

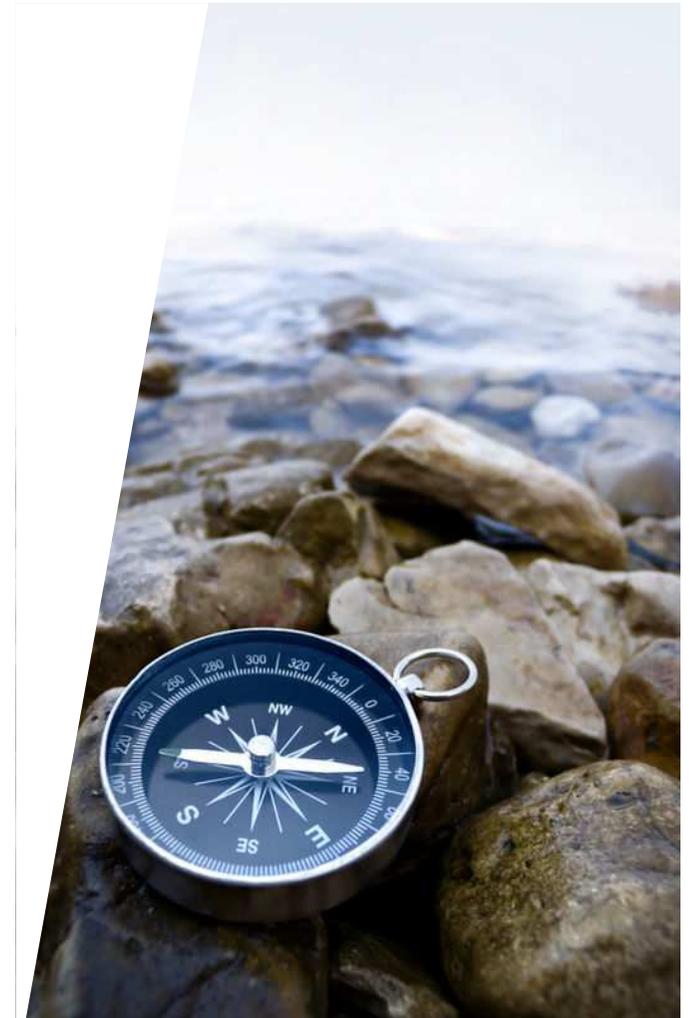


Materiality Review: Final outcomes LafargeHolcim

1st March 2015

Contents

- 3.** Executive Summary and approach
- 10.** Outputs from online survey and stakeholder interviews
- 17.** Outputs from external stakeholder survey and external research
- 25.** The Materiality Matrix
- 30.** Glossary



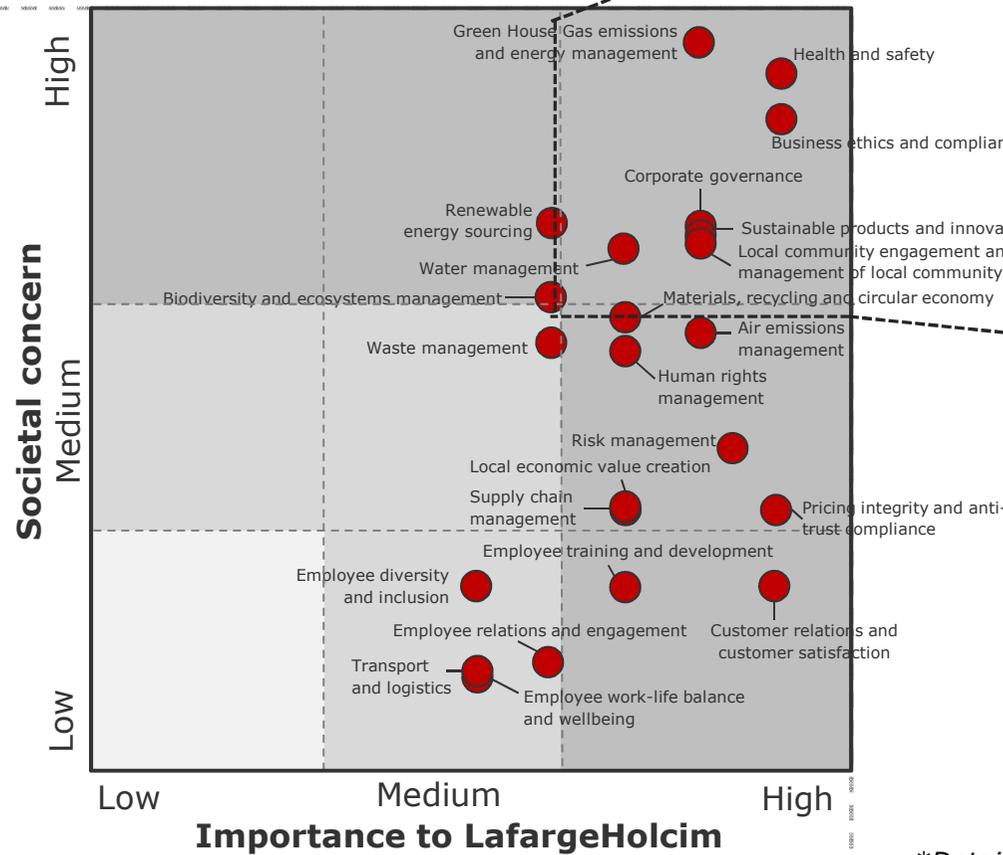
Executive Summary & approach

Executive summary

- LafargeHolcim is a 'new' organisation, formed from the merger of Lafarge and Holcim in 2015. LafargeHolcim are now in the process of developing a materiality matrix to reflect sustainable development (SD) issues relevant to the company, to be presented in the forthcoming Sustainability Report.
- LafargeHolcim engaged DNV GL to support in determining its material SD issues and providing recommendations on how to present this information to stakeholders.
- DNV GL undertook a 5 step process (see slide 6) – aligned to the GRI G4 reporting guidelines - that included engagement with both external and internal stakeholders, as well as research on industry peers, initiatives in the sector and wider sustainability trends, to ensure that relevant issues were effectively identified and prioritised.
- Issues considered most material by stakeholders were spread across the topics of environment, social and governance, as well as across the company's value chain – from supplier management to sustainable products (at the product use stage). There appeared to be a consensus among external stakeholders interviewed that, given the size and impact of the new organisation, it must take a leadership position on its most material issues and drive greater performance and standards in these areas, both throughout the industry and across its value chain.



Executive Summary: LafargeHolcim's most material issues*

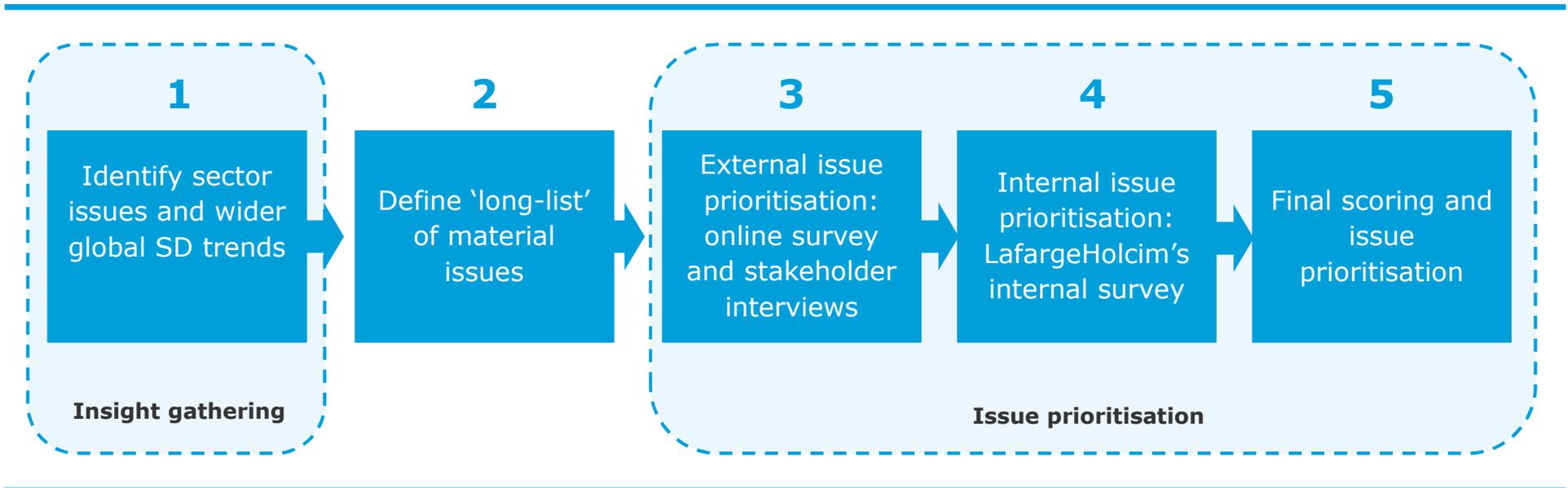


- **Business Ethics and Compliance**
- **Green House Gas emissions and energy management**
- **Corporate governance**
- **Health and Safety**
- **Sustainable products and innovation**
- **Local community engagement and management of local operational impacts**
- **Water management**

*Detail on the Materiality Matrix can be found on slide 26 and in the Materiality Tool provided to LafargeHolcim

Materiality review: the process

- DNV GL undertook the following five steps in order to identify LafargeHolcim's material issues:



Materiality review: the process



1. Identify sector issues and wider global SD trends:

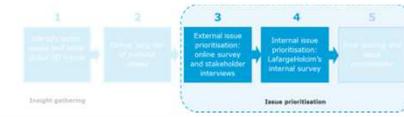
- **Review of sector-specific frameworks and standards**, including the WBCSD Cement Sustainability Initiative (CSI) guidance;
- **Review of wider SD initiatives and research**, including the UN Sustainable Development Goals (SDGs);
- **Review of 11 peers’ material SD issues**; and
- **Media review** of LafargeHolcim and legacy companies to identify any remaining issues of stakeholder concern.

2. Define ‘long list’ of material issues:

- Informed by the insights from Stage 1, **DNV GL proposed a list of material issues** (see box). These were aligned to LafargeHolcim’s SD 2030 Plan and the SDGs.

2030 Plan	Issue
Innovation / integrated solutions	Sustainable products and product innovation
	Customer relations customer and satisfaction
	Supply chain management
Climate	Green House Gas emissions, energy use and reduction
	Renewable energy sourcing
	Environmental impacts of transport and logistics
Circular economy	Materials, recycling and circular economy
	Waste management
	Biodiversity and ecosystem management (incl. quarry rehabilitation)
Water and nature	Water management
	Air emissions management
	Health and Safety
People and communities	Employee diversity and inclusion
	Local community engagement and local operational impact
	Business Ethics and Compliance (incl. Anti-bribery and corruption)
	Pricing integrity, transparency and anti-trust
	Human Rights (incl. child labour and forced labour)
Employees	Employee training and development
	Employee relations and engagement
	Employee work-life balance and wellbeing
Governance and value creation	Corporate governance
	Local Economic value creation
	Risk management

Materiality review: the process



3. External issue prioritisation: survey and stakeholder interviews

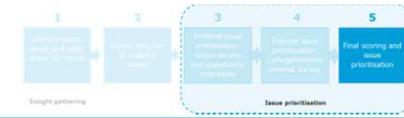
- LafargeHolcim **identified 20 external stakeholders**, representing a range of relevant stakeholder groups.
- DNV GL used an **online survey to allow these stakeholders to score the identified issues** (as either High, Medium or Low), comment on the importance of each issue, and suggest other issues not included in the list.
- DNV GL also **conducted telephone interviews with 4 key stakeholders**, providing a deeper analysis of the SD issues they believed were most material for LafargeHolcim, as well as their wider approach to sustainability management and reporting.

4. Internal issue prioritisation

- LafargeHolcim **conducted an internal survey**, allowing 14 ExCo members, Country CEOs and internal sustainability experts to score the issues.



Materiality review: the process



5. Final scoring and issue prioritisation

- The results from the research and stakeholder engagement steps were recorded in the Materiality Tool (excerpt below). Issue scores from each of the different activities were aggregated, to determine an overall internal and external score and rating for each issue.
- The issues were then prioritised based on these scores, and plotted onto a materiality matrix (see slide 26).

ISSUE	INTERNAL SCORE		EXTERNAL SCORE							
	Internal stakeholder survey		Desk review		External stakeholder survey					
	Internal Score	Internal rating	Industry and trends review	Peer review	H	M	L	External Stakeholder score	Overall external score	Overall external rating
Business Ethics and Compliance	11	H	1	0.82	11	4	1	0.88	0.90	H
Pricing integrity and anti-trust compliance	11	H	0.5	0.00	8	7	1	0.81	0.44	M
Corporate governance	10	H	0.5	0.82	12	3	1	0.90	0.74	H
Sustainable products and innovation	10	H	0.75	0.48	15	1	0	0.98	0.74	H
Local Economic value creation	9	H	0	0.48	10	5	1	0.85	0.45	M
Risk management	10	H	0	0.82	10	4	2	0.83	0.55	M

Outputs from online survey and stakeholder interviews

Introduction to outputs from online survey and stakeholder interviews

- This section provides an overview of the scoring and issue prioritisation from a stakeholder perspective to illustrate the issues they regard as high priority.
- This section also provides details of the key messages and views of stakeholders from the survey and the interview process.
- In general, stakeholders thought that the current list of issues adequately captures LafargeHolcim's material issues and no significant gaps were found.
- There was feedback from stakeholders with regard to more granular definition of material issues in some instances, which take account of potential future impacts. Some stakeholders also expressed a desire for greater transparency the materiality determination process, and how this informs the strategy and reporting processes, including development indicators.



Stakeholder feedback on management and reporting of SD issues

Ensure that materiality process and strategy includes forward-looking perspective

- LafargeHolcim should consider and report on the SD issues that it believes will be material in the future, for example in terms of future operating model, types of products, and countries of operation.

Formulate effective KPIs and targets for each material issue and communicate these to stakeholders

- LafargeHolcim should have both strategic-level stretching KPIs (e.g. in areas such as innovation and role in future society); as well as the 'business as usual/operational' issues which are expected from a company of LafargeHolcim's size.
- LafargeHolcim could better communicate all the relevant KPIs it is tracking for its material issues.
- Some stakeholders felt that the new SD goals were not ambitious enough. It was felt that goals in various areas could be more visionary and better demonstrate where the company wants to go in the long term.

Be transparent on the process for determining material issues

- LafargeHolcim should clearly explain the activities it undertook to identify and prioritise its material issues – including which stakeholders were engaged – as well as explain how this process relates to the wider SD strategy development process.



Stakeholder feedback on material issue definitions

Avoid material issue definitions that are too generic, and ensure that performance on each issue is reported annually.

Stakeholders felt that this applied particularly to the following issues:

- “Human rights” definition should specifically reference “child and forced labour”;
- “Local community relations and engagement” definition should make specific reference to “indigenous people”;
- “Supply chain management” could be clarified to focus not only on supplier compliance but also on how LafargeHolcim complies with supplier’s expectations - in particular by describing how they implement fair operating practices (e.g. payment of suppliers). One stakeholder suggested this could be re-labelled “Fair operating practices in the value chain”;
- “Economic value creation” could be refined to convey what the company is doing in is this area; and
- Ensuring that “Sustainable products and innovation” encompasses how LafargeHolcim is working to influence the public and customer behaviour to adopt more sustainable architectural practices (e.g. influencing at the design and product use phase).



Stakeholder reflections: Sustainable products and innovation

The sector

“ This issue is a **powerful and constructive way for the organization to contribute to the necessary shift toward sustainable business**, providing immediate impact and also inspiring further innovation. ”

“ In the construction industry primary materials of construction such as cement or steel by themselves are not the solution for sustainable futures. They need to be incorporated into products and services that are versatile and continually adapting to changing needs. There is a **need for a culture of decentralised innovation** that responds to local circumstances while drawing on universal knowledge and expertise. ”

LafargeHolcim

“ LafargeHolcim need to **start going 'above and beyond' in the area of Product innovation.** ”

“ **Innovation is critical to their business**, but a really broad issue. **External stakeholders are not really aware about that.** ”

“ What does value creation mean for LafargeHolcim? If a business is embedded in a developing country, often the value is taken out of that country. LafargeHolcim **can add value to the community through its products by developing affordable housing** – so going to the base of the pyramid and providing skills and opportunities to the people at the bottom of the pyramid and using local materials. ”

“ This is one of the areas where the organization can and **should be trail blazing.** ”

Stakeholder reflections: GHG emissions and energy management

The sector

“ In the developing world **embodied energy of the production of materials will be the main contributor to GHG and consequent climate change** because of the sheer scale and intensity of the processes of urbanisation. ”

“ **Climate change and CO2 emissions from the concrete product are a very material issue for the sector.** Prior to the CSI they had a far lower profile in the sector, but now this has become a key issue ”

“ What large companies in the sector should not do is ‘offset’ by donating money or buying CO2 certificates – they need help change the system, by **taking a positive position at global level on CO2 pricing.** ”

LafargeHolcim

“ LafargeHolcim cannot do the bare minimum as the company has a large impact in this area, they are accountable for their actions and **they have a leadership role to play.** They need to go above and beyond the industry norm (for example by having a companywide strategy that is based on local regulation). ”

“ LafargeHolcim is a mega contributor to emissions and GHGs – so **must focus on how to reduce carbon, as well as sequent carbon and contribute to low carbon efficient buildings.** ”

“ I’d like to see LafargeHolcim **report on life cycle analysis – in terms of CO2 per product** and where in the process this is emitted ... Providing transparency on this for the customer would be a key advantage against rivals. ”

Stakeholder reflections: Local community impacts

The sector

- “Cement manufacture is local business and the raw material and the manufactured products are generally part of a local market. So it **is important to contribute to engagement with local communities**. In addition, when production is done in more remote areas (like in India for instance) the development of colonies with all social elements to it is essential.”
- “A percentage of company's benefits should be invested in local economy.”
- “Global presence requires **global leadership on topics of social importance**.”
- “Protecting, healing and regenerating ecosystems is the most pressing challenge for mining based industries.”

LafargeHolcim

- “Local community engagement and local operational impact is **particularly important for LafargeHolcim due to big location size** (many jobs, dependency of local communities) and hence potential impact on the community – both good and bad.”
- “Does LafargeHolcim’s definition include indigenous people? **Indigenous relations are very important and this comes up quite a lot** – so this should be emphasised more when reporting on this area.”
- “**Water is the resource they should be concerned about locally**. I am glad to see that LafargeHolcim develops water sources that help them and the communities where they reside.”

Outputs from external stakeholder survey and external research

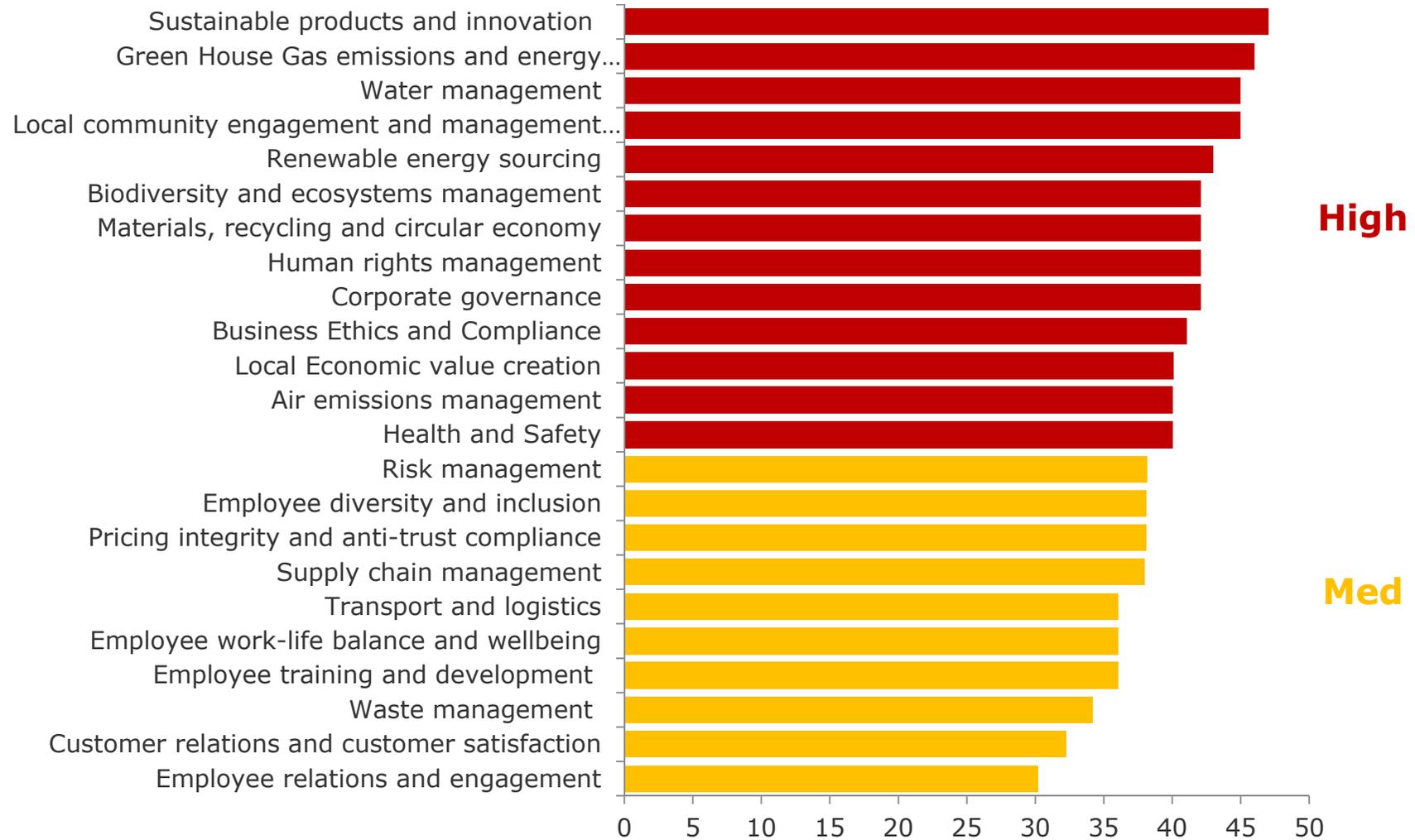
Introduction to outputs from external stakeholder survey and external research

This section provides an overview of:

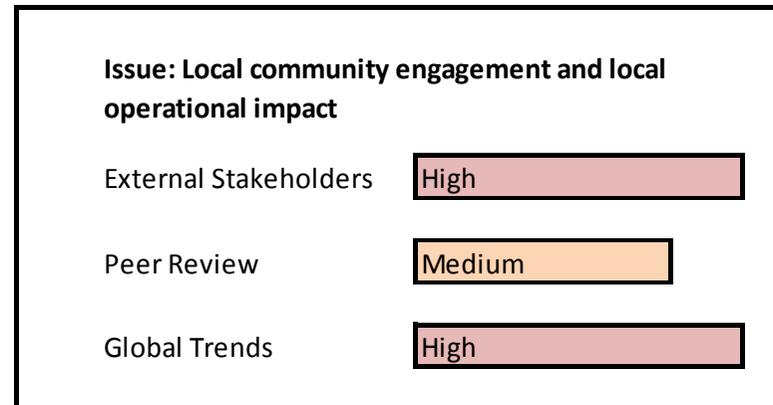
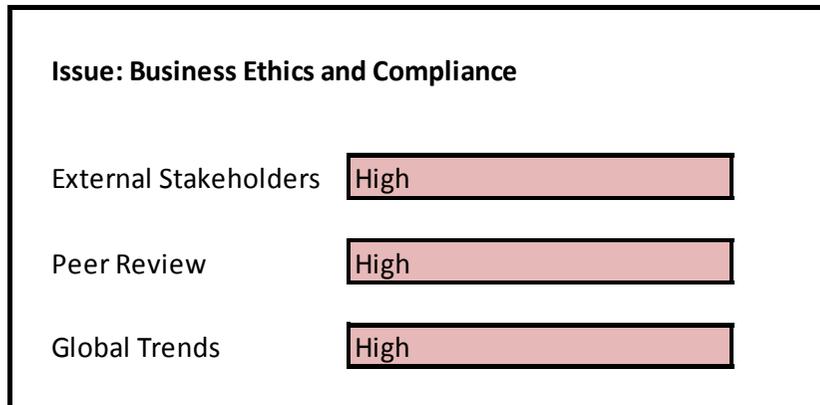
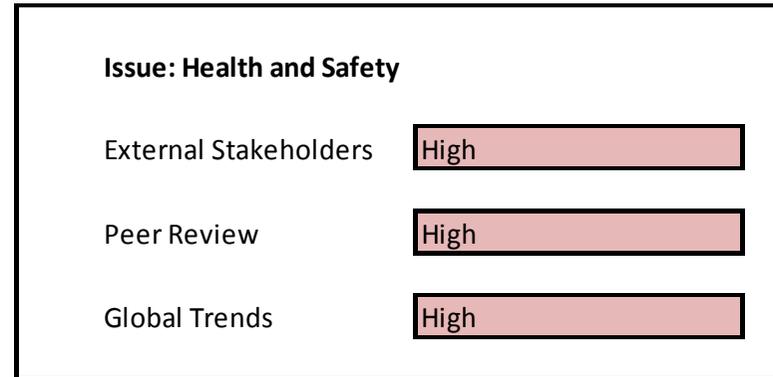
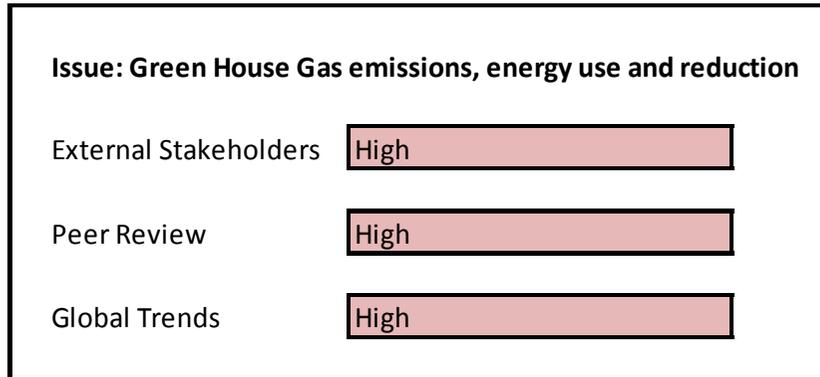
- **The external stakeholder survey** (slide 19) and the SD issues that the 16 respondents ranked as either high and medium. (please note here that the scoring thresholds have been adjusted to reflect the 16 respondents' ranking of issues only - although the Y-axis of the matrix presents the overall scoring from the external stakeholder survey and interviews, the peer review exercise and the industry standards review).
- Slides 20 - 24 display **the difference in scores for each issue from the external stakeholder survey, the peer review and the industry and trends review.**



External stakeholder survey: Issues ranked (16 stakeholders)

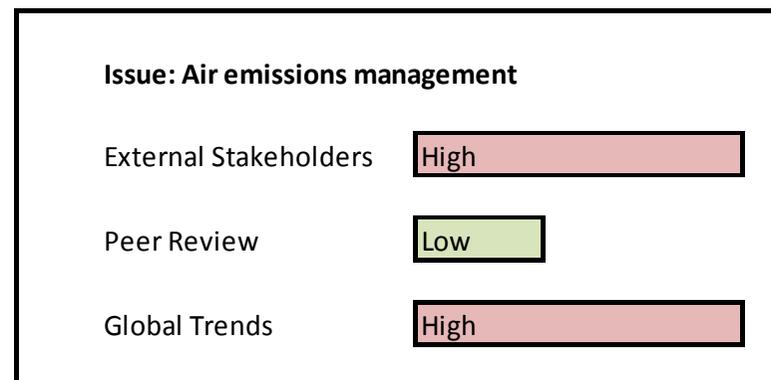
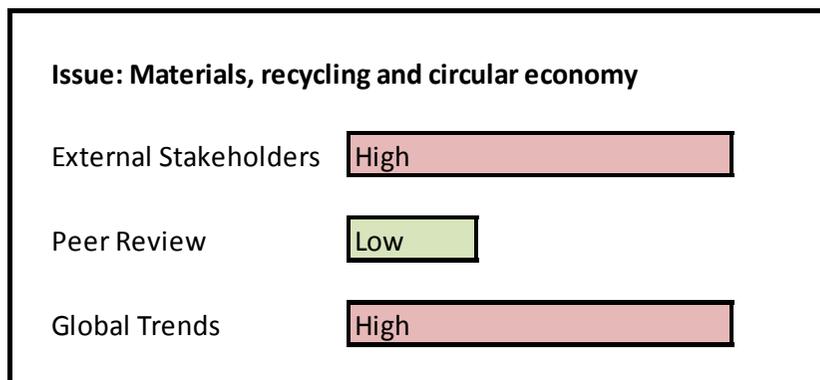
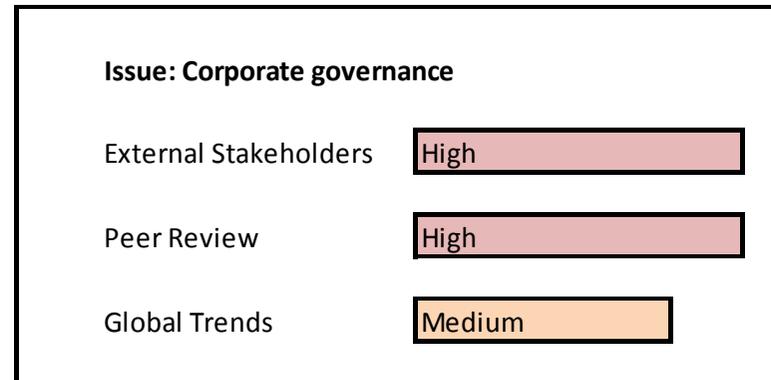
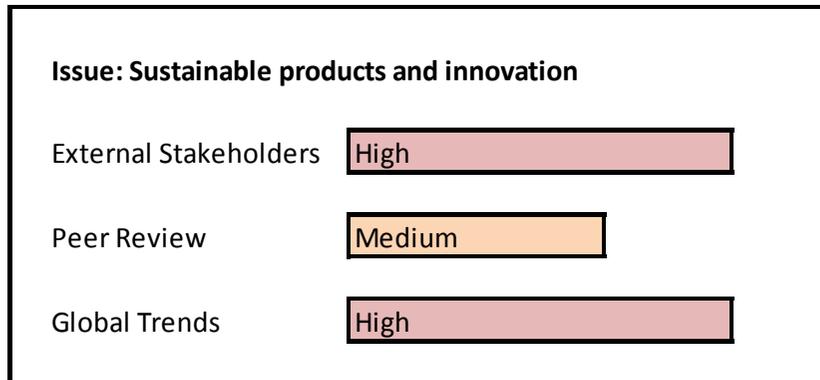


The issues for external stakeholders, peers and wider industry & global insights



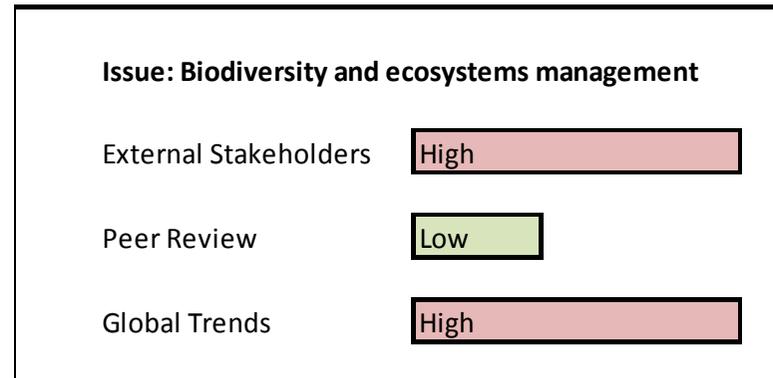
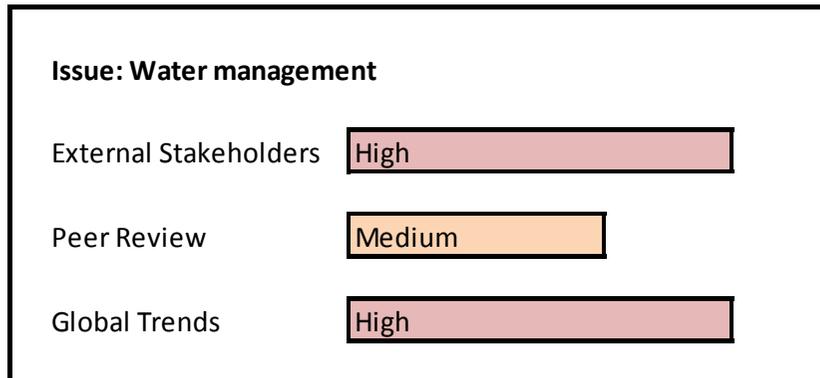
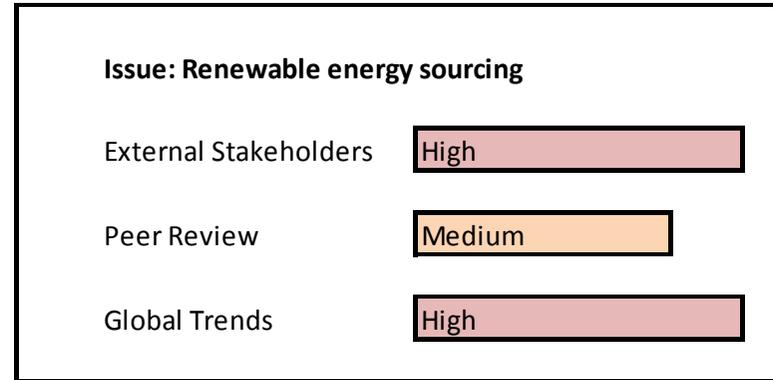
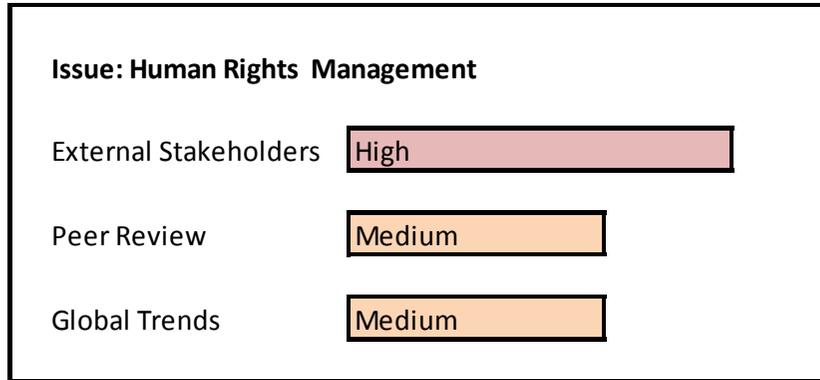
**External Stakeholders: Results and Ranking from the on line survey*

The issues for external stakeholders, peers and wider industry & global insights



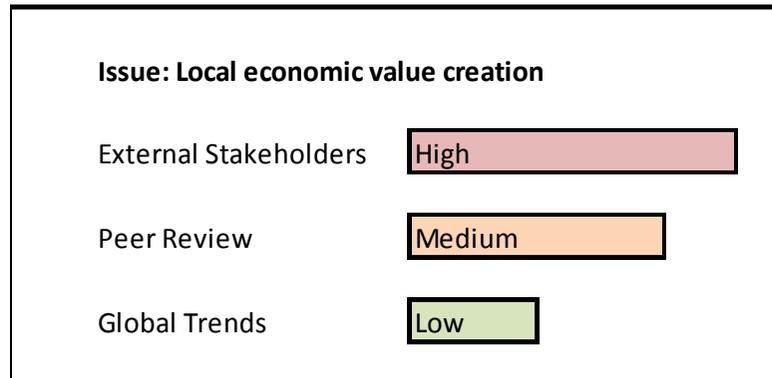
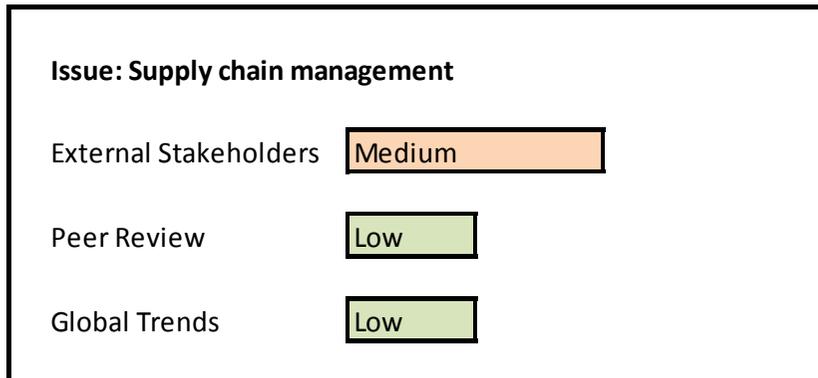
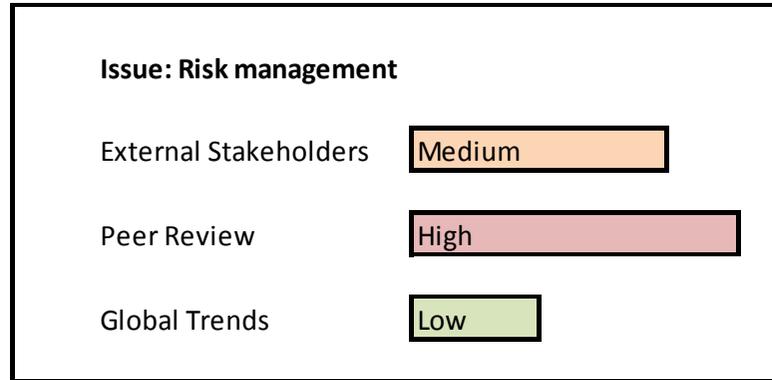
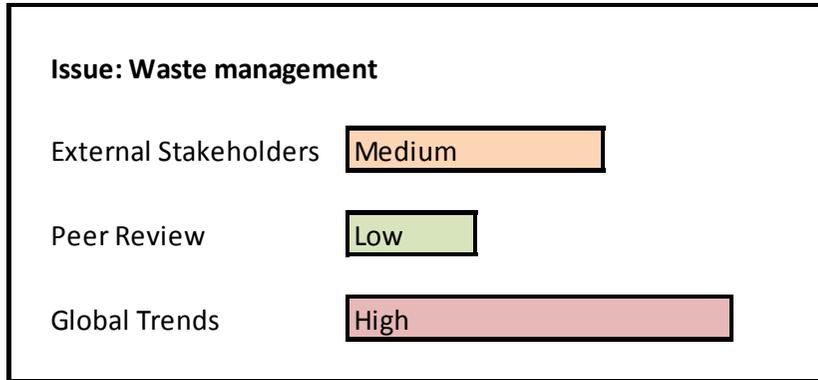
**External Stakeholders: Results and Ranking from the on line survey*

The issues for external stakeholders, peers and wider industry & global insights



**External Stakeholders: Results and Ranking from the on line survey*

The issues for external stakeholders, peers and wider industry & global insights



**External Stakeholders: Results and Ranking from the on line survey*

The issues for external stakeholders, peers and wider industry & global insights

Issue: Pricing integrity and anti-trust compliance	
External Stakeholders	Medium
Peer Review	Low
Global Trends	Medium

**External Stakeholders: Results and Ranking from the on line survey*

The materiality matrix

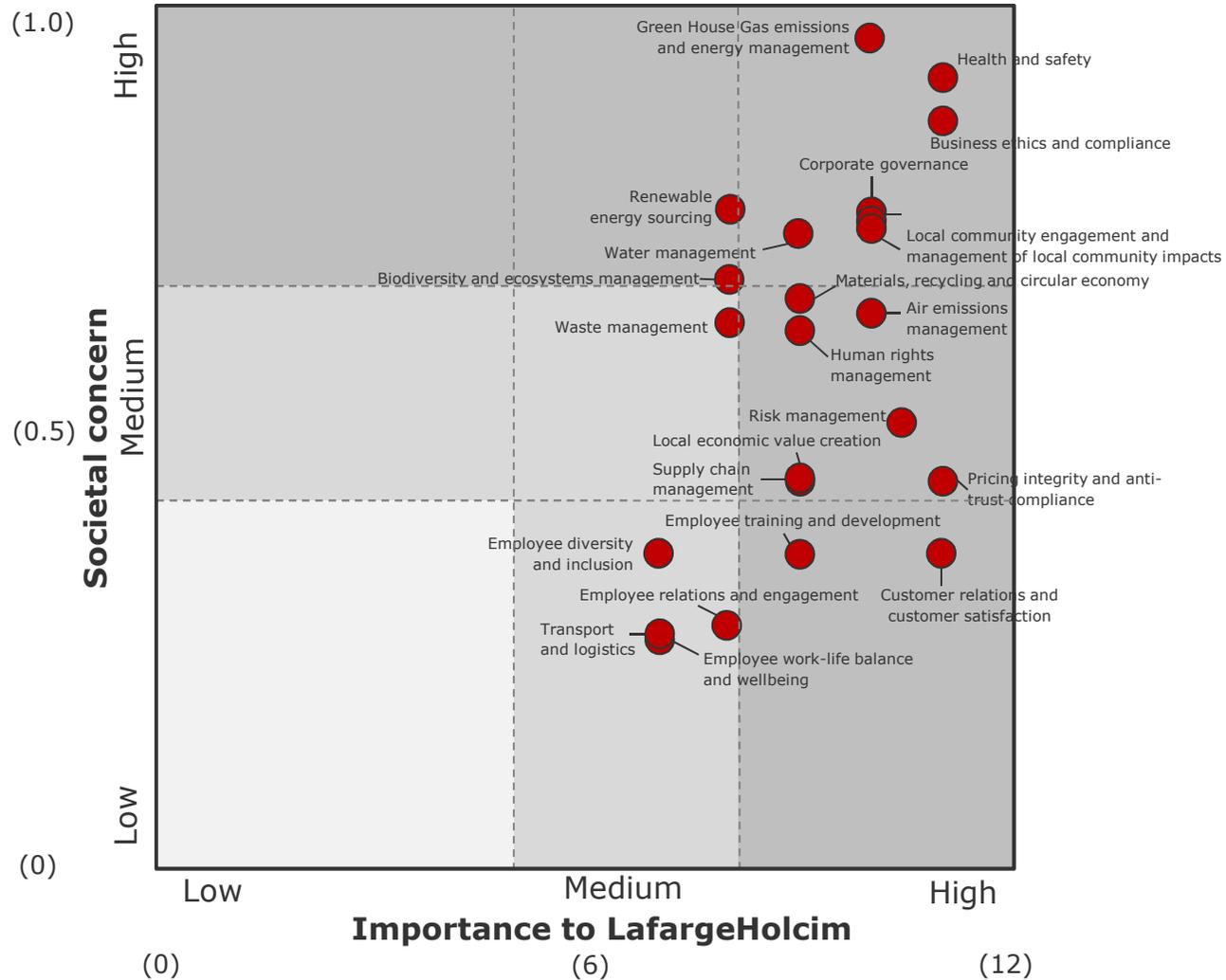
Materiality Matrix: rationale

DNV GL provided LafargeHolcim with three potential options for its materiality matrix. The following approach has been agreed:

- **On the Y-axis: "SOCIAL CONCERN"**
 - **Presentation of all externally focused research**, including:
 - **Peer review** exercise;
 - **Industry standards** review;
 - **External stakeholder** survey and interviews;
 - Each weighted **equally (1/3)**. The Y-axis High-Med-Low thresholds reflect those used by LafargeHolcim in its Internal Stakeholder Survey analysis.
- **On the X-axis: "IMPORTANCE TO LAFARGEHOLCIM"**
 - Presentation of **internal survey results**, using the High-Med-Low thresholds used by LafargeHolcim in the analysis of this data.

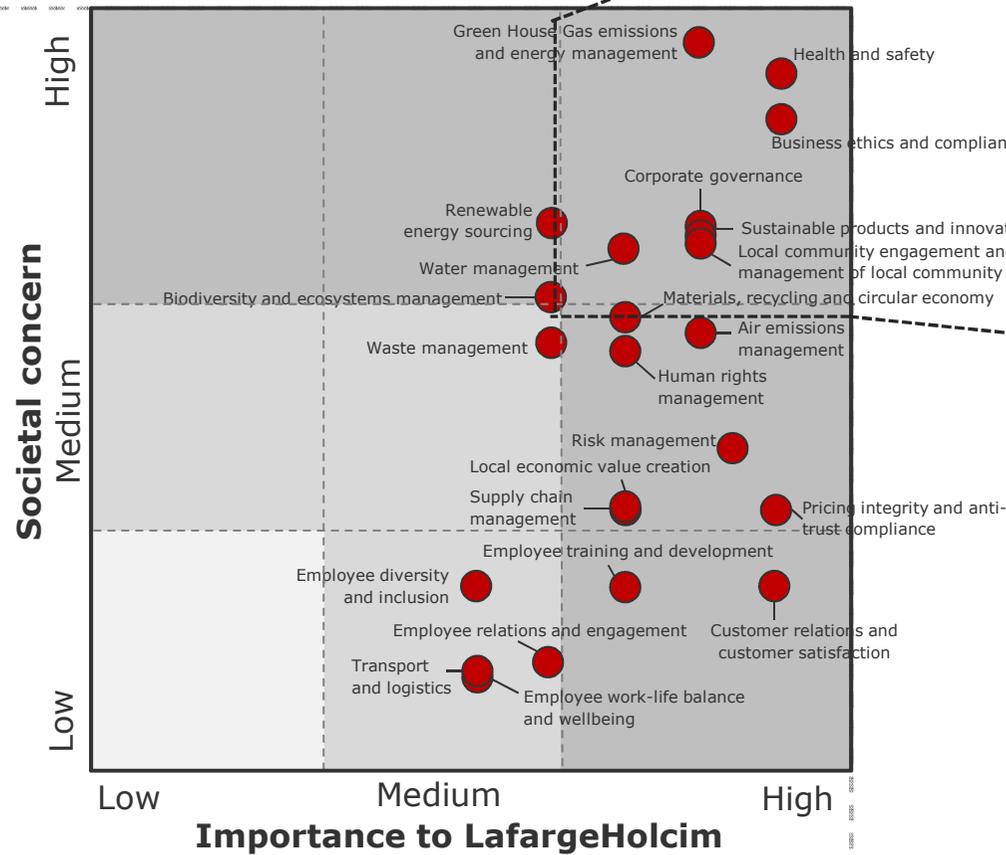


Materiality Matrix



- The results of the materiality exercise have been manually plotted on a grid, using the quantitative scoring from in the excel Materiality Tool.
- The values in brackets along the X and Y axes are not intended to be published, but demonstrate how the issues have been plotted according to their quantitative scoring.

Materiality Matrix: what are the most important issues?



- **Business Ethics and Compliance**
- **Green House Gas emissions and energy management**
- **Corporate governance**
- **Health and Safety**
- **Sustainable products and innovation**
- **Local community engagement and management of local operational impacts**
- **Water management**

Differences between external and internal expectations on the material issues

- For multiple issues, the importance attributed by internal stakeholders (those along the Importance to LafargeHolcim axis) greatly exceeded the importance attributed by external stakeholders (those along the Societal concern axis). The following issues in the matrix are ranked either 'high' or 'medium' by internal stakeholders, but ranked 'low' for "Societal concern":
 - ✓ **Customer relations and customer satisfaction**
 - ✓ **Employee training and development**
 - ✓ **Employee diversity and inclusion**
 - ✓ **Employee relations and engagement**
 - ✓ **Employee work-life balance and wellbeing**
 - ✓ **Transport and logistics**
- There were no issues rated as 'high' for Societal concern and 'low' by internal stakeholders.

Glossary

Glossary

	ISSUE	DESCRIPTION
Economic / Governance	Business Ethics and Compliance	Relates to how ethically business is conducted across all operations, including compliance with all relevant laws and regulations (including anti-corruption and bribery)
	Pricing Integrity And Anti-Trust Compliance	Relates to activities that prevent restricting, distorting or preventing competition or illegally manipulate pricing in the market
	Corporate governance	Relates to how the company is governed at the executive level, including policies ensuring board independence, board diversity, remuneration, and responsibility and accountability of the board
	Sustainable products and product innovation	Relates to innovation and manufacture of sustainable products that minimize impacts on the environment and human health during their usage, as increasingly desired by customers and the growth of the green building/infrastructure market. Includes provision of materials and expertise that can deliver affordable and efficient buildings
	Local Economic value creation	Relates to the local and national economic impact of the business in its areas of operation, including job creation, local content and supply chains, and tax strategy and payments.
	Risk management	Relates to the identification and mitigation of key business risks
	<i>Trend</i> - resilient infrastructure	Relates to the increasing need to protect cities and infrastructure from frequent extreme weather events. Trends in this area include the increased demand for resilient materials and design of resilient cities / infrastructure, and increased availability of public and private sector financing for projects that aim to achieve this, e.g. through the growth of the green, climate and catastrophe bond market.
	<i>Trend</i> - sustainable urbanisation and mega cities	Relates to the increasing need to develop and adapt urban areas in order to meet the demands of massive population growth whilst minimizing waste in all forms, encouraging biodiversity and ecosystems to flourish, and providing inhabitants with the basic elements of human wellbeing in a resource-and energy efficient and affordable manner.
Value Chain	Supply chain management	Relates to the business practices of suppliers and their adherence to LafargeHolcim's terms and expectations (including on ethical, social and environmental issues)
	Customer relations and customer satisfaction	Relates to customer and consumer satisfaction with LafargeHolcim's products and services, and how the company engages with them

Glossary

	ISSUE	DESCRIPTION
Social	Human Rights Management	Relates to how the business respects all internationally recognised human rights and approach to managing these across its value chain (i.e. employees, contractors, suppliers, customers and communities around operations). This also includes issues such as land rights, and respect for indigenous communities
	Health and Safety	Relates to how health (both mental and physical) and safety of all staff (including contractors) is promoted and maintained
	Local community engagement and local operational impact	Relates to the maintenance of a company's social license to operate through engagement and consultation with local communities in order to minimize the negative impacts of operations and effective management of social impacts
	Employee training and development	Relates to the training and development of all employees, including wider career management
	Employee diversity and inclusion	Relates to the (non)discrimination and promotion of diversity of employees and inclusion in the workplace in all aspects of business operations
	Employee relations and engagement	Relates to how the business communicates with employees and employee perceptions of engagement levels
	Employee work-life balance and wellbeing	Relates to employee perception of their mental and physical health in relation to their jobs and includes issues that impact on this such as working hours, flexible working, and health benefits provided.
Environmental	Greenhouse Gas Emissions And Energy Management	Relates to the business's energy consumption and efficiency, and the Green House Gas emissions associated with this (both direct and indirect - excluding transport and logistics)
	Renewable energy sourcing	Relates to the business's use of renewable and alternative lower carbon energy sources
	Waste management	Relates to the volume and types of waste generated by the business and how this is disposed
	Air emissions management	Relates to the emission of NON Green House Gas air pollutants (including NOx, SO2, Dust and organic compounds and heavy metals) as part of on-site combustion and production processes
	Materials, recycling and circular economy	Relates to the use of waste derived materials and fuels in the production processes
	Water management	Relates to water use, efficiency and disposal in all areas of business operations (including watershed management, water stewardship and consideration of water scarcity)
	Biodiversity and ecosystem management	Relates to the conservation and preservation of biodiversity in all areas where LafargeHolcim and its suppliers operate. This includes ecosystem management and quarry rehabilitation.
	Transport And Logistics	Relates to the optimization of transport and logistics in order to reduce the related environmental impacts



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