

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Green Finance Framework

Heidelberg Materials AG

21 May 2024

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated

- Green Finance Instruments

Relevant standards

- Green Bond Principles (GBP), as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)
- Green Loan Principles (GLP), as administered by the Loan Market Association (LMA) and Loan Syndications and Trading Association (LSTA), Asia Pacific Loan Market Association (APLMA) (as of Feb. 2023)

Scope of verification

- Heidelberg Materials Green Finance Framework (as of May 17, 2024)
- Heidelberg Materials Eligibility Criteria (as of May 17, 2024)

Lifecycle

- Pre-issuance verification

Validity

- Valid as long as the cited Framework remains unchanged

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## SCOPE OF WORK

Heidelberg Materials AG (“the Issuer”, “the Company”, or “Heidelberg Materials”) commissioned ISS-Corporate to assist with its Green Finance Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. Heidelberg Materials’ Green Finance Framework (as of May 17, 2024), benchmarked against ICMA’s GBP and the LMA, LSTA and APLMA’s GLP.
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (U.N. SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Green Finance Instruments with Heidelberg Materials’ Sustainability Strategy, drawing on the key sustainability objectives and priorities defined by the Issuer.

## HEIDELBERG MATERIALS OVERVIEW

Heidelberg Materials AG is an integrated manufacturer of building materials, engaging in the production and distribution of cement, aggregates, ready-mixed concrete and asphalt on five continents: Europe, North America, Asia, Australia and Africa. The Group Services segment is involved in international trading by sea worldwide. The company was founded by Johann Philipp Schifferdecker in 1873 and is headquartered in Heidelberg, Germany.

### *ESG risks associated with the Issuer Industry*





Heidelberg Materials is classified in the Construction Materials industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies<sup>1</sup> in this industry are: Eco-efficiency of production, Labor standards and working conditions, Environmental impacts of raw material extraction, Business ethics and Products and services with environmental benefits.

This report focuses on the sustainability credentials of the issuance. Part III of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.

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<sup>1</sup> Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>2</sup>
<p><b>Part I:</b></p> <p><b>Alignment with GBP/GLP</b></p>	<p>The Issuer has defined a formal concept for its Green Finance Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP and GLP.</p>	<p><b>Aligned</b></p>
<p><b>Part II:</b></p> <p><b>Sustainability quality of the Eligibility Criteria</b></p>	<p>The Green Finance Instruments will (re)finance eligible asset categories which include:</p> <p>Green categories: Pollution prevention and control, and Circular Economy Adapted Products, Production Technologies and Processes.</p> <p>Product and/or service-related use of proceeds categories<sup>3</sup> individually contribute to one or more of the following SDGs:</p> <div data-bbox="691 1093 924 1207" style="text-align: center;">   </div> <p>Process-related use of proceeds categories<sup>4</sup> individually improve (i) the Issuer’s operational impacts and (ii) mitigate potential negative externalities of the Issuer’s sector on one or more of the following SDGs:</p> <div data-bbox="691 1487 924 1601" style="text-align: center;">   </div> <p>The environmental and social risks associated with the use of proceeds categories are managed.</p>	<p><b>Positive</b></p>
<p><b>Part III:</b></p> <p><b>Consistency of Green Finance</b></p>	<p>The key sustainability objectives and the rationale for issuing Green Finance Instruments are clearly described by the Issuer. All project categories</p>	<p><b>Consistent with Issuer’s sustainability strategy</b></p>

<sup>2</sup> The evaluation is based on the Heidelberg Materials’ Green Finance Framework (May 17, 2024), on the analysed Eligibility Criteria as received on May 17, 2024.

<sup>3</sup> Pollution prevention and control, and Circular Economy Adapted Products, Production Technologies and Processes

<sup>4</sup> Pollution prevention and control, and Circular Economy Adapted Products, Production Technologies and Processes

## SECOND PARTY OPINION

Sustainability Quality of the Issuer  
and Green Finance Framework

ISS-CORPORATE 

<b>Instruments with Heidelberg Materials' Sustainability Strategy</b>	considered are in line with the Issuer's sustainability objectives.  At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.	
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## SPO ASSESSMENT

### PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES

This section evaluates the alignment of the Heidelberg Materials' Green Finance Framework (as of May 17, 2024) with the GBP and GLP.

GBP AND GLP	ALIGNMENT	OPINION
<p><b>1. Use of Proceeds</b></p>	<p>✓</p>	<p>The Use of Proceeds description provided by Heidelberg Materials' Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The Issuer's green categories align with the project categories as proposed by the GBP and GLP and criteria are defined clearly and transparently. Disclosure of an allocation period and commitment to report by project category has been provided and environmental benefits are described.</p> <p>The Issuer defines a look-back period for operational expenditure (OpEx) of three years, and exclusion criteria for harmful projects categories,<sup>5</sup> in line with best market practice.</p>
<p><b>2. Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Heidelberg Materials' Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the Issuer's sustainability strategy.</p> <p>The Issuer involves various stakeholders in this process and identifies alignment of their Green Finance Framework and their green projects with EU Taxonomy, in line with best market practice.</p>

<sup>5</sup> For eligible Green Projects financed under this framework, the captured CO<sub>2</sub> will not be used directly, nor to the best of the Issuer's knowledge, indirectly by its partners for enhanced oil recovery (EOR).

<p><b>3. Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds provided by Heidelberg Materials' Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The net proceeds collected will equal the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked appropriately. The net proceeds are managed per bond (bond-by-bond approach) or on an aggregated basis for multiple green bonds (portfolio approach) on a case-by-case basis. Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds. When a green loan takes the form of one or more tranches of a loan facility, each tranche applicable to the Green Project will be clearly labeled, with proceeds of the green tranche credited to an internal clearing account. The Issuer has defined an expected allocation period of 36 months.</p>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting provided by Heidelberg Materials' Green Finance Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report with appropriate frequency. The reporting will be publicly available on the Issuer's website. Heidelberg Materials has disclosed the type of information that will be reported and explains that the level of expected reporting will be at the project category level. Moreover, the Issuer commits to report annually, until full allocation or until maturity.</p> <p>The Issuer is transparent regarding the information reported and further defines the duration and frequency of the impact reporting, in line with best market practice.</p>



## PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

### A. CONTRIBUTION OF THE GREEN FINANCE INSTRUMENTS TO THE U.N. SDGs<sup>6</sup>

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services.
- improvements of operational performance.

#### 1. Products and services



The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the U.N. SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate and Environmental Delegated Acts, the ICMA's Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a three-point scale:



The Green Finance Instruments' Use of Proceeds categories have been assessed for their contribution to, or obstruction of, the SDGs:

<sup>6</sup> The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Pollution prevention and control</b></p> <p><i>Assets, CapEx and/or OpEx for the manufacturing of:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Grey cement clinker where the specific GHG emissions<sup>7</sup> are lower than 0.722 tCO<sub>2</sub>e per tonne of grey cement clinker.</i></li> <li>▪ <i>Cement from grey clinker or alternative hydraulic binder, where the specific GHG emissions<sup>8</sup> from the clinker and cement or alternative binder production are lower than 0.469 tCO<sub>2</sub>e per tonne of cement or alternative binder manufactured.</i></li> </ul> <p><i>Where CO<sub>2</sub> that would otherwise be emitted from the manufacturing process is capture for the purpose of underground storage, the CO<sub>2</sub> is transported and stored underground in accordance with the Technical Screening Criteria of economic activities 5.11 and 5.12 as per the EU Taxonomy Climate Delegated Act (Annex I).</i></p>	<p><b>Contribution<sup>9</sup></b></p>	
<p><b>Circular Economy Adapted Products, Production Technologies and Processes</b></p> <p><i>Assets, CapEx and/or OpEx for the construction, operation and/or upgrade of facilities for the sorting and/or material recovery of:</i></p> <p><i>Non-hazardous waste:</i></p>	<p><b>Contribution<sup>10</sup></b></p>	

<sup>7</sup> Calculated in accordance with Commission Delegated Regulation (EU) 2019/331 of 19 December 2018 determining transitional Union-wide rules for harmonized free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council (OJ L 59, 27.2.2019, p. 8).

<sup>8</sup> Calculated in accordance with Regulation (EU) 2019/331.

<sup>9</sup> We note that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Climate Delegated Act (June 2023).

<sup>10</sup> We note that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Climate Delegated Act (June 2023).

- *Converting at least 50%, in terms of weight, of the processed separately collected non-hazardous waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.*

**Circular Economy Adapted Products, Production Technologies and Processes**

*Assets, CapEx and/or OpEx for the construction, operation and/or upgrade of facilities for the sorting and/or material recovery of:*

*Non-hazardous waste:*

- *As per the substantial contribution criteria to the transition to a circular economy of the EU Taxonomy Environmental Delegated Act (Annex II), under 2.7 which are split in: Origin of the feedstock material, Material recovery, Proper management of waste and Quality of secondary raw materials.*

**Contribution<sup>11</sup>**

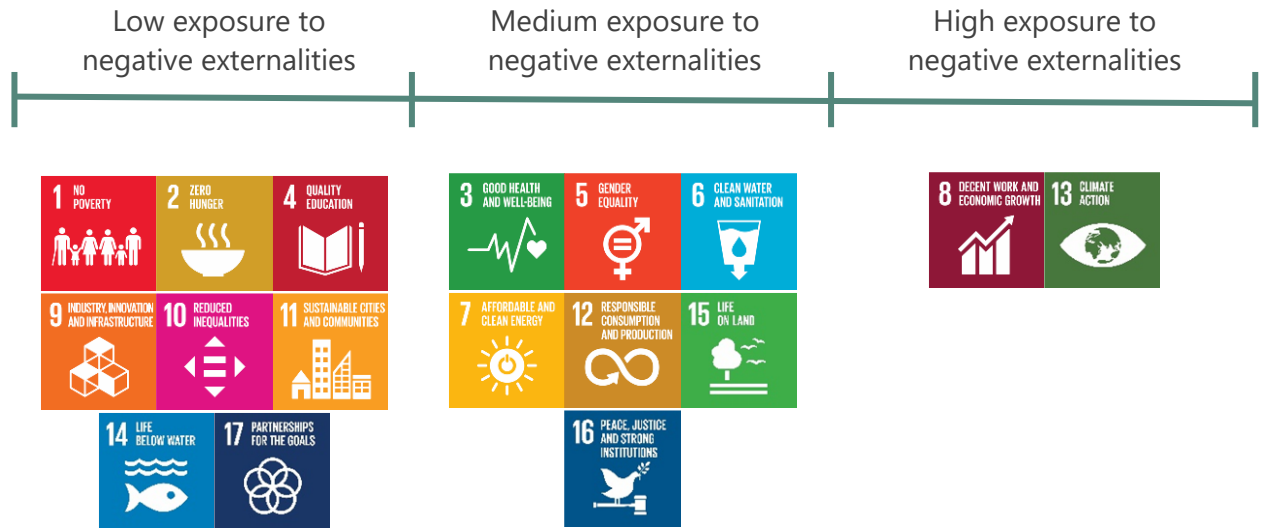


**2. Improvements of operational performance (processes)**

The below assessment aims to qualify the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related U.N. SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer.

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities in the construction materials industry (to which Heidelberg Materials belongs) are the following:

<sup>11</sup> We note that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to the transition to a Circular Economy of the EU Taxonomy Environmental Delegated Act (June 2023).



The table below aims to display the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>12</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Pollution prevention and control</b></p> <p><i>Assets, CapEx and/or OpEx for the manufacturing of:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Grey cement clinker where the specific GHG emissions<sup>13</sup> are lower than 0.722 tCO<sub>2</sub>e per tonne of grey cement clinker.</i></li> <li>▪ <i>Cement from grey clinker or alternative hydraulic binder, where the specific GHG emissions<sup>14</sup> from the clinker and cement or alternative binder production are lower than 0.469 tCO<sub>2</sub>e per tonne of cement or alternative binder manufactured.</i></li> </ul> <p><i>Where CO<sub>2</sub> that would otherwise be emitted from the manufacturing process is capture for the purpose of underground storage, the CO<sub>2</sub> is transported and stored underground in accordance with the Technical Screening Criteria of economic activities 5.11 and 5.12 as per the EU Taxonomy Climate Delegated Act (Annex I).</i></p>	 15	

**Circular Economy Adapted Products, Production Technologies and Processes**

*Assets, CapEx and/or OpEx for the construction, operation and/or upgrade of facilities for the sorting and/or material recovery of:*

 16



<sup>12</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

<sup>13</sup> Calculated in accordance with Commission Delegated Regulation (EU) 2019/331 of 19 December 2018 determining transitional Union-wide rules for harmonized free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council (OJ L 59, 27.2.2019, p. 8).

<sup>14</sup> Calculated in accordance with Regulation (EU) 2019/331.

<sup>15</sup> We note that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Climate Delegated Act (June 2023).

<sup>16</sup> We note that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Climate Delegated Act (June 2023).

*Non-hazardous waste:*

*Converting at least 50%, in terms of weight, of the processed separately collected non-hazardous waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.*

**Circular Economy Adapted Products, Production Technologies and Processes**

*Assets, CapEx and/or OpEx for the construction, operation and/or upgrade of facilities for the sorting and/or material recovery of:*

*Non-hazardous waste:*

*As per the substantial contribution criteria to the transition to a circular economy of the EU Taxonomy Environmental Delegated Act (Annex II), under 2.7 which are split in: Origin of the feedstock material, Material recovery, Proper management of waste and Quality of secondary raw materials.*

✓<sup>17</sup>



<sup>17</sup> We note that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to the transition to a Circular Economy of the EU Taxonomy Environmental Delegated Act (June 2023).

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. All projects will be located globally and could originate from any country where Heidelberg Materials operates facilities.

### ASSESSMENT AGAINST KPIs

#### All Categories

#### Labor Rights



Heidelberg Materials has implemented a Code of Business Conduct<sup>18</sup> and Supplier Code of Conduct<sup>19</sup> to systematically ensure that assets financed under this framework adhere to high labor standards for its employees, volunteers and the global supply chain. The Issuer strictly prohibits child labor, forced labor, and violation of the freedom of association and the right to collective bargaining, in accordance with the International Labor Organization Core Conventions, the requirements of the German Supply Chain Due Diligence Act and applicable national and international supply chain laws in the respective project locations.<sup>20</sup> Furthermore, a compliance system, based on internationally recognized human rights norms such as the Universal Declaration of Human Rights,<sup>21</sup> the International Covenant on Civil and Political Rights,<sup>22</sup> and the International Covenant on Economic, Social, and Cultural Rights<sup>23</sup> has been established. Periodic risk assessments, conducted in various formats, allow for the identification of risks regarding suppliers. If risks are identified, Heidelberg Materials or authorized individuals may establish action plans, including self-assessments, training and audits, to ensure compliance with the principles and mitigate labor-related risks.

<sup>18</sup>Code of Business Conduct, [https://www.heidelbergmaterials.com/sites/default/files/2024-01/Code-of-Conduct\\_2023\\_en\\_final.pdf](https://www.heidelbergmaterials.com/sites/default/files/2024-01/Code-of-Conduct_2023_en_final.pdf)

<sup>19</sup>Supplier Code of Conduct policy, page 1, 2, and 3, <https://www.heidelbergmaterials.com/sites/default/files/2024-02/Supplier Code of Conduct English October 2023.pdf>

<sup>20</sup> German Supply Chain Due Diligence Act, <https://www.bundesregierung.de/breg-en/service/archive/supply-chain-act-1872076>

<sup>21</sup> Universal Declaration of Human Rights, <https://www.un.org/en/about-us/universal-declaration-of-human-rights>

<sup>22</sup> International Covenant on Civil and Political Rights, <https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-civil-and-political-rights>

<sup>23</sup> International Covenant on Economic, Social, and Cultural Rights, <https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-economic-social-and-cultural-rights>

**Health and Safety**



Heidelberg Materials has implemented a Code of Business Conduct,<sup>24</sup> Occupational, Health and Safety Policy<sup>25</sup>, Supplier Code of Conduct,<sup>26</sup> and a certified health and safety management system (ISO 45001)<sup>27</sup> applicable to all company operations to ensure that projects financed under this framework adhere to high health and safety standards for its employees, volunteers and the supply chain. Regular risk assessments are conducted to address identified hazards and implement relevant remedies. Workplace inspections ensure compliance with both internal and external requirements.

**Circular Economy Adapted Products, Production Technologies and Processes**

**On-site Safety**



Heidelberg Materials has a certified health and safety management system (ISO 45001)<sup>28</sup> in place for all its operations to ensure that projects financed under this framework adhere to high operational safety standards. The Issuer has an Occupational, Health and Safety Policy,<sup>29</sup> and Human Rights policy<sup>30</sup> to ensure safe and healthy workplaces, equipment, work procedures, and practices, informed by regularly reviewed risk assessments. Employees are trained to identify and mitigate health and safety risks in their work, with a focus on ensuring competency for safe task execution. Work areas and practices undergo regular inspections to ensure compliance with both internal and external requirements. Health and safety performance and processes are continuously monitored and analyzed to meet or exceed standards. Additionally, the Issuer utilizes global software to track accidents and incidents.

**Environmental aspects of construction (or production) and operation**



Heidelberg Materials conducts life-cycle assessments to evaluate the environmental impacts of products and processes, ensuring alignment with projects financed under this framework. These assessments cover various life cycle phases from cradle to grave, including raw material extraction, materials

<sup>24</sup>Code of Business Conduct, page 8, [https://www.heidelbergmaterials.com/sites/default/files/2024-01/Code-of-Conduct\\_2023\\_en\\_final.pdf](https://www.heidelbergmaterials.com/sites/default/files/2024-01/Code-of-Conduct_2023_en_final.pdf)

<sup>25</sup>Occupational, Health and Safety Policy, [https://www.heidelbergmaterials.com/sites/default/files/2023-04/Policy\\_Health\\_and\\_Safety\\_Onepager.pdf](https://www.heidelbergmaterials.com/sites/default/files/2023-04/Policy_Health_and_Safety_Onepager.pdf)

<sup>26</sup>Supplier Code of Conduct policy, page 1, [https://www.heidelbergmaterials.com/sites/default/files/2024-02/Supplier\\_Code\\_of\\_Conduct\\_English\\_October\\_2023.pdf](https://www.heidelbergmaterials.com/sites/default/files/2024-02/Supplier_Code_of_Conduct_English_October_2023.pdf)

<sup>27</sup>Annual Report and Sustainability Report, page 138, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>28</sup>Annual Report and Sustainability Report, page 138, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>29</sup>Occupational, Health and Safety Policy, [https://www.heidelbergmaterials.com/sites/default/files/2023-04/Policy\\_Health\\_and\\_Safety\\_Onepager.pdf](https://www.heidelbergmaterials.com/sites/default/files/2023-04/Policy_Health_and_Safety_Onepager.pdf)

<sup>30</sup>Policy Statement on Human Rights, [https://www.heidelbergmaterials.com/sites/default/files/2024-03/Policy\\_Statement\\_on\\_Human\\_Rights.pdf](https://www.heidelbergmaterials.com/sites/default/files/2024-03/Policy_Statement_on_Human_Rights.pdf)



processing, manufacturing, distribution, and disposal or recycling. However, some relevant phases are not explicitly covered. Additionally, the Issuer considers both sustainability and technology. Potential negative externalities are already being evaluated in the planning and design phases of feasibility studies, such as by examining different production technologies and comparing various scenarios. The lifespan of its assets is frequently determined by resource availability, though the company typically plans for assets to be able to produce for 50 to 100 years, if not longer.

✓ Heidelberg Materials implements measures across all its operations to systematically ensure that projects financed under this framework meet high environmental standards and requirements during the construction and production phase. These measures include housing-in of stockpiles, conveyors, installation of dust filters to reduce dust, as well as housing-in of loading and unloading stations to mitigate noise generated by on-site truck traffic. Greening of premises helps absorb dust particles and reduce noise. The Issuer conducts an internal Group review of the potential impacts of the project. In addition to the review conducted by Group ESG, the technical departments provide an assessment with a particular focus on the construction and production phases. Moreover, the Issuer monitors emissions of air pollutants on an ongoing basis. The Issuer aims to reduce pollutants by using process technology and emission reduction systems, thus mitigating the impact of its activities on the environment and neighboring communities.<sup>31</sup>

### Conservation and biodiversity management

✓ Heidelberg Materials systematically ensures that assets financed under this framework undergo Environmental Impact Assessments as part of the permitting process. Additionally, the Issuer regularly assesses the proximity of operational sites to protected areas and, if the assessment results conclude it to be necessary, develops biodiversity management plans to mitigate the risks identified. To further identify and mitigate the impact, a proximity study will be conducted every three years. Sites within one kilometer of high-biodiversity value areas are committed to implementing biodiversity management plans, with progress reported annually. These plans will be fully integrated into the quarry development plan. Furthermore, through its biodiversity management efforts, nature-based solutions have been incorporated.<sup>32</sup> The Issuer has established various sustainability policies<sup>33</sup> to avoid or minimize impacts, particularly regarding biodiversity and water.

<sup>31</sup>Annual Report and Sustainability Report, page 117, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>32</sup>Biodiversity Policy, page 3, [https://www.heidelbergmaterials.com/sites/default/files/2022-05/Biodiversity\\_Policy\\_2022\\_en.pdf](https://www.heidelbergmaterials.com/sites/default/files/2022-05/Biodiversity_Policy_2022_en.pdf)

<sup>33</sup>Water Policy, [https://www.heidelbergmaterials.com/sites/default/files/2022-02/HC%20Water%20Policy\\_EN\\_final.pdf](https://www.heidelbergmaterials.com/sites/default/files/2022-02/HC%20Water%20Policy_EN_final.pdf)

## Energy Efficiency



Heidelberg Materials has measures in place to systematically ensure that assets financed will operate with optimized energy efficiency during production. These measures include plant modernization, increasing the proportion of alternative fuels to 45% by 2030,<sup>34</sup> reducing the proportion of the energy-intensive intermediate product clinker in its cement to 68% by 2030,<sup>35</sup> and generating electricity from waste heat.<sup>36</sup>

## Waste



Heidelberg Materials systematically ensures that assets financed under this framework promote high recycling of waste components and adhere to responsible waste management practices. Their circularity policy<sup>37</sup> emphasizes environmental commitment, covering reuse and recycling to promote secondary resources and safe handling of waste. By 2030, the Issuer intends to offer circular alternatives for 50% of its concrete products. Additionally, the Issuer is developing recycling technologies that will allow demolition concrete to be fully reused in fresh concrete. If concrete cannot be reused fresh, it is still possible to crush the completely recyclable concrete and return it to the production cycle.

The Issuer's waste management aims to minimize production waste and reuse byproducts from the production process. The company is implementing steps to increase the use of recycled materials across all its business lines, notably through the utilization of demolition waste and its separation into individual components, which can then replace virgin resources in construction. Similar improvements are underway in their asphalt and aggregates divisions. Suitable infrastructures are provided for waste collection and treatment, with a focus on diverting waste from landfills and promoting recycling activities. Additionally, the Issuer's Research and Development strategy aims to achieve higher material recovery rates, with the company regularly checking the byproducts arising from production for their suitability for various applications, either in its operations – as cementitious material, or in the processes of industry partners.

<sup>34</sup>Annual Report and Sustainability Report, page 39, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>35</sup>Annual Report and Sustainability Report, page 117, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>36</sup>Annual Report and Sustainability Report, page 118, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>37</sup> Circularity Policy, page 2 and 3, [https://www.heidelbergmaterials.com/sites/default/files/2023-12/Circularity\\_policy\\_1.pdf](https://www.heidelbergmaterials.com/sites/default/files/2023-12/Circularity_policy_1.pdf)

**Pollution Prevention and Control and Circular Economy Adapted Products, Production Technologies and Processes****Community Dialogue**

Heidelberg Materials has a Community Engagement Policy<sup>38</sup> in place, applicable to all its operations, to ensure that projects financed under this framework feature community dialogue as an integral part of the planning and production process. The policy covers a community engagement plan, which governs regular dialogue with communities to ensure a structured understanding of their views. The community relationship is regularly monitored, based on a mid- to long-term vision, to ensure that actions are efficiently implemented and corrective measures, if needed, are taken.

- ✓ The Issuer maintains regular contact with respective local communities, government agencies, and local organizations, informing them about activities and planned projects at the locations at an early stage. Plant or site management teams are generally responsible for such stakeholder relationships. Alongside personal discussions, a variety of communication means are utilized to keep local people and organizations informed and engage in dialogue with them, ranging from traditional newsletters and guidelines to social media and various public participation concepts. Moreover, the Issuer has emergency management plans, which are regularly reviewed as part of internal self-assessments.

**Environmental aspects of construction (or production) and operation**

- ✓ The vast majority of Heidelberg Materials' operations have an environmental management system aligned with ISO 14001 in place, ensuring that projects financed under this Framework comply with high environmental standards during production and operation.

**Pollution Prevention and Control****Environmental aspects of construction (or production) and operation**

- ✓ Heidelberg Materials systematically ensures that Carbon Capture, and Storage (CCS) projects financed under this framework undergo Environmental Impact Assessments. These assessments cover the entire value chain in a comprehensive approach. The storage component in any CCS project funded by the Issuer is typically operated by a third party. The Issuer confirms that an expert party will conduct detailed geological studies, risk assessments and monitoring. The Issuer is not directly responsible for these operations, so the viability of such an

<sup>38</sup>Community Engagement Policy, page 2, <https://www.heidelbergmaterials.com/sites/default/files/2024-04/community-engagement-policy.pdf>

assessment is not guaranteed. Nonetheless, the Issuer seeks to ensure EU Taxonomy alignment and is collaborating with partners to fulfill EU Taxonomy criteria, including adherence to Directive 2009/31/EC.

For the relevant CCS projects, Heidelberg Materials has measures in place to systematically ensure that CO<sub>2</sub> is permanently and safely stored. The Issuer confirms that the transport and storage aspects of all CCS projects are managed by partners, not directly by the company, though the Issuer remains involved in overseeing these matters. Moreover, their experts and partners thoroughly understand all critical elements and assess partner competency in project design, commissioning and operation. Independent experts are consulted if doubts arise, and partners are required to fill competency gaps using competent subcontractors or development partners. This process was followed for all seven CCS projects submitted for EU Innovation Funding, which mandates detailed risk descriptions and partner competency assessments.

✓ Furthermore, the Issuer confirms that it conducts risk assessments, which include monitoring CO<sub>2</sub> leakage during transport and storage. The storage sites undergo regular monitoring, measurement and verification, ensuring the presence of highly impermeable caprocks, geological stability, absence of leakage paths and effective trapping mechanisms. Additionally, injection rates and well pressure are routinely measured. The Issuer's CCUS teams will thoroughly familiarize themselves with these practices and ensure that its Partners adhere to the highest industry safety standards, as implemented throughout all operations and the value chain.

The Issuer confirms ongoing collaboration with the Global Cement and Concrete Association to develop a monitoring framework for CO<sub>2</sub>. This framework includes accounting for CO<sub>2</sub> during operations, energy needs and potential losses. While the framework is not yet published, the Issuer is seeking validation from the governing bodies of the GHG Protocol.

✓ Heidelberg Materials has measures in place to ensure the CCS process (including the energy needed for the capture process) is energy-efficient. For each CCS project, an extensive Techno-Economic Assessment is conducted, with a feasibility study. The Issuer has deployed amine-based post-combustion capture systems, which are 30% more heat efficient than traditional aqueous monoethanolamine-based systems. Heat for amine systems is sourced from various setups: waste heat in Brevik and combined heat and power (CHP) systems in Padeswood, Edmonton and Mitchell, where CO<sub>2</sub> from gas-fired CHP units is also captured. In Slite, an amine system with heat pumps has been designed for optimal energy efficiency.

Furthermore, the Issuer is investing in new technologies like Oxyfuel and Direct Separation, expected to enhance energy efficiency. With three partners, the Issuer is investing in a demonstration kiln in Mergelstetten for Oxyfuel technology. For Direct Separation, the Issuer collaborates with Calix, and both LEILAC-1 and LEILAC-2 projects, funded by the EU, are underway. These initiatives aim to derisk new technologies and validate their energy efficiency before implementing them in large-scale commercial projects.



The vast majority of Heidelberg Materials' operations have an environmental management system aligned with ISO 14001 and a Supplier Code of Conduct policy<sup>39</sup> in place, applicable to all company operations, ensuring that projects financed under this framework adhere to high environmental standards and requirements throughout the supply chain. Additionally, the Issuer conducts risk assessments regarding the environmental performance of suppliers.



The vast majority of Heidelberg Materials' operations have an environmental management system and implement measures to ensure that assets financed under this framework have clear processes to reduce water use, and solid waste disposal to avoid the risk of contamination of land and aquifers. The Issuer's water policy<sup>40</sup> addresses regions facing water scarcity, with plans to install water recycling systems at all sites in water-risk areas by 2030, where feasible economically and technologically. Additionally, water management plans tailored to each site's circumstances will be established by 2030, including freshwater reduction targets and engagement strategies with local stakeholders to mitigate water-related risks. Furthermore, the Issuer strictly complies with environmental regulations to safeguard surface water and groundwater resources during raw material quarrying.

In line with its circularity policy,<sup>41</sup> the Issuer prioritizes waste recycling and responsible waste management practices, emphasizing reuse and recycling to promote secondary resources, ensure safe waste handling, and minimize waste disposal. The company is actively developing recycling technologies to fully incorporate demolition concrete into fresh concrete or crush recyclable concrete for return into the production cycle. Moreover, the Issuer aims to minimize production waste and maximize the use of recycled materials across all business lines, notably through the utilization of demolition waste. This waste is separated into individual components and utilized to replace virgin resources in construction projects, contributing to sustainable resource management.

<sup>39</sup>Supplier Code of Conduct policy, page 2, [https://www.heidelbergmaterials.com/sites/default/files/2024-02/Supplier\\_Code\\_of\\_Conduct\\_English\\_October\\_2023.pdf](https://www.heidelbergmaterials.com/sites/default/files/2024-02/Supplier_Code_of_Conduct_English_October_2023.pdf)

<sup>40</sup>Water policy, page 4, 5, [https://www.heidelbergmaterials.com/sites/default/files/2022-02/HC%20Water%20Policy\\_EN\\_final.pdf](https://www.heidelbergmaterials.com/sites/default/files/2022-02/HC%20Water%20Policy_EN_final.pdf)

<sup>41</sup>Circularity Policy, page 2 and 3, [https://www.heidelbergmaterials.com/sites/default/files/2023-12/Circularity\\_policy\\_1.pdf](https://www.heidelbergmaterials.com/sites/default/files/2023-12/Circularity_policy_1.pdf)

The vast majority of Heidelberg Materials' operations have an environmental management system and implement measures to ensure that assets financed under this Framework provide for high standards regarding the environmentally safe operation of plants. The Issuer monitors emissions of air pollutants on an ongoing basis and aims to reduce pollutants by using process technology and emission reduction systems, thus mitigating the impact of its activities on the environment and neighboring communities.<sup>42</sup>



Additionally, the Issuer confirms that the majority of water usage is for cooling purposes, and their facilities operate with a closed reticulating system, preventing discharge into natural water bodies. Hence, specific water treatment is not necessary. The Issuer utilizes ponds or water retention areas to facilitate sediment settling, enabling water reuse. However, depending on local infrastructure and plant size, some facilities may have water treatment facilities for sanitary water or stormwater retention basins. Regular water samples are taken and analyzed in accordance with permit requirements.

Furthermore, in line with its circularity policy,<sup>43</sup> the Issuer implements measures for environmentally safe plant operations. These involve waste recycling and responsible waste management practices, reuse, and recycling to promote secondary resources, safe waste handling and minimize waste disposal. The company is actively developing recycling technologies to fully incorporate demolition concrete into fresh concrete or crush recyclable concrete for return into the production cycle. Moreover, the Issuer aims to minimize production waste and maximize the use of recycled materials across all business lines, notably through the utilization of demolition waste.

<sup>42</sup>Annual Report and Sustainability Report, page 117, [https://heidelbergmaterials.com/sites/default/files/2024-03/HM\\_ASR\\_2023.pdf](https://heidelbergmaterials.com/sites/default/files/2024-03/HM_ASR_2023.pdf)

<sup>43</sup>Circularity Policy, page 2 and 3, [https://www.heidelbergmaterials.com/sites/default/files/2023-12/Circularity\\_policy\\_1.pdf](https://www.heidelbergmaterials.com/sites/default/files/2023-12/Circularity_policy_1.pdf)

## PART III: CONSISTENCY OF GREEN FINANCE INSTRUMENTS WITH HEIDELBERG MATERIALS' SUSTAINABILITY STRATEGY

*Key sustainability objectives and priorities defined by the Issuer*

TOPIC	ISSUER APPROACH
<p><b>Strategic ESG topics</b></p>	<p>The Issuer focuses on 12 material sustainability topics: biodiversity; circularity and resource management; CO<sub>2</sub> emissions; diversity, equity and inclusion; emissions (Sulfur oxides, Nitrogen oxides, dust, noise); energy and fuels management; ethical business conduct; human rights; innovation and technology; occupational health and safety; responsible sourcing; and sustainable products and solutions. The topics were defined through an online survey and several workshops.<sup>44</sup> Heidelberg Materials regularly uses materiality analyses to examine the relevance of the topics to different stakeholder groups and to the Issuer itself.</p>
<p><b>ESG goals/targets</b></p>	<p>The Issuer has committed to operate at net-zero by 2050 at the latest. To achieve its strategic ESG topics, the Issuer has set targets for 2030 for each topic area: building a net-zero future (including targets on CO<sub>2</sub> and energy, additional emissions and sustainable revenue), building a safe and inclusive future (including targets on diversity, equity and inclusion, occupational health and safety, community engagement and sustainable suppliers), building a circular and resilient future (including targets on circularity and sustainable revenue), and building a nature-positive future (including targets on biodiversity and water).<sup>45</sup> The Science Based Targets initiative (SBTi) validated the Issuer's 2030 CO<sub>2</sub> reduction targets at the end of February 2023 in accordance with its 1.5°C roadmap for the cement industry.</p>

<sup>44</sup> For more information on the materiality analysis, please refer to Heidelberg Materials' Annual and Sustainability Report on p. 36: <https://www.heidelbergmaterials.com/en/company/annual-reports-sustainability-reports>

<sup>45</sup> For more information on the targets, please refer to Heidelberg Materials' [Annual and Sustainability Report](https://www.heidelbergmaterials.com/en/company/annual-reports-sustainability-reports) on p. 38f: <https://www.heidelbergmaterials.com/en/company/annual-reports-sustainability-reports>

	<p>Heidelberg Materials has an intermediate target for CO<sub>2</sub> emissions of reaching 500 kg net CO<sub>2</sub> per metric ton of cementitious material for Scope 1 by 2026. The targets for 2030 are monitored on an annual basis in the Annual and Sustainability Report.<sup>46</sup></p>
<p><b>Action plan</b></p>	<p>Heidelberg Materials has defined various actions relating to the four topic areas and 12 material sustainability topics. The Issuer has implemented measures such as the Alternative Fuel Master Plan to increase the use of alternative fuels, utilizing materials generated as byproducts or waste and developing cements containing less clinker. Additionally, Heidelberg Materials aims to offer circular alternatives for 50% of its concrete products by 2030, for which it has set up new product brands, research and product innovation labs to further develop its circular offering. To build a nature-positive future, the Issuer created a biodiversity program (including biodiversity management at Heidelberg Materials' locations and cooperation with nature conservation organizations) and takes part in sustainable water management. To build a safe and inclusive future, Heidelberg Materials aims to foster diversity among employees, support women in leadership positions and improve work-life balance. Furthermore, the Issuer has implemented preventive measures to reduce the risk of accidents, incidents and ill health, supports the social and economic development of neighboring communities, fosters transparent communication with all relevant stakeholders and considers ESG factors when choosing suppliers.</p> <p>Heidelberg Materials spent EUR 539 million on property, plant, and equipment relating to the four topic areas and 12 material sustainability topics in 2023. The Issuer doesn't disclose any relevant financial budget to achieve the specific ESG goals and targets.</p>
<p><b>Climate Transition Strategy</b></p>	<p>The Issuer aims to almost halve their carbon footprint by 2030 compared with 1990 levels, which was validated by the SBTi, and achieve net-zero emissions by 2050 at the latest. Heidelberg Materials considers</p>

<sup>46</sup> Heidelberg Materials, <https://www.heidelbergmaterials.com/en/company/annual-reports-sustainability-reports>



	<p>the entire value chain, including Scope 1, Scope 2 and Scope 3 emissions. The following targets have been set:</p> <ul style="list-style-type: none"> <li>▪ Reduce net Scope 1 emissions to 400 kg per metric ton of cementitious material.</li> <li>▪ Reduce total CO<sub>2</sub> footprint according to the SBTi 1.5°C pathway.             <ul style="list-style-type: none"> <li>• Gross Scope 1 (-24% per metric ton of cementitious material vs. 2020).</li> <li>• Gross Scope 2 (-65% per metric ton of cementitious material vs. 2020).</li> <li>• Scope 3 (-25% in absolute emissions from purchased cement and clinker vs. 2020).</li> </ul> </li> <li>▪ Capture 10 million tons of CO<sub>2</sub> cumulatively through its carbon capture, utilization and storage (CCUS) projects.</li> </ul> <p>To reach its targets, Heidelberg Materials created measures at plant and product levels. The Issuer aims to optimize the product mix, make process improvements, such as maximizing the use of alternative fuels and switching to electricity from renewable energy sources, and aims to invest in plant efficiency. Where emissions are unavoidable, Heidelberg Materials uses CCUS. The reduction of CO<sub>2</sub> emissions has also been anchored in the remuneration of the Managing Board and the majority of bonus-eligible employees. The Issuer uses climate scenarios to analyze climate-related opportunities and risks.</p>
<p><b>ESG Risk and Sustainability Strategy Management</b></p>	<p>Heidelberg Materials considers ESG risks in the risk analysis process. If the risks can't be quantified, the Issuer carries out a qualitative assessment which includes the potential impact and the likelihood (analogous to quantifiable risks) graded from low to critical. The risk analysis covers physical risks (tropical cyclones, river floods, fire weather, drought stress, heat stress, precipitation stress and cold stress) and transition risks (referring to policy and legal, resource</p>

	<p>efficiency, technology, energy source, markets, reputation, products and services and resilience).</p> <p>ESG topics are managed by the Sustainability Office. The Chief Sustainability Officer is a member of the Managing Board. Further to that, the Sustainability Reporting Steering Committee was established in 2022 and consists of the Sustainability, Finance and Digitalization departments. The committee decides on issues relating to sustainability reporting.</p>
<b>Top three areas of breaches of international norms and ESG controversies in the industry<sup>47</sup></b>	Terrorist financing, Failure to mitigate climate change impacts and Strike action.
<b>Breaches of international norms and ESG controversies by the Issuer</b>	At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.
<b>Sustainability Reporting</b>	The Issuer reports on its ESG performance and initiatives annually. The report is prepared according to the following standards: Global Reporting Initiative (GRI), Greenhouse Gas (GHG) Protocol Corporate Standard, Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD).
<b>Industry associations, Collective commitments</b>	The Issuer is a member of the following associations: BirdLife International, German Building Materials Association (bbs), CEMBUREAU, Concrete Sustainability Council (CSC), econsense – Forum for Sustainable Development of German Business, Global Cement and Concrete Association, Global CCS Institute, Mission Possible Partnership – Concrete Action for Climate, Race to Zero, Science Based Targets Network (SBTN), Society for Ecological Restoration (SER), Stiftung KlimaWirtschaft, UEPG, and World Green Building Council.
<b>Previous sustainable/sustainability-linked issuances or transactions</b>	Heidelberg Materials published its Sustainability-linked Financing Framework in 2022 and issued sustainability-linked bonds with a total volume of EUR

<sup>47</sup> Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Construction Materials industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

**and publication of sustainable  
financing framework**

1.5 billion in 2023. The Framework was verified by an external third party.<sup>48</sup>

*Rationale for issuance*

Corresponding to Heidelberg Materials' 12 sustainability topics and its transition path to a low carbon and climate-resilient economy, the Issuer established its Green Finance Framework. Together with the Sustainability-linked Financing Framework launched in 2022, Heidelberg Materials sets the ground to issue green finance instruments and align its funding with its sustainability strategy. Furthermore, Heidelberg Materials aims to diversify its investor base, broaden the dialogue with existing investors, and contribute to the growth of sustainable finance.

The Issuer focuses on financing two categories: pollution prevention and control, as well as circular economy adapted products, production technologies, and processes. These categories are in line with Heidelberg Materials' sustainability topics.

**Opinion:** *The key sustainability objectives and the rationale for issuing Green Finance Instruments are clearly described by the Issuer. All project categories financed are in line with the Issuer's sustainability objectives.*

<sup>48</sup> Heidelberg Materials, Available at: <https://www.heidelbergmaterials.com/en/pr-2023-01-16>

## DISCLAIMER

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## ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.iss-corporate.com/file/publications/methodology/iss-corporate-green-social-and-sustainability-bond-loan-spo-methodology-summary.pdf>

## ANNEX 2: QUALITY MANAGEMENT PROCESSES

### SCOPE

Heidelberg Materials' commissioned ISS-Corporate to compile a Green Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the GBP and GLP and to assess the sustainability credentials of its Green Finance Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion:

- Green Bond Principles (as of June 2021 with June 2022 Appendix)
- Green Loan Principles (as of February 2023)

### ISSUER'S RESPONSIBILITY

Heidelberg Materials' responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the Framework level

### ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, 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.

This independent Second Party Opinion of the Green Finance Instruments to be issued by Heidelberg Materials has been conducted based on a proprietary methodology and in line with the ICMA GBP and GLP.

The engagement with Heidelberg Materials took place from April to May 2024.

### ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior 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 this SPO

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

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.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: [SPOsales@iss-corporate.com](mailto:SPOsales@iss-corporate.com)

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