

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability-Linked Securities

Holcim Group
28 February 2022

VERIFICATION PARAMETERS

Types of instruments contemplated	Sustainability-Linked Securities
Relevant standards	Sustainability-Linked Bond Principles, as administered by ICMA (June 2020) Sustainability-Linked Loan Principles, as administered by LMA (May 2021)
Scope of verification	Holcim's Sustainability-linked Financing Framework (15.02.2022)
Lifecycle	Pre-issuance verification
Validity	As long as Holcim's Sustainability-Linked Financing Framework and SPTs benchmarks remain unchanged

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SCOPE OF WORK

Holcim Group (“Holcim” or the “Issuer”) commissioned ISS ESG to assist with its Sustainability-Linked Securities by assessing three core elements to determine the sustainability quality of the instrument:

1. The sustainability credibility of the KPI selected and Sustainability Performance Targets (SPTs) calibrated – whether the KPI selected is core, relevant and material to the issuer’s business model and sector and whether the associated target is ambitious.
2. Holcim’s Sustainability-Linked Financing Framework (15.02.2022) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBPs), as administered by the International Capital Market Association (ICMA) in June 2020, and the Sustainability-Linked Loan Principles (SLLPs), as administered by the Loan Market Association (LMA) in May 2021.
3. Sustainability-Linked Bonds link to Holcim’s sustainability strategy – drawing on Holcim’s overall sustainability profile and related objectives.

HOLCIM BUSINESS OVERVIEW

Holcim manufactures building materials and has a global presence. The company provides innovative and sustainable building solutions and has four business segments: Cement, Ready-Mix Concrete, Aggregates and Solutions & Products. Holcim is behind some of the different brands in the building sector including ACC, Aggregate Industries, Ambuja Cement, Disensa, Firestone Building Products, Geocycle, Holcim and Lafarge. Around 70,000 people around the world are employed by the company.

ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ¹
<p>Part 1A:</p> <p>KPI 1: Net CO₂ intensity (Scope 1)</p> <p>SPT 1: Reduction of 9.7% by 2025</p> <p>SPT 2: Reduction of 17.5% by 2030</p>	<p>KPI selection: Relevant, Core, and Material² to issuer's direct operations</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer's past performance • SPT 2 is ambitious against issuer's sectorial peer group with SPT 1 being a subset of SPT 2 • SPT 2 is ambitious against the Paris Climate Goals with SPT 1 being a subset of SPT 2 <p>ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. It is material to the issuer's direct operations but does not cover the entire corporate value chain. This is because the KPI does not include the Scope 2 nor Scope 3 emissions, which together represent 25% of the company's overall emissions. Holcim has also SBTi validated targets to cover its Scope 2 and 3 emissions, which are not included on this Framework. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified, and benchmarkable.</p> <p>ISS ESG finds that SPT 1 and 2 calibrated by Holcim are ambitious against the company's past performance. SPT 2 is ambitious against the Construction Materials sector peer group in the ISS ESG universe in terms of defining an SBTi-verified Scope 1 GHG emissions reduction target. SPT 1, being a subset of SPT 2, can be regarded as ambitious against peers as well. The SPTs are in a similar order of magnitude as the top tier companies in the Construction Materials sector in ISS ESG Universe. SPT 2 is deemed ambitious against the Paris Agreement and SPT 1, despite not being separately verified by the SBTi, can be considered in line with the pathway for Scope 1 and 2 emissions reduction by 2030 for well below 2 degree scenario. It is worth noting that the SBTi verified Holcim's Scope 1 and 2 emissions targets, however the SPT1 and 2 only include Scope 1 emissions, which account for 75% of the company's total emissions. The targets are set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.</p>
<p>Part 1B:</p> <p>KPI 2: Specific freshwater withdrawal intensity</p>	<p>KPI selection: Relevant, Core, and Material to issuer's business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer's past performance • Ambitious against issuer's sectorial peer group • No information on international targets to assess ambition against <p>The KPI selected, specific freshwater withdrawal at a constant 2020 scope measured as liters freshwater per ton of cementitious material, is relevant, core and material to the issuer's</p>

¹ ISS ESG's evaluation is based on the engagement conducted in February 2022, on Holcim's Sustainability-Linked Securities Framework (15.02.2022) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 12.10.2021).

² ISS ESG's materiality assessment takes into consideration a mix of relevant market standards, including the SBTi and industry standards and practices. In this case, Holcim's Scope 2 emissions as a proportion of its total emissions, are 6.25%, compared with the 5% threshold of total emissions as included in SBTi criteria C5 which describes when Scope 2 emissions may be excluded from target setting for all sectors in general. However, Scope 1 emissions in the cement sector is generally considered as much more material than Scope 2 by sector standards. For example the EU ETS treatment of cement emissions (and the corresponding EU Taxonomy criteria) focus on only the Scope 1 emissions of cement production. Also, the Transition Pathways Initiative (TPI)'s methodology note (July 2018) on the carbon performance assessment of cement producers focuses on only Scope 1 emissions. Overall the assessment for KPI 1 is material.

<p>SPT 3: Reduction of 25% by 2025 compared to 2018</p> <p>SPT 4: Reduction of 33% by 2030 compared to 2018</p>	<p>business model and consistent with its sustainability strategy. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified, and benchmarkable.</p> <p>ISS ESG finds that SPT 3 and 4 calibrated by Holcim are ambitious against past performance and against sectorial peers. Despite the fact that the SPTs yearly projected reduction rate are lower than in the past, several qualitative considerations have been taken into consideration. The fact that Holcim has taken steps in the past to reduce their freshwater withdrawal intensity steeply and that, compared to peers, the issuer already has a more efficient production in terms of freshwater withdrawal, lead to the conclusion that the SPTs are ambitious against past performance. Second, out of the sectorial peer group of 98 companies, 17 companies (including Holcim) set a freshwater reduction target, from which 7 set an absolute target and 10 an intensity target. As such, Holcim ranks in the top 17% of the peer group in terms of targets set. Third, due to a lack of international targets on freshwater withdrawal intensity, no level of ambition of the SPTs against international targets can be assessed. Lastly, the targets are set in a clear timeline.</p>
<p>Part 2:</p> <p>Alignment with the SLBPs and the SLLPs</p>	<p>Aligned with ICMA Sustainability-Linked Bond Principles and with LMA Sustainability-Linked Loan Principles</p> <p>The Issuer has defined a formal framework for its Sustainability-Linked Securities regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), Sustainability-Linked Securities characteristics, reporting and verification. The Framework is in line with the Sustainability-Linked Bond Principles (SLBPs) administered by the ICMA and the Sustainability-Linked Loan Principles (SLLPs) administered by the LMA.</p>
<p>Part 3:</p> <p>Link to issuer's sustainability strategy</p>	<p>Consistent with issuer's sustainability strategy</p> <p>According to the ISS ESG Corporate Rating published 12.10.2021, the company currently shows a high sustainability performance against peers on key ESG issues faced by Construction Materials sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10. Holcim is rated 3rd out of 106 companies within its sector as of 02.11.2021.</p> <p>The KPIs selected by Holcim are related to climate change mitigation and sustainable use and protection of water resources. These issues have been defined as key priorities of the issuer in terms of sustainability strategy and ISS ESG finds that this is a material sustainability topic for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPIs' clear link to the key sustainability priorities of the issuer and due to ambitious SPTs.</p>

ISS ESG SPO ASSESSMENT

PART 1: KPI SELECTION & SPT CALIBRATION

1A.1 KPI 1: Net CO₂ intensity reduction

KPI selected by the issuer

FROM ISSUER'S FRAMEWORK

- **KPI:** CO₂ intensity measured as net kg CO₂/t cementitious material (Scope 1)
- **SPT 1:** Reduce net CO₂ emissions per ton of cementitious material by 9.7% by 2025 from a 2018 baseline
- **SPT 2:** Reduce net CO₂ emissions per ton of cementitious material by 17.5% by 2030 from a 2018 baseline

Rationale: The cement industry contributes to about 7.3%³ of global industrial carbon emissions. As the global cement company, Holcim play a key role 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 materiality of Scope 1 emissions in the issuer's business (75% of Scope 1 emissions vs. 5% of Scope 2 and 20% of Scope 3 emissions), they have decided to focus on net kg CO₂ emitted per ton of cementitious material as the indicator for their sustainability-linked funding.

Baseline: net 576kg CO₂/ton produced⁴

Baseline year: 2018⁵

2030 goal: net 475kg CO₂/ton produced

Scope: Production of cementitious materials. Scope 1 CO₂ emission reduction KPI and associated target cover approximately 75% of Holcim's current carbon emissions (2020) according to the issuer, whereas scope 2 makes up for 5% and scope 3 makes up 20%. Because scope 2 emissions amount to such a small percentage, concentrating on Scope 1 emissions for the KPI is where the most material impact can be achieved. This approach aligns with the EU Taxonomy technical criteria for the cement industry in relation to the climate change mitigation environmental objective. Additionally, this approach was validated with SBTi.

Materiality and relevance

Climate change mitigation is considered as a key ESG issue faced by the Construction Materials sector according to key ESG standards⁶ for reporting and ISS ESG proprietary assessment. Companies in this sector are highly energy-intensive, namely in the process of producing construction materials, and thus a highly CO₂ emitting industry. In that context, the sector is exposed to climate change mitigation challenges such as environmental impacts of raw material extraction, eco-efficiency of production, as well as water risks and impact, and pollution.

³ See: <https://www.iea.org/news/cement-technology-roadmap-plots-path-to-cutting-co2-emissions-24-by-2050>

⁴ The 2018 baseline includes Scope 1 exclusively, as it accounts for 75% of Holcim's GHG emissions.

⁵ Holcim's previous 2030 target of 0.520 tCO₂/ton was validated with SBTi in December 2019, based on the 2018 baseline in order to use the most recent year, as per SBTi criteria. When signing the Pledge, the 2030 target was considered an update of the existing level of ambition, from 2DS to WB2DS, respecting the initial baseline. Therefore the baseline year 2018 was selected in accordance to the 2019 validation exercise with SBTi.

⁶ Key ESG Standards include SASB and TCFD, among others.

ISS ESG finds that climate change mitigation and the CO₂ emissions reduction KPI selected by the issuer are:

- **Relevant** to Holcim’s business as its industry is highly CO₂ emitting and exposed to climate change mitigation solutions (e.g. eco- and energy-efficiency of production processes).
- **Core** to the Issuer’s business as climate change mitigation reduction measures will impact key processes and operations.
- **Material**⁷ to the issuer’s direct operations but does not cover the entire corporate value chain. This is because the KPI does not include the Scope 2 nor Scope 3 emissions, which together represent 25% of the company’s overall emissions. By concentrating on Scope 1 emissions, the issuer aims to focus its attention where the most material impact can be achieved in the context of this framework. Holcim has also SBTi validated targets to cover its Scope 2 and 3 emissions, which are not included on this Framework.

Consistency with overall company’s sustainability strategy

Holcim identified climate change mitigation as one of its long-term priorities. The definition of its CO₂ emissions reduction KPI is consistent with the issuer’s long-standing strategy of mitigating climate change.

Since 1990, the company has reduced its CO₂ emissions per ton of cementitious materials by 27%. Holcim has a good track record regarding its eco-efficiency and has continuously committed to reduce its energy, carbon, nitrogen oxide emissions and waste intensity in the last five years.

Holcim is part of 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 SBTi⁸. This commitment builds on Holcim’s leadership in green construction with cutting-edge solutions such as ECOPact and ECOPlanet, its green concrete, and Susteno, its leading circular cement.

As part of their Strategy 2022 “Building for growth”, Holcim has established four strategic pillars of sustainability – Climate & Energy, Circular Economy, Environment and Communities.

Moreover, on 28 October 2021 the company announced that their full net-zero pathway for 2050 has been validated by the SBTi. These long-term targets build on its 2030 commitments and cover the company’s entire value chain, i.e. Scope 1, 2 and 3 emissions.

Holcim’s strategy has been drafted according to the recommendations by the International Energy Agency⁹ on cement companies need to decarbonize to align with the Paris agreement and a 2° Celsius warming scenario, by improving energy efficiency, switching to lower-carbon fuels, promoting material efficiency and advancing process and technology innovations such as CCUS.

⁷ ISS ESG’s materiality assessment takes into consideration a mix of relevant market standards, including the SBTi and industry standards and practices. In this case, Holcim’s Scope 2 emissions as a proportion of its total emissions, are 6.25%, compared with the 5% threshold of total emissions as included in SBTi criteria C5 which describes when Scope 2 emissions may be excluded from target setting for all sectors in general. However, Scope 1 emissions in the cement sector is generally considered as much more material than Scope 2 by sector standards. For example the EU ETS treatment of cement emissions (and the corresponding EU Taxonomy criteria) focus on only the Scope 1 emissions of cement production. Also, the Transition Pathways Initiative (TPI)’s methodology note (July 2018) on the carbon performance assessment of cement producers focuses on only Scope 1 emissions. Overall the assessment for KPI 1 is material.

⁸ In line with keeping warming to well-below 2°C; the target boundary includes land related emissions and removals from bioenergy feedstocks.

⁹ <https://www.iea.org/reports/cement>

ISS ESG finds that the KPI selected by the issuer is consistent with the company's overall sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI selected covers all of the cement producing facilities of Holcim.
- **Quantifiable/Externally verifiable:** The KPI selected is measurable and quantifiable. The net CO₂ intensity per ton of cementitious material produced KPI is widely disclosed and standardized in the market. The issuer is referring to key reporting and accounting protocols for CO₂ emissions such as the Global Cement and Concrete Association (GCCA) Sustainability Guidelines¹⁰. The GCCA Sustainability Guidelines for the monitoring and reporting of CO₂ 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 full members to fulfil the requirements of the GCCA Sustainability Charter relating to Climate Change and Energy. It is based on the CEN Standard EN 19694-34. SBTi validated in September 2020 Holcim's reduction targets for Scope 1 and Scope 2 as consistent with a well below 2°C scenario. Furthermore, the accounting conforms with the GHG Protocol.
- **Externally verified:** The KPI, net CO₂ intensity calculated as net kg CO₂ emitted /t cementitious material (Scope 1), is audited and verified annually on a limited assurance basis by an external verifier (Ernst & Young).
- **Benchmarkable:** By referring to commonly acknowledged CO₂ accounting standards and protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPTs in relation with this KPI has been analyzed in section 2.

Opinion: ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. It is material to the issuer's direct operations but does not cover the entire corporate value chain. This is because the KPI does not include the Scope 2 nor Scope 3 emissions, which together represent 30% of the company's overall emissions. Holcim has also SBTi validated targets to cover its Scope 2 and 3 emissions, which are not included on this Framework. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable.

¹⁰ <https://gccassociation.org/sustainability-innovation/sustainability-charter-and-guidelines/>

1A.2 SPT 1 and 2: Net CO₂ intensity reduction

SPTs set by the issuer

FROM ISSUER'S FRAMEWORK¹¹

- **KPI:** CO₂ intensity measured as net kg CO₂/t cementitious material (Scope 1)
- **Sustainability Performance Target (SPT) 1:** Reduce net CO₂ emissions per ton of cementitious material by 9.7% by 2025 from a 2018 baseline
- **Sustainability Performance Target (SPT) 2:** Reduce net CO₂ emissions per ton of cementitious material by 17.5% by 2030 from a 2018 baseline

Structural Characteristics: If the Sustainability Performance Target(s) has not been reached at the respective Target Observation Date, as per the annual reporting published following such Target Observation Date, a coupon step-up margin or a premium will be payable by Holcim as specified in the transaction documentation. For the avoidance of doubt, any series of Sustainability-Linked Notes may refer to one or more Sustainability Performance Targets and/or to one or more Target Observation Dates.

SPT 1 Target Observation Date: December 31, 2025

SPT 2 Target Observation Date: December 31, 2030

2018 Baseline Intensity: net 576kg CO₂/ton produced¹²

Rationale: The cement industry contributes about 7% to global industrial carbon emissions. Holcim has a role to play to address today's climate crisis. Scope 1 emissions carbon intensity from cement production is thus core, relevant and material to their business. Given the high materiality of Scope 1 emissions in the company's business (75% of Scope 1 emissions vs. 5% of Scope 2 and 20% of Scope 3 emissions), Holcim decided to focus on net kg CO₂ emitted per ton of cementitious material as the indicator for their sustainability-linked funding.

Strategic 2030 Goal and selection of methodology for calculating the SPTs: These SPTs align with Holcim's 2030 Goal of reducing net CO₂ emissions intensity by 17.5% to net 475kg CO₂/t produced (Scope 1 emissions). The 2030 Goal (i.e. SPT 2) has been validated by the SBTi as a aligned with a well-below 2°C scenario.

Risks to the target: Pandemic, epidemics, outbreaks of infectious diseases or any other serious public health concerns, competition, emerging markets risks, political risks and risks arising from exceptional external incidents, cyclical nature of the construction industries, risk relating to the use of substitutes for cement, seasonal nature of construction business.

Ambition

Against company's past performance

Holcim sets the SPTs to reduce its net CO₂ emissions (Scope 1) intensity equal to or less than 520 kg CO₂/ton produced by end of 2025 and 475kg CO₂/ton produced by end of 2030. This equates to an

¹¹ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

¹² The 2018 baseline includes Scope 1 exclusively, as it accounts for 75% of Holcim's GHG emissions. Whereas Scope 2 makes up for 5% and scope 3 makes up 20%. Therefore concentrating on Scope 1 emissions for the KPI is where the most material impact can be achieved. Additionally, this approach aligns with the EU Taxonomy technical criteria for the cement industry in relation to the climate change mitigation environmental objective.

estimated reduction of 9.7% by 2025 and 17.5% by 2030 compared to the 2018 baseline year on Scope 1.

Holcim has been reporting on the historical data of this KPI for several years. Table 1 displays the historical performance from 2017 until 2020 as well as the year-on-year reduction rates, which fluctuated between -0.86% and -2.60%. The SPTs that Holcim calibrated set out a reduction path with Compound Annual Growth Rates (CAGR) of -1.45% and -1.59% for SPT 1 and SPT 2, respectively.

The issuer provided historical performance data on net CO₂ emitted per ton of cementitious material, i.e. Scope 1, as published in the reporting years from 2017 to 2019, which meets the 3 years of historical data as required by the SLBP.

TABLE 1.	2017	2018 - BASELINE	2019	2020	2025 – SPT 1	2030 – SPT 2
Specific CO2 emissions – net (kg net CO2/t)	581	576	561	555	520	475
Year-on-year reduction		-0.86%	-2.60%	-1.07%		
CAGR¹³					-1.45%	-1.59%

Factors in the global construction materials sector that can influence the annual production of Holcim are for example ESG risks relevant to its sector such as:

- Damages to quarries or production sites due to extreme weather events
- Decrease in the availability of resource
- Inclusion in/expansion of regulatory systems regarding GHG emissions (e.g. cap and trade schemes, carbon taxes)
- Tightening of regulatory requirements for construction materials related to the energy efficiency of buildings
- Rising costs for raw materials, credit and financing and rising energy prices.

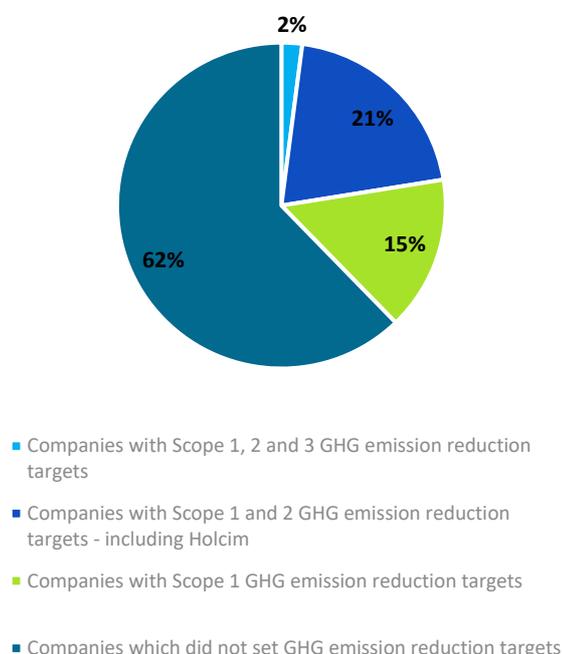
In this context and compared to the baseline year, SPT 1 and SPT 2 set by Holcim are perceived by ISS ESG as ambitious against the company’s past performance.

¹³ Compound Annual Growth Rate

Against company's sectorial peers

ISS ESG conducted a benchmarking of the SPTs set by Holcim against the Construction Materials peer group of 98 listed companies derived from the ISS ESG Universe. Holcim is deemed a good performer in terms of GHG emissions intensity of its operation against its industry peers. The company currently has a lower GHG emissions intensity than the average for its Cement Manufacturers peers and thus performs better than its peer group in terms of GHG intensity. From the peer group, Holcim is one of 40 companies to have set GHG emission reduction targets and thus belongs to the top 44% tier of its sector in terms of existence of such targets (see Figure 1), and to the top 11% tier of its industry in terms of SBTi verified targets. While Holcim's SBTi-approved GHG emissions reduction target applies to its Scopes 1, 2, 3 emissions, the company is only considering the Scope 1 CO₂ emissions reduction target in the context of its Sustainability-Linked Bond Framework, due to the fact that Scope 1 accounts for 75% of its GHG emissions, whereas scopes 2 and 3 respectively account for 5% and 20%.

Figure 1: GHG emission reduction targets set by peer group



In this context, it is worth noting that Holcim currently has a Scope 1 GHG emissions intensity lower than the average for its peer group and thus a better baseline performance than its peer group. In this regard, Holcim's target also aims at achieving a Scope 1 GHG intensity that is amongst the lowest within its concrete manufacturing peers in 2030.

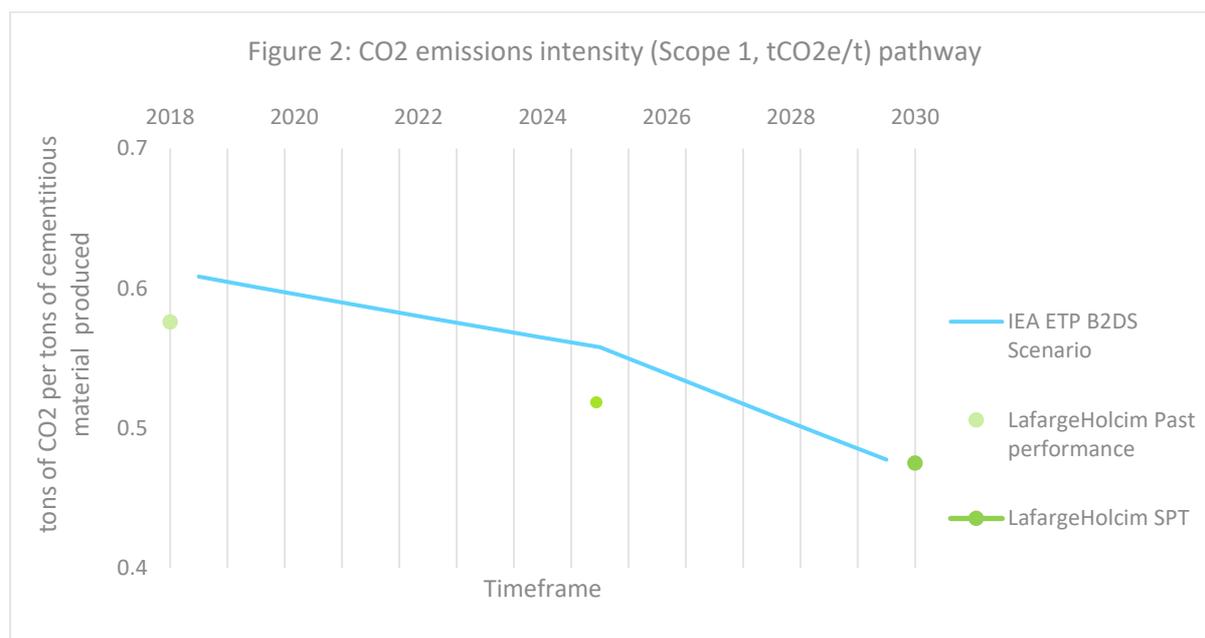
ISS ESG concludes that SPT 2 is ambitious against the Construction Materials sector peer group in the ISS ESG universe in terms of defining an SBTi-verified Scope 1 GHG emissions reduction target. SPT 1, being a subset of SPT 2, can be regarded as ambitious against peers as well. The SPTs are in a similar order of magnitude as the top tier companies in the Construction Materials sector in ISS ESG Universe.

Against international targets

Paris Agreement

The SBTi validated Holcim's Near-Term Targets, i.e. reduction of Scope 1 and 2 GHG emissions by 21% per ton of cementitious materials by 2030 from a 2018 base year, as consistent with reductions required to keep warming to well-below 2°C¹⁴. In the context of this issuance, the company considers only Scope 1 CO₂ emissions as part of its SPTs (see Figure 2).

¹⁴ <https://sciencebasedtargets.org/companies-taking-action>



This GHG reduction pathway has been considered by SBTi sufficiently ambitious and consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to preindustrial temperatures.

SPT 1 (2025)

There is no information specifically on whether the SPT 1 is in line with the Paris Agreement. SPT 1 is a subset of the SBTi verification and as such part of the validated (SPT 2) target.

SPT 2 (2030)

Based on the SBTi validation of the 2030 target, ISS ESG finds that the SPT 2 is in line with the Paris Agreement and therefore ambitious against international standards.

Furthermore, these targets align with the longer-term target of Holcim to become a net-zero company by 2050, which has also obtained separate SBTi verification. Lastly, Holcim is partnering with SBTi to develop a roadmap for aligning climate targets to a 1.5°C future in the cement sector.

ISS ESG concludes that SPT 2 is ambitious against the Paris Agreement and SPT 1 is in line with the pathway for Scope 1 emissions reduction by 2030 to keep warming to well-below 2°C.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by displaying all yearly GHG emissions intensity data available since 2017, in line with the SLBP requirements of 3 years of historical data.
- **Timeline:** The issuer defined a precise timeline related to the SPTs achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

To reduce its net Scope 1 emission intensity per tons of cementitious material by 2025 and 2030, Holcim is aiming to implement the following measures:

- Accelerate the use of low-carbon and carbon-neutral products such as ECOPact, a green concrete, and Susteno, a circular concrete including approximately 20% of recycled material
- Accelerate the use of 3D-printing building to improve material efficiency
- Recycle 100m 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 waste-derived fuels in production to reach 37% of the total mix
- Operate its first net zero CO₂ cement production facility by making more use of carbon capture and usage or storage (CCUS) technologies.

Opinion: ISS ESG finds that SPT 1 and 2 calibrated by Holcim are ambitious against the company's past performance. SPT 2 is ambitious against the Construction Materials sector peer group in the ISS ESG universe in terms of defining an SBTi-verified Scope 1 GHG emissions reduction target. SPT 1, being a subset of SPT 2, can be regarded as ambitious against peers as well. The SPTs are in a similar order of magnitude as the top tier companies in the Construction Materials sector in ISS ESG Universe. SPT 2 is deemed ambitious against the Paris Agreement and SPT 1, despite not being separately verified by the SBTi, can be considered in line with the pathway for Scope 1 emissions reduction by 2030 for well below 2 degree scenario. It is worth noting that the SBTi verified Holcim's Scope 1 and 2 emissions targets independently, however the SPT1 and 2 only include Scope 1 emissions, which account for 75% of the company's total emissions. The targets are set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.

1B.1 KPI 2: Freshwater withdrawal intensity reduction

KPI selected by the issuer

FROM ISSUER'S FRAMEWOK

- **KPI:** Specific freshwater withdrawal expressed in liters per ton of cementitious material
- **SPT 3:** Reduce specific freshwater withdrawal per ton of cementitious material by 25% by 2025 from a 2018 baseline
- **SPT 4:** Reduce specific freshwater withdrawal per ton of cementitious material by 33% by 2030 from a 2018 baseline

Baseline year: 2018

Baseline: 317 liters of freshwater / ton of cementitious material

2025 goal: 238 liters of freshwater / ton of cementitious material

2030 goal: 211 liters of freshwater / ton of cementitious material

Rationale: Water is essential for cement production and 51% of Holcim's cement sites are in the medium to high water-risk areas. In comparison, 12% of their Aggregates and 21% of their Ready-Mix businesses are located in water-risk areas. Therefore, the issuer decided to focus on the specific freshwater withdrawal indicator in their cement operations for the sustainability-linked funding.

Methodology: Freshwater withdrawal, for cement sites, is defined as the volume of freshwater withdrawn from defined sources (surface water: water from rivers, lakes, natural ponds; groundwater: water from wells, boreholes, etc.; quarry water used: water collected in the quarry and used on-site; municipal/potable and third-party water) used for the production of clinker and cement.

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.

Strategy: to reach their 2025 and 2030 specific freshwater withdrawal reduction targets, Holcim has developed an action plan based on three main levers:

1. Improve water use efficiency: optimize water use process at sites
2. Shift to non-freshwater withdrawal: replace freshwater with sea or treated wastewater
3. Maximize rainwater harvesting: use harvested rainwater to meet site water requirements

Specific freshwater withdrawal reduction: Holcim will improve their water usage efficiency by reducing leakages and optimizing their processes. Their sites in water-risk areas will be equipped with recycling systems. When possible, the company shifts their water usage from freshwater to non-freshwater. In some countries, during heavy rains, harvested rainwater will be used, while in others the company will use sea or treated municipal wastewater.

Materiality and relevance

Resource-efficiency of production is a key issue for the industry Holcim operates in. More specifically, cement production is a bulk commodity by nature whose production requires large amounts of natural resources such as water¹⁵.

The issuer decides to focus on freshwater withdrawal for this KPI. Freshwater is a finite resource, that Holcim commits to protect. Of all the water on earth, only 3% is freshwater and less than 1% is both fresh and accessible. At the same time, water is an essential ingredient for cement production and 51% of Holcim's cement sites are located in medium to high water-risk areas. Therefore, by focusing on reducing the intensity of freshwater use in their cement production, Holcim aims to tackle a key issue in their industry.

ISS ESG finds that climate change mitigation and the GHG emissions reduction KPI selected by the issuer are:

- **Relevant** to Holcim's business as eco-efficiency of production, especially water efficiency, is a key issue in the Construction Materials industry and specifically for cement production.
- **Core** to the issuer's business as 51% of their cement sites are located in medium to high water-risk areas and Holcim commits to equipping all their sites in water-risk areas with recycling systems. Moreover, when possible the issuer will shift freshwater to non-freshwater use, which will entail e.g. harvesting rainwater. As such, the KPI addresses key processes in the issuer's production chain.

¹⁵ Holcim specified that water is mainly used in the following steps of their production: kiln feed preparation, cooling of equipment, cooling of materials, cooling of exhaust gas, emissions control, waste heat recovery systems, dust control, and others (equipment and truck cleaning, etc.).

- **Material** to Holcim given that the production of cement is highly dependent on water, as water is a key ingredient in the final product as well as a necessary tool in cement's production process (e.g. for cooling). Freshwater the most commonly used water source. Hence, freshwater withdrawal is relevant for a key ESG challenge faced by the issuer, as well as the Construction Materials industry at large.

Consistency with overall company's sustainability strategy

Holcim identified their impact on nature as one of their four strategic sustainability pillars, alongside climate and energy, circular economy and people. The nature pillar includes biodiversity and water. Their ambition is to become a nature-positive company by restoring and preserving biodiversity and water while bringing more nature into cities. In partnership with the International Union for Conservation of Nature (IUCN), Holcim developed rehabilitation plans and a science-based methodology for their impact on biodiversity. With the accelerated deployment of Holcim's solutions such as green roof systems, they aim to contribute to more livable and green urban environments.

Measurability

- **Scope and perimeter:** The water KPI applies to 100% of Holcim's cement production operations on a global scale.
- **Quantifiable/Externally verifiable:** The KPI selected is measurable and quantifiable. Holcim follows the guidelines of the Global Cement and Concrete Association (GCCA). The freshwater withdrawal intensity will be measured as liters of freshwater per ton of cementitious material. This data is typically measured at the production site, but it can also be calculated by measurement or by estimation¹⁶.
- **Externally verified:** The KPI selected is externally verified, as the specific freshwater withdrawal expressed in liters per ton of cementitious material is audited and verified annually by an independent external party (Ernst & Young).
- **Benchmarkable:** Since freshwater withdrawal in the cement industry is a key issue, there are multiple sectorial peers who report on the same KPI. A limitation for benchmarking is posed by the possibility that different companies use different methodologies, for example absolute versus intensity targets.

Opinion on KPI selection: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable.

¹⁶ Holcim uses the following guidance for the measurement of freshwater withdrawal:

1. Measurement: quantification of water volume according to the water instantaneously passing by the cross-section of a channel or pipe, using flow measurement or a meter.
2. Calculation by measurement: water volume is gauged by short-term or instant measurement, by multiplying measured flow rate and pump operational hours; or by the difference between two measurements, such as water withdrawal and discharge.
3. Calculation by estimation: by multiplying rated capacity of the pump manufacturer and pump operating hours.

1B.2 SPT 3 and 4: Freshwater withdrawal intensity reduction

SPT set by the issuer

FROM ISSUER'S FRAMEWORK¹⁷

- **Sustainability Performance Target¹⁸ (SPT) 3:** Reduce specific freshwater withdrawal per ton of cementitious material by 25% by 2025 from a 2018 baseline
- **Sustainability Performance Target (SPT) 4:** Reduce specific freshwater withdrawal per ton of cementitious material by 33% by 2030 from a 2018 baseline

SPT 3 Observation Date: 31 December 2025

SPT 4 Observation Date: 31 December 2030

Baseline year: 2018

Baseline intensity: 317 liters freshwater per ton of cementitious material

Historical performance and target trajectory:

SPECIFIC FRESHWATER WITHDRAWAL AT CONSTANT 2020 SCOPE (LITERS FRESHWATER / T CEMENTITIOUS)

2017	343
2018 (baseline)¹⁹	317
2019	299
2020	273
2025 target	238 (25% reduction from 2018 baseline)
2030 target	211 (33% reduction from 2018 baseline)

Factors that support the achievement of the target:

- Decrease of the availability of freshwater resources
- Water preservation

Ambition

Against company's past performance

The issuer provided four years of historical data and set the baseline year to 2018. The SPT is to reduce freshwater withdrawal per ton of cementitious material by 25% by 2025 (SPT 3) and by 33% by 2030 (SPT 4) compared to a 2018 baseline. Table 2 displays the performance. Holcim achieved a Year-on-Year reduction of -7.58%, -5.68% and -8.70% for the years 2018, 2019 and 2020 respectively. The

¹⁷ This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

¹⁸ Please note that KPI 2 is connected to SPT 3 and SPT 4. KPI 1 is connected to both SPT 1 and SPT 2.

¹⁹ The baseline may be adjusted to reflect significant changes in group structure or KPI calculation methodology.

compound annual growth rate (CAGR) for SPT 3 and SPT 4 compared to the baseline year respectively -4.01% and -3.34%, which in both cases is quantitatively lower than the Year-on-Year reduction rates of the past 3 years.

It is important to place this finding in the appropriate context. In 2020, Holcim withdrew 273 liters of freshwater per ton of cementitious material. The issuer outperforms its competitors on this metric, because, following the benchmarking exercise that Holcim conducted, data shows that in 2020 three of Holcim’s direct competitors withdrew an estimated 325 to 492 liters of freshwater per ton of cementitious material.

In conclusion, it is important to note that Holcim has already taken steps in the past to reduce their freshwater withdrawal intensity steeply and that, compared to peers, the issuer already has a more efficient production in terms of freshwater withdrawal. Going forward, measures to reduce freshwater withdrawal intensity even further will require more effort of the issuer than in the past.

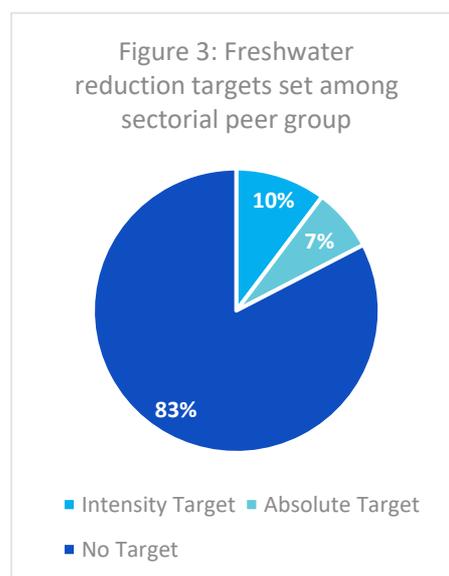
TABLE 2.	FRESHWATER WITHDRAWAL (LITERS FRESHWATER/T CEMENTIOUS)	YEAR-ON-YEAR REDUCTION	CAGR ²⁰ (TARGET VS. BASELINE)
2017	343		
2018 (baseline)	317	-7.58%	
2019	299	-5.68%	
2020	273	-8.70%	
2025 target – SPT 3	238		-4.01%
2030 target – SPT 4	211		-3.43%

Therefore, ISS ESG concludes that the SPTs set by the issuer are ambitious compared to past performance.

Against company’s sectorial peers

ISS ESG conducted a benchmarking of the SPTs set by Holcim against the Construction Material peer group of 98 listed companies derived from the ISS ESG Universe. Out of that peer group, 17 companies (including Holcim) set a freshwater reduction target, from which 7 are an absolute target and 10 an intensity target. As such, Holcim ranks in the top 17% of the peer group in terms of targets set.

Out of the 10 peers who have set an intensity target, 5 have set a reduction target of 30% or higher within a comparable timeline as Holcim. A comparison of the Compound Annual Growth Rates (CAGR) of this subgroup places SPT 3 in the top 2 and SPT 4 in the top 4 of the subgroup of peers with intensity targets. However, comparing the issuer’s SPTs with



²⁰ CAGR = Compound Annual Growth Rate

those of peers is limited due to the different methodologies used for target setting.

Moreover, Holcim has conducted its own benchmarking exercise²¹ to compare the current performance on freshwater efficiency with a set of 3 competitors. In 2020, Holcim withdrew 273 liters of freshwater per ton of cementitious material; the SPTs sets a pathway to reduce this to 238 in 2025 and to 211 liters in 2030. In 2020, competitors withdrew an estimated 325 to 492 liters of freshwater per ton. While this benchmarking exercise assesses current performance rather than target setting, it is important to note that the level of freshwater withdrawal of Holcim has been more efficient than the 3 direct competitors in the past.

ISS ESG concludes that the SPTs set by the issuer are ambitious compared to Construction Materials sector practices in terms of defining a freshwater reduction target.

Against international targets

Global Cement and Concrete Association

The Global Cement and Concrete Association (GCCA) published their sustainability guidelines for the monitoring and reporting of water in cement manufacturing²² in October 2019. As the cement industry relies heavily on water for their production process, the impacts of water use are an important sustainability issue for the sector. The GCCA is the global organization for the cement and concrete sector, established in 2018 and headquartered in London. Holcim has followed GCCA's guidance in crafting the KPI and SPT in order to adhere to industry standards and recommendations. However, GCCA has not conducted a target setting exercise for the industry.

CDP

The Carbon Disclosure Project (CDP) is a non-profit organization that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Their global environmental disclosure system is based on the annual scoring exercise of companies, done by taking the information supplied in annual reporting processes of companies to score them based on their level of disclosure and pathway towards environmental leadership. The questionnaires that the CDP uses for their benchmarking are aligned with the TCFD recommendations.

CDP ranks companies on different sustainability topics, including water. In 2020, Holcim scored an A- for on the Water Security scoreboard of the CDP. This score was based on CDP's methodology²³, which summarizes the responder's progress towards water stewardship evidenced by the company's response and disclosure. The A and A- scores are considered the highest, "leadership" level²⁴. Of the 34 Cement companies that received a CDP score in 2020, Holcim ranks in the top 3 in the Water Security category.

While a CDP score does not equate to an international target, in the absence of quantified freshwater withdrawal targets on an international or sectorial scale, the fact that Holcim obtained an A- score ranks the company as noteworthy, particularly in the absence of quantified freshwater

²¹ Holcim derived the data of competitors directly from their company sustainability and annual reports or calculated the data according to their sustainability and annual reports. Due to differences in methodology, the validity of the outcome of this benchmarking is limited.

²² GCCA, 'Sustainability guidelines for the monitoring and reporting of water in cement manufacturing', October 2019, https://gccassociation.org/wp-content/uploads/2019/10/GCCA_Guidelines_Water_v04_AMEND.pdf

²³ More information: [CDP Water Security 2021 Scoring Methodology](#)

²⁴ The CDP scoring scale goes from A to F, where A is leadership level, B is management level, C is awareness level, D is disclosure level and F is failure to provide sufficient information to be evaluated.

withdrawal targets on an international or sectorial scale. It does not show the ambition of the SPT, but it reaffirms Holcim's current performance on water issues.

In the absence of an international target for the SPTs calibrated by the issuer, ISS ESG cannot conclude that the level of ambition of the SPTs against international targets.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2018 and provided all yearly freshwater withdrawal data since 2017, going beyond the SLBP of providing historical data for previous 3 years.
- **Timeline:** The issuer defined a precise timeline related to the SPTs achievements, including the target observation date and the frequency of SPTs measurement.

Supporting strategy and action plan

To reach their 2025 and 2030 specific freshwater withdrawal reduction targets, Holcim has developed an action plan based on three main levers:

1. Improve water use efficiency: optimize water use process at sites
2. Shift to non-freshwater withdrawal: replace freshwater with sea or treated wastewater
3. Maximize rainwater harvesting: use harvested rainwater to meet site water requirements

Specifically, Holcim aims to reduce their freshwater withdrawal intensity by improving their water usage efficiency by reducing leakages and optimizing our processes. Their sites in water-risk areas will be equipped with recycling systems. When possible, the company will shift their water usage from freshwater to non-freshwater. In some countries, during heavy rains, harvested rainwater will be used, while in others the company will use sea or treated municipal wastewater.

Opinion on SPT calibration: *ISS ESG finds that SPT 3 and 4 calibrated by Holcim are ambitious against past performance and against sectorial peers. Despite the fact that the SPTs yearly projected reduction rate are lower than in the past, several qualitative considerations have been taken into consideration. The fact that Holcim has taken steps in the past to reduce their freshwater withdrawal intensity steeply and that, compared to peers, the issuer already has a more efficient production in terms of freshwater withdrawal, lead to the conclusion that the SPTs are ambitious against past performance. Second, out of the sectorial peer group of 98 companies, 17 companies (including Holcim) set a freshwater reduction target, from which 7 set an absolute target and 10 an intensity target. As such, Holcim ranks in the top 17% of the peer group in terms of targets set. Third, due to a lack of international targets on freshwater withdrawal intensity, no level of ambition of the SPTs against international targets can be assessed. Lastly, the targets are set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.*

PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES

Rationale for Framework

FROM ISSUER'S FRAMEWORK

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

Holcim's previous sustainability-linked transactions on the bond and loan markets have supported its belief that sustainable finance allows it to mobilize and partner with its stakeholders along its long-term environmental and social commitments. Recent examples are (i) the sustainability-linked syndicated revolving credit facility signed in August 2021 for an amount of EUR 3 billion and a maturity of 5 years, with environmental and social KPIs and (ii) Holcim's participation in the CFO taskforce for the Sustainable Development Goals (SDGs) launched by the United Nations – in order to align its corporate finance actions to the SDGs. Through this initiative, the group committed to having at least 40% sustainable financing²⁵ by 2024.

Future sustainability-linked instruments under this Framework may include public bonds, private placements, promissory notes (Schuldscheindarlehen), loans and any other sustainability-linked financing instruments.

In November 2021, Holcim updated its Sustainability-Linked Financing Framework launched in November 2020. To increase transparency and the robustness of its climate pathway, the company added a new CO2 target for 2025 of 520kg net CO2 per ton of cementitious material, aligned with a well below 2°C scenario on the pathway to its SBTi 2030 target. It also added a new KPI based on freshwater withdrawal per ton of cementitious material.

Opinion: ISS ESG considers the Rationale for Issuance description provided by Holcim as aligned with the SLBPs and the SLLPs.

2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPI selection available in section 1 of this report.

Opinion on KPI 1: ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. It is material to the issuer's direct operations but does not cover the entire corporate value chain. This is because the KPI does not include the Scope 2 nor Scope 3 emissions, which together represent 30% of the company's overall emissions. Holcim has also SBTi validated targets to cover its Scope 2 and 3 emissions, which are not included on this Framework. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified, and benchmarkable.

²⁵ Sustainable financing means: any committed financing instrument drawn and undrawn which has a sustainability feature which includes performance-based (sustainability KPI, ESG linked) or use-of-proceed-based products (green, social, transition bonds) incurred by the parent company or consolidated entities.

Opinion on KPI 2: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified, and benchmarkable.

2.2. Calibration of Sustainability Performance Target (SPTs)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPTs is available in section 1 of this report.

Opinion on SPT 1 and SPT 2: ISS ESG finds that SPT 1 and 2 calibrated by Holcim are ambitious against the company's past performance. SPT 2 is ambitious against the Construction Materials sector peer group in the ISS ESG universe in terms of defining an SBTi-verified Scope 1 GHG emissions reduction target. SPT 1, being a subset of SPT 2, can be regarded as ambitious against peers as well. The SPTs are in a similar order of magnitude as the top tier companies in the Construction Materials sector in ISS ESG Universe. SPT 2 is deemed ambitious against the Paris Agreement and SPT 1, despite not being separately verified by the SBTi, can be considered in line with the pathway for Scope 1 and 2 emissions reduction by 2030 for well below 2 degree scenario. It is worth noting that the SBTi verified Holcim's Scope 1 and 2 emissions targets independently, however the SPT1 and 2 only include Scope 1 emissions, which account for 75% of the company's total emissions. The targets are set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.

Opinion on SPT 3 and SPT 4: ISS ESG finds that SPT 3 and 4 calibrated by Holcim are ambitious against past performance and against sectorial peers. Despite the fact that the SPTs yearly projected reduction rate are lower than in the past, several qualitative considerations have been taken into consideration. The fact that Holcim has taken steps in the past to reduce their freshwater withdrawal intensity steeply and that, compared to peers, the issuer already has a more efficient production in terms of freshwater withdrawal, lead to the conclusion that the SPTs are ambitious against past performance. Second, out of the sectorial peer group of 98 companies, 17 companies (including Holcim) set a freshwater reduction target, from which 7 set an absolute target and 10 an intensity target. As such, Holcim ranks in the top 17% of the peer group in terms of targets set. Third, due to a lack of international targets on freshwater withdrawal intensity, no level of ambition of the SPTs against international targets can be assessed. Lastly, the targets are set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.

2.3. Sustainability-Linked Securities Characteristics

FROM ISSUER'S FRAMEWORK

Unless otherwise stated, the proceeds of Holcim's Sustainability-Linked Notes will be used for general corporate purposes.

Any series of Sustainability-Linked Notes may refer to one or more Sustainability Performance Targets and/or to one or more Target Observation Dates. The structural characteristics of any Sustainability-Linked Bond, including the impact of Holcim's KPI performance compared to the applicable SPT, will be specified in the transaction documentation.

The below comes from the issuer's bond prospectus²⁶.

²⁶ <https://www.holcim.com/sites/holcim/files/atoms/files/holcim-2021-base-prospectus-entm.pdf>

In relation to any Sustainability-Linked Notes issued under the Program, if:

- a) the Group does not achieve the Sustainability Performance Target on the Target Observation Date as determined by an independent auditor and confirmed in such independent auditor's verification assurance certificate;
- b) Holcim Ltd has not published an independent auditor's verification assurance certificate on whether the Group has achieved the Sustainability Performance Target on or before the date falling 5 business days prior to the Sustainability-Linked Reference Date of the Notes; or
- c) the independent auditor's verification assurance certificate contains a reservation about whether or not the Sustainability Performance Target has been achieved on the Target Observation Date,

a coupon step-up or a premium amount will be payable by the Relevant Issuer under such Sustainability-Linked Notes.

Opinion: ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Holcim as aligned with the SLBPs and SLLPs. The issuer gives a detailed description of the potential variation of the financial characteristics of the securities, while clearly defining the KPI and SPTs and its calculation methodologies. The issuer has established provisions in the case of force-majeure.

2.4. Reporting

FROM ISSUER'S FRAMEWORK

Holcim will communicate annually on the relevant KPIs and SPTs, making up-to-date information and reporting available on its website²⁷:

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

Opinion: ISS ESG considers the Reporting description provided by Holcim as aligned with the SLBPs and SLLPs. This will be made publicly available annually and include relevant information, reflecting best market practices.

²⁷ See: <https://www.holcim.com/sustainability-reports>

2.5. Verification

FROM ISSUER'S FRAMEWORK

The 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 SPTs, 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.
- **Post-issuance verification: An assurance statement by an auditor or external verifier** on the KPIs information included in its integrated annual report and sustainability performance report annually.
- **A verification assurance certificate** confirming whether the performance on the KPI meets the relevant SPT, published on Holcim's website following a Target Observation Date.

Opinion: ISS ESG considers the Verification description provided by Holcim as aligned with the SLBPs and SLLPs. The issuer plans on having all annual values of the SPTs published and verified. This will outline the performance against the SPT, the related impact and timing of such impact on the securities financial characteristics.

PART 3: HOLCIM'S ESG PERFORMANCE AND STRATEGY

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
HOLCIM	CONSTRUCTION MATERIALS	1	VERY HIGH

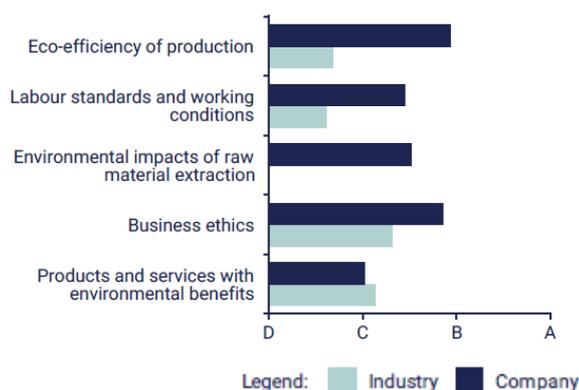
This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by Construction Materials sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG performance

As of 02.11.2021, this Rating places Holcim 3rd out of 106 companies rated by ISS ESG in the Construction Materials sector.

Key Challenges faced by companies in term of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

Holcim is principally engaged in the production of mineral-based construction materials such as cement, concrete, and aggregates. These products and related services do not directly contribute to the achievement of global sustainability objectives.

Sustainability Risks

Minerals-based construction materials are bulk commodities by nature whose production requires large amounts of natural resources such as limestone, energy, and water. Challenges for a manufacturer of these products, such as Holcim, revolve around energy and resource efficiency in production, biodiversity and rehabilitation management at raw material extraction sites, and worker safety and accident prevention. Holcim has implemented environmental management systems at all of its operations, a majority of which is also certified to the ISO 14001 standard. In addition, a significant share of relevant operations have achieved ISO 50001 certification of their energy management systems. As a result of these efforts, the company's energy intensity has remained stable at a common industry level in recent years. Greenhouse gas as well as other air emissions intensities have also decreased or remained stable. With regard to biodiversity management and

quarry rehabilitation, however, comprehensive guidelines and detailed procedures cannot make up for the fact that Holcim does not sufficiently rule out and indeed operates in or near protected areas with a high biodiversity value, such as the Queen Elizabeth National Park in Uganda. In a similar way, the company's solid management approach regarding occupational safety, which it demonstrates via the implementation of OHSAS 18001 / ISO 45001 certified health and safety management systems and decreasing accident rates, is countervailed by the significant number of fatalities among own employees and contractors in recent years.

Governance opinion

Holcim has implemented governance structures that largely ensure effective supervision of the management. For example, the chairman of the board of directors (Mr. Beat W. Hess, as at April 17, 2021) is independent, as is the majority of board members. More than half of the members of the board committees in charge of audit, remuneration and nominations are independent. The company discloses its remuneration policy for executives, including long-term incentive components, which could encourage sustainable value creation.

The company has established a predominantly independent sustainability committee at board level. Furthermore, sustainability performance objectives are to some extent integrated into the variable remuneration of members of the executive management team. In order to ensure responsible business practices, Holcim has established a code of conduct covering issues such as antitrust violations, conflicts of interest, corruption and bribery, insider dealings, and validity of financial information. Relevant compliance procedures such as compliance training, compliance risk assessments and audits, and anonymous reporting channels to report potential breaches of the code are in place.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Holcim current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to evaluation of final product characteristics and does not include practices along Holcim's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Key products and/or services to the oil industry	1%	OBSTRUCTION	 
Recycling services	2%	CONTRIBUTION	

Breaches of international norms and ESG controversies

The company is currently not facing any controversy.

Contribution of the KPIs and SPTs to sustainability objectives and priorities

ISS ESG mapped the KPIs selected by the issuer for its Sustainability-Linked Financing Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Construction Materials sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each KPIs selected.

KPIs SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Net CO2 intensity expressed as net kg CO2 emitted per ton of cementitious material (Scope 1)	✓	✓	Contribution to a material objective
Specific freshwater withdrawal expressed in liters per ton of cementitious material	✓	✓	Contribution to a material objective

Opinion: ISS ESG finds that the KPIs and SPTs considered under this framework are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry.

DISCLAIMER

1. Validity of the SPO: For Holcim's Sustainability-Linked Bond issuances as long as the Issuer's Sustainability-Linked Financing Framework (15.02.2022), SPTs benchmarks and current good market practices and structural securities characteristics described in this document do not change.
2. ISS ESG uses a scientifically based rating concept to analyze and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: ISS ESG Corporate Rating

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

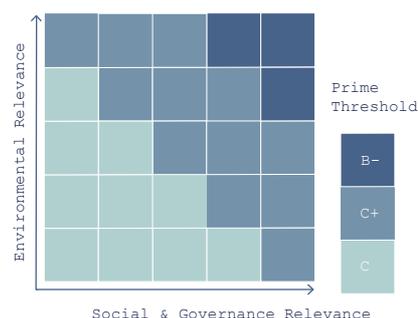
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 2: Methodology

ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainability-Linked Financing Framework of Holcim, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance. ISS ESG reviewed the alignment of the concept of the Holcim's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPTs. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPTs against Holcim's own past performance (according to Holcim's reported data), against Holcim's Construction Materials peers (as per ISS ESG Peer Universe and data), and against international benchmarks such as the Paris agreement (based on data from the SBTi) and the UN SDGs (according the ISS ESG proprietary methodology). Finally, ISS ESG evaluated the measurability & comparability of the SPTs, and the supporting strategy and action plan of Holcim.

ANNEX 3: Quality management processes

SCOPE

Holcim commissioned ISS ESG to compile a Sustainability-Linked Financing Framework SPO. The Second Party Opinion process includes verifying whether the Framework aligns with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-Linked Financing Framework, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles (June 2020)
- LMA Sustainability-Linked Loan Principles (May 2021)
- Energy Technology Perspectives 2017 (International Energy Agency, 2017)

ISSUER'S RESPONSIBILITY

Holcim's responsibility was to provide information and documentation on:

- Framework
- Concept and structural sustainability-linked securities characteristics of transactions contemplated under this framework
- Documentation on ESG performance and strategy of the company

ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked Financing to be issued by Holcim based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles.

The engagement with Holcim took place in February 2022.

ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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