



# **LafargeHolcim concludes independent investigation into legacy Syria operations and issues summary of investigation findings**

April 24, 2017

As previously communicated, managers of legacy Lafarge operations were alleged to have had dealings with certain armed groups and sanctioned parties at Lafarge's plant in Syria between 2013 and the evacuation of the plant in September 2014. In response to these allegations, the Board of Directors of LafargeHolcim commissioned an internal investigation supported by independent external counsel with substantial experience in complex cross-border investigations. The Board has taken note that as part of the internal investigation and given his current role as CEO of LafargeHolcim, the role and potential implication of Eric Olsen has been a point of attention. Following an in-depth review, the Board has concluded that Eric Olsen was not responsible for, nor thought to be aware of, any wrongdoings that have been identified as part of this review. The Board has now concluded the review and mandated Eric Olsen and his executive management team to implement remedial measures.

## **Overview of the Independent Investigation Process**

Based on its preliminary review of the reports in the media and assessment that they contained potentially credible information, LafargeHolcim immediately sought advice from outside counsel and instructed that an independent investigation be conducted by outside counsel and forensic accountants, under the direction and supervision of the Finance and Audit Committee (FAC). The process of the investigation adhered closely to generally accepted investigatory standards, including as to scoping, rigor, and independence.

The process included, among other things, extensive procedures to preserve documents, identification of personnel involved, in-depth review of electronic data and



substantive interviews of company employees and executives, including senior managers responsible for Syrian operations.

### **Legacy Lafarge's operations in Syria**

The activities in Syria between 2011 and 2014 took place during a time of great volatility and chaos in a country increasingly consumed by what became outright civil war, which continues to this day.

Lafarge built a cement plant in Syria which required almost 3 years to build at a cost of approximately \$680 million. It started production in May, 2010 and operated much of the time at a loss. Nevertheless, it was one of the only sources of meaningful employment for the surrounding communities and provided cement for infrastructure, businesses, roads and the like for various communities throughout Syria.

In March 2011, the first wave of political unrest began in Syria. What were initially peaceful protests soon turned violent. By the end of 2011, employees at the Syrian plant witnessed a significant deterioration in the security situation.

In June 2012, on account of the deteriorating political situation, expatriate employees were evacuated from Syria. Non-Syrian executives of the Syrian company relocated to Cairo and oversaw operations at the Syrian plant remotely. Over the next two years, the plant continued to operate whenever it had sufficient resources and personnel to do so. Eventually, in mid-September 2014, the plant was evacuated.

### **Findings of the Investigation**

The deterioration of the political situation in Syria posed unprecedented challenges to the operations of Lafarge Cement Syria ("LCS"). LCS and its parent company (then, Lafarge SA) took a number of steps to address these concerns, including bringing in additional security personnel and scheduling regular calls between executives of the Syrian company and their managers outside Syria to monitor the situation. In addition, a crisis group designed to identify certain security-related trigger events in Syria that

would initiate the process of evacuating expatriate employees from Syria was established and met regularly in Paris until November 2012.

The safety and security of LCS employees was of primary concern.

As the situation in Syria deteriorated in late 2011, the plant became increasingly subject to disruption by local armed groups. These groups periodically interfered with employee transportation to and from the plant, restricted access to necessary supplies, and harassed customers. To deal with these problems, LCS used intermediaries to avoid direct contact with these armed groups as there was concern that direct contact would create additional risk vis-à-vis the Syrian government or other armed groups.

Very simply, chaos reigned and it was the task of local management to ensure that the intermediaries did whatever was necessary to secure its supply chain and the free movement of its employees. As a result, notwithstanding any reservations they had regarding these intermediaries, LCS made and continued to make payments to such intermediaries in furtherance of operations. Having identified a mechanism for dealing with the challenges they faced, these methods were applied without regard to the identity of the groups involved.

Beginning in early 2013, terrorist groups designated by the US and the EU were expanding into the area, along with other non-designated militant groups. It was in this chaotic environment that LCS operated and tried to keep its doors open. LCS management believed it was serving the best interests of the company and its employees who depended on LCS salaries for their livelihood.

LCS management kept Lafarge SA well-informed of developments and security-related concerns through their appointed chain of authority.

Those responsible for the Syria operations appear to have acted in a manner they thought was in the best interests of the company and its employees and, based on their communication and consultation along that same chain, in the belief that their efforts were fully understood, supported, and appreciated by their senior management. In

hindsight any misdeeds may seem clear. However the combination of the war zone chaos and the “can-do” approach to maintain operations in these circumstances may have caused those involved to seriously misjudge the situation and to neglect to focus sufficiently on the legal and reputational implications of their conduct.

### **Remedial Measures**

All necessary steps were undertaken to investigate the facts around the dealings of LCS with the various factions in Syria.

The conduct summarized above was inconsistent with Lafarge’s policies. Its compliance program as it existed at the time failed to prevent these breaches. Contributing factors included for instance insufficient independence of the Internal Control function from line operations, circumvention of the internal certification procedures and the inability to conduct a field audit due to the security situation.

There have been significant changes and developments made to the compliance program and infrastructure since the time of the alleged misconduct.

The weaknesses in the compliance program and controls that were identified in the investigation have been assessed against LafargeHolcim’s current compliance program to ensure that they are now corrected:

- a) Improper payments related to LCS’s security and supply chain;
- b) Failure of line management to object to the conduct or the payments referenced above, notwithstanding red flags;
- c) Inadequate controls over individual expenses, discounts, and financial disbursements from LCS;
- d) Inadequate review and oversight of third parties and joint venture partners engaged by LCS; and
- e) Failure to detect and properly escalate improper payments made, and improperly recorded, in company accounts, or identify the same through group audit.



To the extent not already adequately addressed under the current compliance program, LafargeHolcim is examining its policies, protocols, and related financial controls to ensure that misconduct identified can be better detected and/or prevented all together. These measures include the following:

- a) Improved Compliance Communications;
- b) Comprehensive Sanctions Policies and Procedures;
- c) Adoption Country-Specific Risk Assessments;
- d) Enhanced Restricted Party Screening;
- e) Establishment of the Ethics, Integrity, and Risk Committee.

The Board has instructed Eric Olsen and his executive management team to vigorously implement these actions, which are designed to further strengthen and resource a state-of-the-art compliance organization and processes reflecting the best practices. The Board has further instructed that there can be no compromise with compliance nor with adherence to the standards reflected in the LafargeHolcim Code of Conduct without regard to operational challenges.

In order to ensure that these directives and the policies of the company are followed in letter and spirit, the Board approved the creation of a new Ethics, Integrity & Risk committee, supervised by a member of the Executive Committee. This Committee brings together compliance, internal controls, and risk management expertise to provide a holistic and coordinated approach to LafargeHolcim compliance efforts. Revisions to the compliance structure generally are also underway but will preserve the direct access for the head of compliance to the FAC and CEO as is also currently the case for the head of internal audit.

Pursuant to LafargeHolcim's internal standards, any decisions regarding disciplinary actions for the relevant employees will be carried out after providing the employees with an opportunity to be heard and upon consideration of the factors specified in LafargeHolcim's Group Compliance Committee charter.



In connection with the conduct summarized above, criminal complaints are reported to have been filed in France. Such proceedings are conducted under a rule of secrecy and neither Lafarge SA nor any of its affiliates have been made a party to any of them. In light of the proceedings, the company will not comment further on the findings or individual conduct. The company remains open to provide the authorities with any lawful assistance in relation to their respective proceedings.

Legacy Lafarge operations in Syria operated at a loss during the time period in question and represented less than 1% of the Group's sales at the time the plant was evacuated.

--



### **Important disclaimer - forward-looking statements**

This document contains forward-looking statements. Such forward-looking statements do not constitute forecasts regarding results or any other performance indicator, but rather trends or targets, as the case may be, including with respect to plans, initiatives, events, products, solutions and services, their development and potential. Although LafargeHolcim believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions as at the time of publishing this document, investors are cautioned that these statements are not guarantees of future performance. Actual results may differ materially from the forward-looking statements as a result of a number of risks and uncertainties, many of which are difficult to predict and generally beyond the control of LafargeHolcim, including but not limited to the risks described in the LafargeHolcim's annual report available on its Internet website ([www.lafargeholcim.com](http://www.lafargeholcim.com)) and uncertainties related to the market conditions and the implementation of our plans. Accordingly, we caution you against relying on forward looking statements. LafargeHolcim does not undertake to provide updates of these forward-looking statements.