets
The Holcim Human Rights methodology (Due diligence)

Formal consultations with employees and contractors to discuss in an open environment about “work life” conditions.

“Focus Groups”

“On-the-spot interviews”
Auditing Suppliers
Audit protocol and toolbox for procurement organizations to adopt

On-site audits conducted to:
- verify breaches identified during self-assessment & Fact-finding
- verify compliance of suppliers of extractive raw material and
- for contractors conducting very high risk jobs

<table>
<thead>
<tr>
<th>Item no</th>
<th>Requirement</th>
<th>Compliance Check/NA</th>
<th>Documents checked &amp; comments</th>
<th>Description of non-compliance &amp; reasons given</th>
<th>Corrective action recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1:6</td>
<td>Is the local minimum working age for children applied?</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2:6</td>
<td>Is there an effective procedure to verify the age of workers at the time of recruitment?</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3:6</td>
<td>Does the facility keep adequate age documents of workers such as 12 copies and personal records?</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4:6</td>
<td>Are young workers exempted of hazardous work?</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5:6</td>
<td>Are young workers exempted of night shift?</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Audit protocol provides guidelines on:
- When is needed to conduct an Audit on supplier premises?
- Audit Objective
- Audit Scope
- Audit Duration
- Audit Team
- Audit Process
- Audit preparation
- Audit Execution
- Report and follow-up
“Consequence Management” to address non-compliance
Pre-qualification and ongoing performance evaluation

A comprehensive Guidance is available for Procurement to work with suppliers on closing the identified breaches

<table>
<thead>
<tr>
<th>Commercial qualification</th>
<th>Supplier approved</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability (ESG) qualification</td>
<td>Supplier “conditionally” approved</td>
<td>Contract with Remediation Plan</td>
</tr>
<tr>
<td>Technical qualification (goods &amp; services)</td>
<td>Supplier rejected</td>
<td>Stop business</td>
</tr>
<tr>
<td>Ongoing Performance Evaluation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Financial health of the supplier
2 Conditionally approved suppliers are required to establish a remediation plan within a specific period of time to fix identified gaps. After that period, if gaps are not closed or if the supplier does not collaborate, then Holcim shall stop business with the supplier
Integrating ESG & HSE in the Contractor Management Process
Suppliers Sustainability Management Standard (SSMS) - Chapter 10

The Chapter 10 of the SSMS outlines the requirements for ensuring that adequate processes are developed and implemented to control or minimize the risks associated with contracted activities.

Health & Safety strategy: Ambition “0”
One team, One program

Specific Health & Safety elements of the contractor management include:

- the roles and responsibilities for contractor’s management: Site Contractor Coordinator, Procurement and Contractor.
- the key activities and considerations for each step of the process illustrated in graph beside.
- The approach toward contractor employees, subcontractors, Tools, Equipment and PPE.
- Link to extensive H&S standards and Audit toolbox (Group H&S).
Systematic integration of ESG & HSE in the Supplier Selection
Enhanced Total Cost of Ownership

Example: Heavy Mobile Equipment

LafargeHolcim Industrial Procurement
HME TCO Tool v4.0 Explanation

Kg CO2 associated with the equipment is embedded in the TCO model to inform purchasing decisions.
CO2 emissions in the Supply Chain 
Scope 3
For the first time, we are using a rigorous methodology to measure the CO2 emissions from our supply chain, aligned with GHG and GCCA protocols and it is assured by EY.

We are committed not only to disclose but also to set actionable targets to reduce our CO2 emissions.

We have a solid 2020 baseline to define actionable 2030 reduction targets, as communicated with our Net Zero Pledge.
Holcim CO2 footprint - 2020

47% Raw materials decarbonation
Cement production

25% Fuels combustion
Cement production

2.5% Energy generation

5% All indirect emissions

0.5% Aggregates and RMX operations

20% Purchased electricity
Holcim is the first company in the sector taking real actions to reduce scope 3 emissions.

- We do about **2B km per year**. ~95% from third party transportation companies.

- We monitor about ~70% of these km, with ivms in more than 40,000 trucks.

- Transportation account for ~25% of our Scope 3 emissions.

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From “disclosure” to “management”
A rigorous approach, aligned with GHG & GCCA1 protocols and assured by EY

~ 75% of scope 3 concentrated in 3 categories: Transportation, Fuels & Energy and purchased clinker & cement

<table>
<thead>
<tr>
<th>UPSTREAM ACTIVITIES</th>
<th>CO₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUELS &amp; ENERGY</td>
<td>6.9 MT</td>
</tr>
<tr>
<td>CLINKER &amp; CEMENT PURCHASED</td>
<td>7.2 MT</td>
</tr>
<tr>
<td>BULK MATERIALS</td>
<td>2.6 MT</td>
</tr>
<tr>
<td>CHEMICALS</td>
<td>1.5 MT</td>
</tr>
<tr>
<td>INBOUND LOGISTICS</td>
<td>1.3 MT</td>
</tr>
<tr>
<td>EQUIPMENT</td>
<td>0.8 MT</td>
</tr>
<tr>
<td>OTHER PURCHASES</td>
<td>0.8 MT</td>
</tr>
<tr>
<td>BUSINESS TRAVEL &amp; COMMUTING</td>
<td>0.1 MT</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OWN OPERATION</th>
<th>29 mio Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emissions Scope 3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DOWNSTREAM ACTIVITIES</th>
<th>CO₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outbound logistics</td>
<td>7.9 MT</td>
</tr>
</tbody>
</table>

¹ GHG: Greenhouse Gas Protocol; GCCA: Global Cement and Concrete Association
Our actions to reduce CO2 and deploy responsible sourcing in our supply chain

GREENER
• Optimize transportation network, operations and fleet
• Replace fossil fuels with energy from waste
• Integrate environmental impact in sourcing decisions

SMATER
• Transport Analytics Center
• Open innovation- e.g. “Smart trucking Nigeria” LINK YOUTUBE
• Research Center Lyon - e.g. “RMX truck emissions capture” (prototype piloted in France)

FOR ALL
• Road safety
• Decent working conditions (sustainable procurement program)
• Promote women drivers (e.g. Ecuador, Uganda)
• Protect People: US Truckers against trafficking (Intercem 2020 speech)
An integrated ecosystems to manage our logistics

- Since 2017, TAC enables performance improvement
- More than 70% of the Group's transport distances\(^1\) are monitored by “In-vehicle Management Systems (iVMS)”
- TAC provides a dashboard to enable tactical decisions and monitoring of operation, cost, CO\(_2\) and road safety.

\(^{1}\) 2 B KM driven per year, ~95% with third party transportation companies
TAC CO2 Dashboard V1.0
Recognitions and advocacy
Engaging external stakeholders in our journey to net zero

Holcim recognized as a Supplier Engagement Leader in 2020 with an A score, raising the level of climate ambition across our value chain.

Signature of “Call for Action” To accelerate zero emission technology for heavy duty vehicles

Signature Transparent reporting of shipping emissions
a framework for assessing and disclosing the climate alignment of ship chartering activities around the globe

Call for Zero Emission Freight Vehicles
Already 82 organisations have signed the call, covering 263,687 zero emission freight vehicles.

The Sea Cargo Charter is an important step in laying the foundations for a net-zero emissions shipping industry. Collaboration such as this, from across the sector, is vital to scale-up customer demand for low- or zero-emissions shipping.

IMO decarbonisation trajectory 2050
Fleet optimization: Examples
Ongoing developments to follow-up and potentially scale-up

**ELECTRIC RMX TRUCKS (SWITZERLAND – BUS.CASE)**
- Initial cost much higher than Diesel truck, however the total financing + operating cost per year are similar
- Marginal additional cost for the installation of standard electrical power plugs for charging batteries
- TCO similar to Diesel truck over 10 years
- H2 burning cells technology lays far beyond electrical drive
- Marketing & communication benefits
- Access to “Eco projects”. Increase sales volumes

**DESIGN OPTIMIZATION (GERMANY – BUS.CASE)**
- Payload increase through optimal configuration of silo trucks
- Lower CO₂ due to Smaller and lighter silo kettle
- Lower fuel consumption due to topographic navigation system in connection with assistance systems