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1. Sustainability at HeidelbergCement

About HeidelbergCement

For us, doing business means a lot more than just achieving outstanding financial results. We also want to act in an environmentally and socially responsible manner.

HeidelbergCement Group (“HeidelbergCement”, “the Group” or “the company”) is one of the world’s largest building materials companies in terms of sales volumes and operates on five continents. Our products are used for the construction of houses, traffic routes, infrastructure, as well as commercial and industrial facilities, thus meeting the demands of a growing world population for housing, mobility, and economic development.

Our core activities include the production and distribution of cement, aggregates, ready-mixed concrete, and asphalt. Furthermore, HeidelbergCement offers services such as worldwide trading in cement and clinker by sea.

HeidelbergCement Group is divided into five geographical Group areas: Western and Southern Europe, Northern and Eastern Europe-Central Asia, North America, Asia-Pacific, and Africa-Eastern Mediterranean Basin (see organisation chart for breakdown of countries). Our global trading activities, especially the trading of cement and clinker, are pooled together in the sixth Group area Group Services.

Within the geographical Group areas, we have divided our activities into four business lines. In the business lines of cement and aggregates we report on the essential raw materials that are required for the manufacture of downstream activities like ready-mixed concrete and asphalt, which are combined in the third business line. The fourth business line, service-joint ventures-other, primarily covers the activities of our joint ventures. It also includes the building products that are manufactured in a few countries.
As of 1 December 2021, the Sustainability Office was established under the direction of Dr Nicola Kimm, Chief Sustainability Officer and Member of the Managing Board. In taking this step, we are pursuing our goal of leading the change in the construction industry. We are driving the path to sustainable construction and carbon neutrality while applying high standards of social and environmental responsibility. By doing so, we aim to create a more sustainable world for our customers, stakeholders, and society.

Sustainability approach and contribution to UN SDGs

Vision and mission

We want to continue to grow. In the long term, however, we will only be able to achieve our business goals if we generate added value for society as a whole. Consequently, environmental and social goals are integrated alongside economic targets into our business strategy and the remuneration systems of our management. We conserve natural resources, as they form the basis of our business activities, and we take our social responsibility at the various company locations and towards our employees seriously. We want to continue providing our employees with good jobs and valuable qualifications in the future. In our production activities, we focus particularly on ensuring the health and safety of our employees. We want our customers to benefit from the high quality of our products and a close partnership. We maintain respectful relations with our suppliers and expect them to comply with our sustainability standards.

Our business activities are characterised by commercial prudence, the rule of law, and integrity. We promote value creation at our locations and help to increase prosperity and the quality of life in emerging economies in particular. Growth and good returns are also the basis for our investments in cutting-edge technologies to help protect the climate and the environment.

Sustainability Commitments 2030 and contribution to UN SDGs

The HeidelbergCement Sustainability Commitments 2030 describe our most important activities for the coming decade in terms of promoting sustainability. This programme, which is valid throughout the company, defines the principles, main components, and objectives of our sustainability strategy until the year 2030.

The focus is on climate protection: by 2030, we want to reduce our specific net CO₂ emissions by at least 47% compared to 1990 levels. While our former 2030 target (-30%) was formally verified by the Science Based Target initiative (SBTi) for 2° C, the updated ambition will be in line with the 1.5° C Cement Sectoral Decarbonization Approach – verification will follow as soon as the updated sectoral approach for the cement industry is available. We have already achieved a reduction of 25% by 2021.
As part of society, HeidelbergCement is committed to contribute to a responsibly built environment for the benefit of all. With the Sustainability Commitments 2030, HeidelbergCement aims to help achieve the UN Sustainable Development Goals (SDGs) and address global social, economic, and environmental challenges.

The SDGs set out a framework of 17 goals and 169 targets to tackle the world’s most pressing social, economic, and environmental challenges in the lead-up to 2030. The SDGs cannot be realised without meaningful engagement by business. The private sector has a crucial role to play as a driver of innovation and technological development and as a key engine of economic growth and employment.

The principles outlined in the Sustainability Commitments 2030 are as follows:

<table>
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<th>Sustainability pillar</th>
<th>Contribution to SDG</th>
<th>HeidelbergCement’s goals</th>
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<tbody>
<tr>
<td>Driving economic strength and innovation</td>
<td>• We will ensure sustainable profitability through the effective management of all processes and resources and the continuing innovation of products and services.</td>
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<tr>
<td>Achieving excellence in occupational health and safety</td>
<td>• We are committed to continuously enhancing the occupational health and safety conditions of our employees, contractors and third parties.</td>
<td></td>
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<tr>
<td>Reducing our ecological footprint</td>
<td>• We are committed to fulfilling our share of the global responsibility to keep temperature rise below 1.5°C, and we will continue to reduce our impact on air, land, and water.</td>
<td></td>
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<tr>
<td>Enabling the circular economy</td>
<td>• We conserve our natural reserves by continuously increasing the use of alternative resources as substitutes for natural raw materials.</td>
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Being a good neighbour

- We are committed to supporting the social and economic development of our neighbouring communities and ensure transparent communication to all our stakeholders.

Ensuring compliance and creating transparency

- We adhere to international human rights, anti-corruption and labour standards, and cooperate proactively in an open and transparent manner with all our stakeholders.

Environment and climate protection

Environmental protection is an integral part of HeidelbergCement’s business strategy. Since September 2021, responsibility for sustainability has been assigned to a separate Managing Board member. The Group departments of the Sustainability Office, which was newly created in December 2021 and reports to the Chief Sustainability Officer, support the forward-looking activities in the area of sustainability at Group level in many ways.

2030 and 2050 targets

Reducing our carbon footprint and increasing energy efficiency are central tasks for Heidelberg Cement’s management teams on all levels. A large part of our investments and research efforts have been and will continue to be directed towards achieving this goal. This is how we contribute to a sustainably built future for the world in which we operate. We want to be the industry leader on the path to carbon neutrality.

Why the EU taxonomy matters to us

HeidelbergCement recognises the EU taxonomy\(^1\) as a key instrument in making what is and what is not considered a sustainable economic activity transparent by requiring companies to report on how they contribute to at least one of the six environmental objectives. With one of its focal points being climate change mitigation, the taxonomy is also a major pillar of the EU’s strategy to mobilise the necessary financing and achieve the transition towards a low-carbon economy as outlined in the 2030 Climate Target Plan. With this plan, the Commission proposes to raise the EU's strive on reducing greenhouse gas emissions to at least 55% below 1990 levels by 2030, which is significantly more ambitious than the originally envisaged 40% target.

The introduction of the EU taxonomy has by numerous implications for HeidelbergCement. Based on the published taxonomy climate delegated acts, only our cement business line is taxonomy eligible. In 2023, our sector will have to report how much of its revenue is aligned with one of the minimum thresholds:

- Grey cement clinker GHG emissions lower than 0.722 t CO\(_2\)e per tonne of clinker
- Cement for grey clinker or alternative hydraulic binder GHG emissions lower than 0.469 t CO\(_2\)e per tonne of cement or alternative binder manufactured

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\(^{1}\) Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment
HeidelbergCement is currently working to implement the reporting requirements in association with the EU taxonomy and sees the recent development as an opportunity to demonstrate performance and progress made towards a more sustainable future. To underline its commitment to limit the rise in worldwide temperature to 1.5° C and other environmental aspects, HeidelbergCement goes a step further by setting up overarching targets that are even more stringent than the defined minimum requirements, ensuring that our overall specific CO₂ footprint is significantly below the set limits. This again puts HeidelbergCement at the forefront to the transition to sustainability and strengthens its function as a role model within the industry.

**We will significantly reduce our carbon footprint by 2030**

We have a strong track record in reducing CO₂ emissions and are further accelerating our efforts. By 2021, we had already achieved a 25% reduction of our specific net CO₂ emissions per tonne of cementitious material compared with 1990. Our 2030 target of at least 30% reduction has therefore been brought forward to 2025, with our new, challenging and EU-taxonomy-aligned goal of 400 kg CO₂ per tonne of cementitious material set for 2030, which is equal to a reduction of -47% – all underpinned by a clear roadmap.

Our CO₂ reduction strategy is based on solid measures at plant and product levels, the implementation of which is well underway. Since the 2021 financial year, the reduction in CO₂ emissions has been anchored in the remuneration of the Managing Board and every bonus-eligible employee worldwide.

Our most important emission reduction measures for the next ten years are the following:

- Increased use of alternative raw materials and fuels
- Substitution of the CO₂-intensive clinker in cement by secondary cementitious materials that have a significantly lower CO₂ footprint
- Major investments in plant efficiency and CO₂ reduction at plant level
- Scale up of carbon capture, utilisation, and storage technology
- Increased share of sustainable low-carbon concrete products
Beyond 2030: our path to carbon neutrality in concrete

Our Sustainability Commitments 2030 define the key topics and core principles of our corporate sustainability strategy for the next ten years. They are complemented by our commitment to achieve net zero emissions by 2050 at the latest.

For this, we rely on a combination of measures – most importantly, the increased use of alternative fuels, alternative secondary cementitious materials (including recycled materials), and carbon capture and utilisation (CCU) or carbon capture and storage (CCS) (together referred to as CCUS). HeidelbergCement has established an internal interdisciplinary CO2 management task force of international experts from different fields, who are working intensively to push our agenda even further and show results as early as possible. As of 2022, we are in the advanced stage of the implementation of four CCS projects and are testing various approaches and technologies.

Six key levers to reach our target

We focus on the following six levers to reach our target:

- **Product mix**: Reduce clinker incorporation from 75% (2020) to below 68% (2030)
- **Alternative fuels**: Increase alternative fuels rate from 25.7% (2020) to 45% or above (2030) and biomass rate from 10% (2020) to 20% or above (2030)
- **Low emissions energy**: Increase usage of more environmentally friendly energy sources (incl. renewable electricity and gas as bridge fuel which produces -40% CO2 emissions/GJ compared to coal)
- **CCUS**: Start-up and deployment of CCUS technologies across our operations (10 million t CO2 cumulatively avoided by 2030)
- **Footprint changes/plant efficiency**: All major overhaul investments targeting CO2 reduction
- **Commercial levers**: Significant increase of sustainable low-carbon concrete products
A comprehensive approach to net zero emissions in concrete

We are committed to achieving net zero emissions of our whole product portfolio by 2050 at the latest. We are convinced that concrete has the potential to become the most sustainable and versatile building product, when considered across its entire life cycle, from production to recycling. A large part of our investments and research efforts in upcoming years will be directed towards achieving this goal.

With our multidimensional approach to reduce CO₂ emissions, we focus on levers we can already pull now to reduce emissions intensity while building partnerships and coalitions to advance breakthrough technologies that allow reductions on a larger commercial scale in the longer term.

Biodiversity and land use

We only extract worthwhile deposits if they can be exploited in an environmentally compatible and economical manner. Before making any decision concerning the development of a new quarry or the expansion of an existing one, the company first conducts an extensive approval process in line with the corresponding laws and regulations. Our sites are operated in accordance with relevant international, national, and local environmental legislation, and environmental impact assessments are generally prepared as a prerequisite for the permitting of quarrying activities. Through this process, we manage our impact on biodiversity in line with the sequential steps of the mitigation hierarchy: avoid, minimise, and mitigate.

Concepts for the limitation of land consumption

For environmental and economic reasons, we strive to limit land consumption when planning our quarrying and reclamation activities. As a matter of principle, the authorised raw material supply is always completely extracted in order to minimise land consumption. We therefore prefer to expand existing quarries rather than develop new sites. When constructing production and plant facilities, we also take care to use as little land as possible.

Subsequent use and reclamation

Reclamation plans are now an integral part of approval processes. These plans define the goals and timetable for the reintegration of a quarry into the surrounding landscape. Even while a quarry is still in operation, we reclaim those areas of the quarry that are no longer used. In 2021, the proportion of quarries with after-use plans was 87%. We intend to increase this figure to 100% by 2030 at the latest.

Protecting biodiversity and habitats

We believe in helping to conserve habitats and biodiversity features throughout the life cycle of our quarrying sites. Even during the extraction phase at an operational site, we can create optimal conditions for threatened species that are associated with early stages of ecological succession.
Through the reclamation process, we are also able to create new habitats, such as wetlands and species-rich grasslands, and integrate biodiversity features into any intended subsequent use. In Europe in particular, our quarries are now important refuges and stepping-stone habitats for specially protected species such as the sand martin, the yellow-bellied toad, the eagle owl, and the Eurasian otter, which are accordingly also the focus of numerous biodiversity projects.

Local environmental impact

Air pollutants and noise

In addition to addressing the issues of dust and noise, HeidelbergCement faces a particular challenge in terms of the air pollutant emissions from the cement business line. While dust and noise are emitted from different points in the production process, nitrogen oxides, sulphur oxides, and other air pollutants are mainly emitted from kiln lines. There are national legal limits that must be observed by all production locations. As part of its Sustainability Commitments 2030, HeidelbergCement has also pledged to reduce air pollutants. By 2030, we aim to reduce the emissions of sulphur oxides (SOx) and nitrogen oxides (NOx) generated in our cement production by 40% – and dust emissions by 80% – in comparison with 2008 levels. This is in addition to our objective to continuously reduce all other air pollutant emissions, bringing them down below the average of the industry. The reduction target for dust emissions was already met in 2020.

Water management

HeidelbergCement has committed itself to the goal of minimising the impact of its activities on natural water resources. We comply with stringent environmental regulations to ensure that our raw material quarrying will not endanger local bodies of surface water or groundwater resources. Water is hugely important for our production processes and is used, for example, when washing gravel and sand as well as for cooling or cleaning transport vehicles. Water is also one of the source materials for concrete manufacturing and becomes part of the building material during its production. We obtain some of the water we use from the public water supply, but the majority comes from our own approved well systems or from rivers and lakes. All direct withdrawals are heavily regulated and closely monitored by governments worldwide. The local operating permit at each plant specifies the allowable amounts of water extraction and recirculation. Some of the water – the water used for cooling, for instance – evaporates and is released into the atmosphere. The cleaning water that accumulates when transport vehicles are washed is fully recycled. We dispose of the domestic wastewater accruing at our company buildings via the municipal wastewater systems.

In the last few years, we have introduced a water reporting system at all of our company’s cement plants. The specific water consumption amounted to 265.9 litres per tonne of cement in 2021. We are continuously working to reduce our water consumption, for example by converting to closed cooling circuits.

In 2021, we once again reported on the key figures for water from 2020 and on our strategy and governance on this topic to the CDP. Thanks to our long-term success and our transparent reporting, we repeated the achievement of the previous year and obtained an “A-” classification in the water security category of the CDP company ranking for 2021. This assessment confirms HeidelbergCement’s leading role within the industry.

Waste materials

Our primary focus in terms of waste management concerns the kiln dust that is a by-product of clinker production. This dust has to be removed from the kiln systems at several facilities in order to prevent disruptions to proper kiln operations. We generally use the kiln dust as an alternative raw material in the production of certain types of cement, thereby improving our ecological efficiency. In some
exceptional cases, the locally produced cement type portfolio prevents us from fully recycling the dusts. A second possibility for us is to use the kiln dust as a raw material for the production of special concrete. If no other option is available, it can be deposited in underground landfill sites in a controlled process. The local operating permit at each plant specifies the allowable amount of process-related waste products and how it is to be used.

**Sustainable products and the circular economy**

Sustainable building materials with the smallest possible carbon footprint are playing an increasingly important role for us and our customers. As part of our Sustainability Commitments 2030, we are investing heavily in research and development for innovative low-carbon production technologies and products and are driving forward a portfolio of sustainable products in each Group country. In dialogue with our customers, the responsible persons in the Group countries identify the need for new sustainable products for their respective markets. Development is often supported by the Global Research & Development department.

**Building with climate-friendly cement and concrete**

The use of by-products from other industrial sectors in the production of clinker and cement or the recycling of concrete demolition material offer us the opportunity to produce concrete in a more resource-efficient way and with lower CO₂ emissions. A significant part of our research and development activities is aimed at developing new cement and concrete formulas in order to minimise energy consumption and CO₂ emissions and thus environmental impact. For example, our German subsidiary Heidelberger Beton combines an extensive portfolio of sustainable concretes under the EcoCrete® brand, which, depending on the application, offers a CO₂ reduction to 66% per cubic metre of concrete compared to the industry reference value. This reduction is achieved purely technically and without compensation measures.

In addition to improving the CO₂ balance by using alternative raw materials and efficient process technologies, our research laboratories are also working on products to improve the energy efficiency of buildings. Lightweight concrete and in particular infralight concrete are characterised by good thermal insulation properties and, if used correctly, can contribute to significant energy savings in building use over the life cycle of buildings. When using infralight concrete, additional insulation layers can even be completely dispensed with due to the excellent thermal insulation.

With the help of digitalisation and automation in the construction industry, the development of new construction techniques such as 3D printing with concrete is also being supported. For example, our building material solution i.tech® 3D, which was specially developed for 3D printing, was used in pilot applications in 2020 in the printing of a two-storey house and an apartment building in Germany. The technology was further developed in 2021 to optimise costs and enable its use on a broader basis. With i.tech®, material savings of up to 70% in concrete and correspondingly large CO₂ savings can be realised.

**Concrete recycling as a contribution to the circular economy**

Throughout its lifetime, concrete binds CO₂ from the air and forms limestone in the process. This natural carbonation also continues during concrete recycling. Through this natural process, parts of the CO₂ emitted during the production of the raw material cement are automatically re-integrated throughout the life cycle of the concrete product.

With our increasing involvement in the production of recycled aggregates, we are making a contribution to the circular economy and thus also to sustainable construction: as one of the largest building materials recycling companies on the Australian east coast, our subsidiary Alex Fraser recycles over 3 million tonnes of demolished concrete and several hundred thousand tonnes of asphalt every year.
Most of this recycled material is currently used in road construction. In the future, however, it is planned to use concrete demolition waste increasingly in the production of fresh concrete.

Through our participation in Rewinn B.V., Amsterdam, a Dutch company for concrete recycling, which we founded together with our local partner Theo Pouw BV, Utrecht, Netherlands, we are able to produce up to 250,000 tonnes of aggregates from recycled concrete annually. These are already used in numerous applications, such as the production of fresh concrete. For example, we also distribute the product Ecocrete®, a concrete with up to 100% recycled coarse aggregates, via our Dutch subsidiary Mebin. Ecocrete® was used in numerous projects, such as the new building for the National Institute for Public Health and the Environment (RIVM) in Utrecht, Netherlands.

We are also advancing the targeted processing of recycled concrete constituents as well as their recarbonation and reuse in building materials as part of our research activities – particularly against the backdrop of increasing scarce traditional cement constituents, such as granulated blast furnace slag and fly ash. The aim of the research project C2inCO2 is to accelerate the process of the carbonation reaction to which concretes are naturally subjected during their life cycle, but in a targeted manner and on a large scale in order to reintegrate CO2 firmly as calcium carbonate in recycled concrete components and thus use it for the production of building materials.

**Being a good neighbour**

Good cooperative relationships with the communities in the areas where we are active are indispensable for our business operations and one of the keys to our business success. In these areas, we establish business contacts, capitalise on local know-how, and maintain a dialogue with our neighbours. By making this voluntary commitment to society, we strengthen the exchange of ideas and achieve long-term socio-economic added value for local communities. We have made an express commitment to social responsibility in the Code of Business Conduct adopted by our Managing Board. Taking social responsibility and maintaining good relationships with our stakeholders are therefore management tasks. Together with the site managers, all country managers are responsible for these tasks in their respective countries.

This also includes analysing local requirements as well as selecting, implementing, and monitoring charitable projects. Funding decisions for individual countries and locations are made at a local level by the country managers within their budgetary framework. The financial dimension of social engagement across the Group is around €9 million per year.

Our engagement is focused on three areas in which we have specific expertise and can achieve the best results for society:

- **Infrastructure**: We provide practical help in the construction and preservation of buildings and infrastructure by making products, financial means, and expertise available.
- **Environment**: We support initiatives that promote environmental protection, improve local environmental quality, and strengthen the diversity of nature at our locations.
- **Education**: We foster education and training and are guided in this area by the specific needs of the communities where we are located.
2. HeidelbergCement Sustainability-Linked Financing Framework

Rationale for sustainability-linked financing

The Sustainability-Linked Financing Framework aims to support HeidelbergCement's strategy and transition to a low-carbon economy. The Group also intends on using the framework to contribute to the growth of the sustainability-linked financing market by means of different financial instruments and to address investors' willingness to finance transition.

HeidelbergCement believes that sustainability-linked financing instruments are an effective tool to channel investments to projects that have demonstrated environmental benefits and thereby contribute to the achievement of the SDGs. By issuing sustainability-linked financing instruments, HeidelbergCement intends to align its funding strategy with its mission, sustainability strategy, and responsible investing objectives.

HeidelbergCement has established its Sustainability-Linked Financing Framework as an overarching platform under which the company intends to issue sustainability-linked financing instruments, which may include bonds (including private placements), commercial paper, loans, promissory notes (Schuldscheindarlehen), and any others in various formats and currencies.

Alignment with Sustainability-Linked Bond and Loan Principles

This framework is aligned with the five core components of the Sustainability-Linked Bond Principles published by the International Capital Markets Association (ICMA) in June 2021, and also takes into account the Sustainability-Linked Loan Principles published by the Loan Markets Association (LMA) in March 2022. These are sets of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of sustainability-linked financing instruments. Any changes in the standards mentioned above may be implemented in future versions of this Sustainability-Linked Financing Framework.

The HeidelbergCement Sustainability-Linked Financing Framework has five core components:

i. Selection of key performance indicators (KPIs)
ii. Calibration of sustainability performance targets (SPTs)
iii. Characteristics of the sustainability-linked financing instruments
iv. Reporting
v. Verification

For each sustainability-linked financing instrument issued, HeidelbergCement asserts that it will adopt (i) the selection of KPIs (ii) the calibration of SPTs (iii) the characteristics of the sustainability-linked financing instruments, (iv) the reporting and (v) the verification of such as set out in this framework.

This framework will apply to any sustainability-linked financing instrument issued by HeidelbergCement and will be in force as long as any sustainability-linked financing instrument is outstanding.

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2 To be found here
3 To be found here
3. Selection of the key performance indicator (KPI)

<table>
<thead>
<tr>
<th>KPI</th>
<th>Contribution to UN SDG</th>
<th>Contribution to EU environmental objectives⁴</th>
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<tbody>
<tr>
<td>KPI 1:</td>
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<tr>
<td>Specific net CO₂ emissions per tonne of cementitious material</td>
<td></td>
<td>Climate change mitigation</td>
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<tr>
<td>KPI 2:</td>
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<tr>
<td>CO₂ emissions avoided via CCUS</td>
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<td>Climate change mitigation</td>
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</tbody>
</table>

**KPI 1: Specific net CO₂ emissions per tonne of cementitious material**

**Definition and methodology for KPI measurement**

HeidelbergCement uses the Global Cement and Concrete Association’s (GCCA) Sustainability Guidelines⁵ for the monitoring and reporting of CO₂ emissions from cement manufacturing (previously the Cement Sustainability Initiative’s Cement CO₂ and Energy Protocol version 3.1 by the WBCSD) to calculate CO₂ emissions.

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 members to fulfill the requirements of the GCCA Sustainability Charter relating to climate change and energy. The GCCA Sustainability Guidelines are based on the GHG Standard Protocol and the CEN Standard EN 19694–3.

Cementitious material is defined by the CSI and GCCA as: *total clinker produced plus mineral components consumed for the blending and production of cement substitutes, including clinker sold, excluding clinker bought.*

Net CO₂ intensity is calculated as net kg CO₂ emitted per tonne of cementitious material (Scope 1)⁶.

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⁴ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088; to be found [here](#).

⁵ To be found [here](#).

⁶ Net kg CO₂ emitted per tonne of cementitious takes into all Alternative Fuels as carbon neutral. Gross kg CO₂ emitted takes into account the biogenic share of alternative Fuels as carbon neutral, while the fossil component is accounted as actual CO₂ emission.
Historical values: Performance data on net CO₂ emitted per tonne of cementitious material (Scope 1) as published in the reporting year:

<table>
<thead>
<tr>
<th>Specific net CO₂ emissions (Scope 1) as published in the reporting year</th>
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<tbody>
<tr>
<td>2018</td>
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<td>2019</td>
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<td>2020</td>
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<td>2021</td>
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Rationale

The cement industry contributes about 7% to global industrial carbon emissions. As the global leader, HeidelbergCement has a key role to play to address today’s climate crisis. The carbon intensity of Scope 1 emissions from cement production is thus core, relevant, and material to our business. This is the basis of our decision to focus on net kg CO₂ emitted per tonne of cementitious material as the indicator for our sustainability-linked financing.

KPI 2: CO₂ emissions avoided via CCUS

Definition and methodology for KPI measurement

Considering the lack of accepted standard methodologies of accounting for CCU and CCS, HeidelbergCement will pursue the following approaches:

For CCS, HeidelbergCement will apply the logic of the calculation tool for avoided emissions from CCS projects published by the European Commission as part of the EU Innovation Fund. Building on the reporting requirements of the European Union Emissions Trading System (EU ETS), the emission avoidance for CCS projects is calculated by deducting project emissions, i.e. emissions that occur only due to the project activity, from the reference emissions that would occur in the absence of the project, which is represented by the amount of CO₂ transferred to the capture installation. The deducted project emissions comprise the CO₂ capture activity, the injection in the storage site, as well as the transport to the storage via pipeline as quantified according to articles 21, 22 and 23 of annex IV of the Commission Implementing Regulation (EU) 2018/2066 of 19 December 2018, or via road or ship transport. If the CO₂ emissions are transported via road or ship to the storage site, the quantification is based on distance travelled, type of transport, and the load.

For the purpose of measuring the CO₂ reduction of CCU projects with a short-to-mid-term storage time frame, discussions at EU level are ongoing to define a regulatory framework including proper calculation and accounting methods. Based on current EU ETS rules, emissions are to be accounted for when released into the atmosphere from sources in an installation. This means that the avoided emissions would be attributed to HeidelbergCement and calculated based on a similar logic as applied to CCS.

Until discussions on EU level have been finalised on how to account for CCU projects, HeidelbergCement will apply a more conservative approach for the calculation of the KPI and SPT for CCU projects with a very limited storage time frame. It will attribute half of the CO₂ captured to HeidelbergCement and the other half to the respective counterpart that operates the CO₂ utilisation application. The exact calculation could then be executed following common life-cycle analysis: the new CCU activity is compared with the conventional method to produce the same or similar product that the CCU project will offer to the market. For that activity, a complete carbon-footprint analysis is made. This should also include new developments in the area of recycling and re-use of the final product and its CO₂ content.

7 To be found here
HeidelbergCement will revise the CCU calculation and accounting method, as soon as a final regulatory framework for these types of CCU projects has been agreed.

**Historical values:** Performance data on tonnes of CO$_2$ emissions captured via CCUS:

<table>
<thead>
<tr>
<th>Year</th>
<th>Tonnes of CO$_2$ emissions captured via CCUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>0</td>
</tr>
<tr>
<td>2020</td>
<td>0</td>
</tr>
<tr>
<td>2021</td>
<td>0</td>
</tr>
</tbody>
</table>

For the KPI, no historical data exists as no CCUS project in the cement industry has ever been fully operational. HeidelbergCement is leading the industry in the deployment of CCUs technologies and has been running several pilot projects. Given that no industrial-scale application has been established so far, it is not yet possible to peer benchmark the target. HeidelbergCement’s Brevik project, that will come online in 2024, will be the first-ever fully operational industrial-scale CCS project in the cement industry. Similarly for CCU, no large-scale projects exist yet and HeidelbergCement is only running a small pilot project in Morocco. Therefore, the CCU baseline is currently nil as well.

**Rationale**

Cement is a key ingredient for concrete and thus is the basis for prospering societies and central to economic development around the world. As the source of almost 7% of global carbon dioxide emissions, it is also a central part of the sustainable transition. Emissions from cement production are among the hardest to abate due to process emissions that result from chemical or physical reactions and the need for high-temperature heat. As no economically viable alternatives exist, reaching net zero in cement manufacturing will require innovative solutions to prevent CO$_2$ from reaching the atmosphere on a large scale, since a considerable proportion of carbon emissions generated in the process of cement manufacturing is unavoidable and cannot be tackled using established techniques (i.e., use of alternative fuels or clinker substitution). HeidelbergCement recognises that carbon capture, utilisation, and storage (CCUS) play a critical role in the sustainable transformation of the industry and serves as an efficient solution to address the decarbonisation challenge. Through its dedication to revolutionise the cement manufacturing industry, HeidelbergCement has made significant efforts to optimise and develop the CCUS technology, and is now being ready to trap CO$_2$ in its purest form to either utilise or safely store it until it can be used in large quantities.

Moreover, in combination with other technologies, CCUS is a valid option to achieve negative emissions and actually absorb CO$_2$. This is needed as not all CO$_2$-emitting activities will have the option to resort to carbon capture in the long term, for example due to missing transport infrastructure or the lack of suitable geological storage opportunities.

**4. Calibration of sustainability performance target**

Sustainability is an integral part of HeidelbergCement and will be at the centre of our strategy going forward. Our focus is on climate protection: as an energy-intensive company, HeidelbergCement is committed to fulfill our share of the global responsibility to keep the rise in worldwide temperature at 1.5° C, following the Paris Climate Agreement. The company’s climate ambition follows the principles outlined by the International Energy Agency’s (IEA) Pathway to Net-Zero Report from 2021 and applied by the SBTi in their upcoming framework for the Sectoral Decarbonisation Approach (SDA) for the cement sector, which outlines the 1.5° C reduction 2030 ambition. HeidelbergCement is confident that
the official verification from the SBTi for the 1.5° C will be achieved after the framework is finalised. HeidelbergCement has also been participating in the Expert Advisory Group for the 1.5° C Cement SDA since mid-2021. Following the current timeline, the SBTi will launch the specific cement guideline in September 2022 for the 1.5° C pathway, and HeidelbergCement’s corresponding application will follow. (Until now, HeidelbergCement is verified with the Well below 2° C scenario which was awarded in May 2022).

**KPI 1: Specific net CO₂ emissions per tonne of cementitious material**

**SPT 1(a) - intermediate target:** kg net CO₂ emitted per tonne of cementitious material (kg net CO₂/t cem., Scope 1), equal to or lower than 500 kg CO₂ for the financial year 2026

**Baseline:** 2020, which HeidelbergCement will also refer to in their upcoming validation of the updated SBTi target setting

**Target observation date:** 31 December 2026 (report will be published within 135 days following this date)

**External validation of SPT**

As of May 2022, HeidelbergCement’s SBTi-validated reduction targets for Scope 1 are consistent with the Well below 2° C scenario.

SPT 1(a) represents our 2026 target of reaching 500 kg net CO₂ per tonne of cementitious material for Scope 1.
Measures to achieve the SPT

The difference between net and gross CO₂ emissions is derived from the different treatments of biogenic and fossil waste components that are used as alternative fuel in the calculation of Scope 1 emissions. Fossil components are included in the definition of gross CO₂ emissions, but are excluded from the definition of net emissions (following the benefits of co-processing from an industrial perspective). With a biomass rate of 0.2% (relative to 3% AF in total) in 1990, the difference between gross and net amounts to approximately 8 kg CO₂/t cementitious material (net 750kg CO₂/gross 758kg CO₂). Based on the relative ratio of absolute alternative fuels to biomass in 2026, the difference amounts to 50kg CO₂/t cementitious material.

To achieve our 2026 and 2030 targets, we will rely on a mix of different approaches:

1) Conventional measures
   - We aim to further improve the overall efficiency of our plants. We do this by investing in the upgrade of existing facilities and consolidating our plant portfolio. For example, we have currently invested €400 million in modernising our French operations. Similar exercises have already been implemented in Germany and more will follow.
   - We focus on establishing separate grinding facilities at our plants. This enables us to be more flexible in the production processes and facilitates the production of low-carbon cements by allowing us to make increased use of secondary cementitious materials (SCM), such as fly ash or slag. As a result of the continued phase out of coal energy, these SCMs are becoming less available on the market and we are already investing in alternatives, such as natural pozzolana or calcined clay. Overall, we aim to reduce the incorporation of clinker from 75% (2021) to below 68% (2030).
   - A large part of our emissions still results from the use of fossil fuels, a substitution of these materials is a high priority for us as well. We especially aim to increase our overall alternative fuels rate in relation to the total fuel consumption to 45% or above by 2030. Within alternative fuels, we especially aim to raise the biomass rate from 10% in 2020 to 20% or above in 2030. We are therefore constantly upgrading our facilities to allow for the use of various kinds of materials and are establishing partnerships throughout the waste value chain to ensure a robust supply of material. Aside from that, we are investing in the increased usage of environmentally friendly energy sources (incl. renewable electricity and gas as a bridge fuel which produces -40% CO₂ emissions/GJ compared to coal).
2) The circular economy and innovative products
   - Recycling of materials is another key lever to reduce the incorporation of clinker and thus the CO₂ content in our cement. The main share of our R&D efforts therefore goes into investigating alternative binders and low-carbon options, such as multi-component cements like CEM II/C-M.

3) Carbon capture and utilisation/storage
   - Please refer to SPT 2 for the measures associated with CCUS.

**SPT 1(b) - long-term target:** kg net CO₂ emitted per tonne of cementitious material (kg net CO₂/t cem., Scope 1), equal to or lower than 400kg CO₂ for the financial year 2030

**Baseline:** 2020, which HeidelbergCement will also refer to in their upcoming validation of the updated SBTi target setting

**Target observation date:** 31 December 2030. (report will be published within 135 days following this date)

**Historical values:** Performance data on net kg CO₂ emitted per tonne of cementitious material (Scope 1) as published in the reporting year.

**External validation of SPT**

As of May 2022, HeidelbergCement’s SBTi-validated reduction targets for Scope 1 are consistent with the Well below 2° C scenario.

SPT 1(b) represents our 2030 target of reaching 400kg net CO₂ per tonne of cementitious material for Scope 1.

**Measures to achieve the SPT**

![Graph showing CO₂ emissions reduction from 1990 to 2030]

- 47% CO₂
SPT 1(b) is aligned to the EU taxonomy’s technical screening criterion for climate change mitigation for the cement industry of gross 469 kg CO₂ per tonne of cementitious material. As indicated above, the difference between net and gross emissions is derived from the different treatments of fossil waste components that are used as alternative fuel in the calculation of Scope 1 emissions. They are included in the gross definition, but excluded from the net. Due to the significant increase in alternative fuels by 2030, the difference between gross and net emissions will amount to 68 kg CO₂/t cementitious material. Our net target of 400 kg CO₂/t is consistent with our gross emission of 468 kg CO₂/t, and is therefore aligned with the EU taxonomy threshold of 469 kg gross CO₂.

The measures that we will implement to achieve the further reduction from 2026 to 2030 are generally the same as for the years prior. However, the emphasis on the different levers will shift. While conventional measures such as reducing the incorporation rate of clinker and changing the fuel mix will remain essential, improvements to plant efficiency and the start-up of CCUS initiatives will play a more significant role in the second half of the decade.

This shift is mainly due to the longer lead-in time of different measures. Only smaller investments and changes in the production design are needed to allow for a reduction of the clinker content or an increase of alternative fuels. Big improvements can therefore be realised in the shorter term if the required materials are available.

On the other hand, profound upgrades to plant efficiency require major investments and sometimes a complete plant overhaul. Similarly for CCUS, our key projects are still in the preparation phase and will only start to come online in 2024 and later.

Risks to achieving the targets:
We believe strongly that all necessary prerequisites are in place for us to achieve the mid- and long-term targets for our specific CO₂ emissions. Nonetheless, our ambitions may be negatively impacted by different factors:
- Availability of alternative fuels to substitute fossil fuels and alternative raw materials to further reduce the incorporation rate of clinker
- Increasing logistics costs and reduced availability of raw materials such as slag or fly ash
- Innovative new technologies such as calcination of clay need to be proven and broadly disseminated

To mitigate these potential negative effects arising from the supply chain, HeidelbergCement has, wherever possible, established long-term supply contracts and is further investing in opening up new supply alternatives, for example natural pozzolana. HeidelbergCement will initiate several calcined clay projects within the next few years and further invest in the research and deployment of this technology.

More generally, to profitably run a cement business, we need a level-playing field globally. CO₂ costs have become a key cost driver over the last few years and without a global CO₂ price, they are not equally distributed. Therefore, we are strong supporters of the Carbon Border Adjustment Mechanism proposed by the European Union, as this will reduce the risk of carbon leakage and avoid an unfair competitive advantage of unregulated competitors. We are also seeing the proliferation of carbon pricing schemes in other areas, which has an impact on our cost structures.

Aside from these industry-specific risks, the target achievement may also be affected by general risks such as:
- Organisational transformation, such as mergers and acquisitions and divestments
- Physical climate risks that negatively impact operations and supply chains (refer to our TCFD report in the Sustainability Report 2021)
• Shift in consumer preferences towards and substitution other building materials, resulting in a loss of market share and profitability
• Economic disruption and recessions could lead to a reduced growth of construction activities and thus impact our business outlook

HeidelbergCement’s risk policy is based on our business strategy, which focuses on safeguarding the Group’s existence and sustainably increasing its value. HeidelbergCement is subject to various risks on account of its international business activity. The risk management process serves to identify these risks at an early stage and assess and reduce them systematically. Risks that potentially have a significant impact on our assets as well as our financial and earnings position are divided into five categories based on the risk catalogue established in the Group: financial risks, strategic risks, operational risks, legal and compliance risks, and climate risks.

**KPI 2: CO₂ emissions avoided via CCUS**

**SPT 2 - long-term target:** t CO₂ emissions avoided via capture and utilisation/storage (CCUS) technologies, equal to or higher than a cumulative 10 million tonnes by end of the financial year 2030 starting from the beginning of the financial year 2020

**Baseline:** 2020

**Target observation date:** 31 December 2030 (report will be published within 135 days following this date)

**External validation of SPT**

External assurance of the figures or in line with HeidelbergCement’s obligation to the Global Cement and Concrete Association (GCCA).

SPT 2 represents our target of reaching a cumulative 10 million tonnes of CO₂ emissions avoided via CCUS by 2030 from a 2020 baseline.

**Measures to achieve the SPT**

To achieve our 2030 targets, HeidelbergCement will rely on three technologies for CO₂ capture:

- **Post-combustion capture:** At the end of the conventional combustion process, sulphur and nitrogen oxides are filtered out of the flue gas. The CO₂ is then separated from the remaining exhaust gas via a washing system using liquid amine. After separation, the CO₂ with a purity of about 99% can be used as a raw material or stored. The first full-scale project that is planned to come online is in our plant in Brevik, Norway. The goal is to start CO₂ separation from the cement production process by 2024. The end result will be a 50% reduction in the total cement kiln emissions (approx. 400,000 tonnes p.a.) from the cement produced at the plant.

- **Oxyfuel:** The oxyfuel method is a clinker-burning technique in which pure oxygen is introduced into the kiln instead of air. This leads to a CO₂ content of up to 90% in the exhaust gases, which can be further upgraded to 99%. The aim is to capture the CO₂ in a more energy-efficient way than with post-combustion capture as no additional heat is required.

- **Direct separation:** A special reactor replaces the conventional calciner in the kiln system to separate the CO₂ right from the calcination phase. This technology, called LEILAC, has been applied to our plant in Lixhe, Belgium, and a larger version is
currently being built in Hanover, Germany. The captured CO₂ is then either sequestered permanently or used as in other processes. For example, for CO₂ captured in the Brevik project will be safely stored in a marine aquifer in the North Sea. Besides this offshore storage, onshore storage is also an option, which we are pursuing with our CCS project in Edmonton, Canada. We are targeting the capture of 780,000 t CO₂ p.a., beginning in 2028. The CO₂ will then be sequestered in the Wabamun Carbon Hub in 3,000-metre-deep storage wells.

Another option is the utilisation of the CO₂. At our plant in Safi, Morocco, we are capturing CO₂ to facilitate photosynthesis into microalgae, which are then processed into high-quality animal feed.

Besides the four CCS projects below, which have already been announced, others are currently in the planning and feasibility stages:

<table>
<thead>
<tr>
<th>Site</th>
<th>Country</th>
<th>Technology</th>
<th>CO₂ captured annually when at full capacity (t)</th>
<th>Targeted of plant's overall annual emissions (%)</th>
<th>CO₂ storage</th>
<th>Start date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brevik</td>
<td>Norway</td>
<td>Post-combustion</td>
<td>400,000</td>
<td>50%</td>
<td>Offshore</td>
<td>2024</td>
</tr>
<tr>
<td>Edmonton</td>
<td>Canada</td>
<td>Post-combustion</td>
<td>780,000</td>
<td>&gt;95%</td>
<td>Onshore</td>
<td>2026</td>
</tr>
<tr>
<td>Padeswood</td>
<td>UK</td>
<td>Post-combustion</td>
<td>800,000</td>
<td>&gt;95%</td>
<td>Offshore</td>
<td>2028</td>
</tr>
<tr>
<td>Slite</td>
<td>Sweden</td>
<td>Post-combustion</td>
<td>1,800,000</td>
<td>&gt;95%</td>
<td>Offshore</td>
<td>2030</td>
</tr>
</tbody>
</table>

Also, for this SPT, HeidelbergCement is very confident that the CCUS projects can be scaled from the pilot phase to industrial application within the next few years. Over the last number of years, HeidelbergCement has tested different carbon capture technologies and worked in close collaboration with reputable scientific institutions. In doing so, the company has reduced the risk of failed investments, but uncertainties about the final costs remain.

**Risks to achieving the targets:**
Aside from the general technological risk, HeidelbergCement sees public acceptance as a further potential challenge, beyond its control. However, as understanding of the functioning of the CCUS technology matures, public perception is also changing. Moreover, geopolitical shifts and tensions may result in decreased availability (or increased costs) of supplies, especially raw materials or technologies.

Plus, for the functioning of CCUS projects, HeidelbergCement relies on industrial collaborations, especially for the transport and use of the CO₂. Thus, the CCUS business model not only has to be viable for HeidelbergCement – as for example the significant financial investments required for the infrastructure of a potential CO₂ pipeline – but also the regulatory environment plays a crucial role. Finally, market demand needs to exist for lower carbon cements and concrete at a possible higher cost.

Aside from these risks specific to CCUS, the target achievement may be adversely impacted by general risks such as:
- Organisational transformation, such as mergers and acquisitions and divestments
- Physical climate risks, negatively impacting operations and supply chains (refer to our TCFD report in the Sustainability Report 2021)
- Shift in consumer preferences towards and substitution of other building materials, resulting in a loss of market share and profitability
- Economic disruption and recessions could lead to a reduced growth of construction activities and thus impact our business outlook

HeidelbergCement's risk policy is based on our business strategy, which focuses on safeguarding the Group’s existence and sustainably increasing its value. HeidelbergCement is subject to various risks on account of its international business activity. The risk management process serves to identify these risks at an early stage and to assess and reduce them systematically. Risks that may have a significant impact on our assets as well as our financial and earnings position are divided into five categories based
on the risk catalogue established within the Group: financial risks, strategic risks, operational risks, legal and compliance risks, and climate risks.

5. Characteristics of the sustainability-linked financing instruments

For each sustainability-linked financing instrument issued under this framework, HeidelbergCement may use a single SPT or a combination of multiple SPTs. If the SPT(s) has/have not been reached as per the annual reporting for a financial year for which one or more SPT(s) has/have been established and/or the performance level of any KPI against each SPT has not been confirmed by a verification assurance certificate published 135 days after the end of the relevant financial year at the latest, a financial penalty will be payable by HeidelbergCement.

The financial and/or structural characteristics of HeidelbergCement’s sustainability-linked financing instruments may vary depending on whether or not the selected KPI(s) reaches/reach the predefined SPT(s). They are to be specified in the final terms of each sustainability-linked financing instrument issued (“the Relevant Documentation”) and may include coupon step-up(s) and/or a higher repayment amount. The Relevant Documentation may stipulate that the SPTs and/or the historic values of KPI 2 may be subject to recalculation based on specific circumstances, such as changes in the calculation methodology or major events having a material impact on the HeidelbergCement structure, which are further described under Section 7.3 below.

If, for any reason, the performance level of any KPI against each SPT after a target observation date cannot be calculated or observed within the time limit as prescribed by the terms and conditions of the notes, or not in a satisfactory manner (unsatisfactory manner to be understood as the external verifier not providing a verification assurance certificate), the financial penalty (as defined above) will be applicable.
6. Reporting

HeidelbergCement will communicate annually on the relevant KPIs, making up-to-date information and reporting available on its website:

- HeidelbergCement’s annual report will include the performance of the selected KPIs, including recalculation statements, where relevant, covered by an assurance statement of an auditor or any other external party.

- A verification assurance certificate confirming whether the performance of the KPI meets the relevant SPT will be published on HeidelbergCement’s website 135 days after the relevant target observation date at the latest.

- Any information in relation to any change to the levels of the KPI(s) used as a baseline, to the baseline date, and/or of the SPT(s) in the event of any recalculation made in accordance with the terms and conditions of the SLBs will be reported.

- In addition, HeidelbergCement will publicly disclose its environmental and climate-related data through the CDP’s Climate Disclosure questionnaire on a yearly basis.

7. Verification

Pre-issuance review

Second party opinion by an external verifier with recognised environmental and social expertise on the alignment of the framework and the associated documentation to the Sustainability-Linked Bond Principles, including an assessment of the relevance, robustness, and reliability of selected KPIs; the rationale and level of ambition of the proposed SPT; the relevance and reliability of selected benchmarks and baselines; and the credibility of the strategy outlined to achieve them, based on scenario analyses, where relevant.

Post-issuance review

An auditor or external party issuing an assurance statement on the KPI information or recalculation statement, where relevant, published on HeidelbergCement’s website, noting that data for KPI 2 will only be reported once the first projects are fully operational and not before that point.

A verification assurance certificate for the financial year for which one or more SPTs are established, confirming whether the performance of the KPI meets the relevant SPT, will be published on HeidelbergCement’s website 135 days after the relevant target observation date at the latest.
Amendments to this framework and recalculation

HeidelbergCement may review this framework from time to time, including its alignment to updated versions of prevailing principles and market standards as and when they are released. HeidelbergCement may also review this SLB framework in the event of any change:

- to the calculation methodology of any KPI and/or the historical value(s) of KPI 2 (i.e. adaption to further development of methodological and/or regulatory standards as to e.g. the CO₂ avoidance methodology for CCUS projects, where a standardised methodology is in the development process); or
- in data due to changed data accessibility (i.e. adaption and incorporation of gathered experience in data collection); or
- in the Issuer Group’s perimeter (i.e. in the event of any acquisition or disposal of assets or any other relevant re-organisations),

which, individually or in aggregate, has a significant impact on the level(s) of the historic value(s) of KPI 2 and/or the level of the SPT(s), the SPT(s) may be recalculated, without the prior consultation of the holders, in good faith to reflect such change, provided that:

- the rationale for such change will be disclosed in the annual report; and
- an external verifier confirms that the proposed revision is in line with or more ambitious than the initial level of ambition of the SPT(s).

Any such change will be communicated as soon as reasonably practicable by the issuer in accordance with the terms and conditions of the SLBs.
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