

Sustainalytics' Opinion Cementos Molins Sustainability Linked Loan

Date: November 2019

Location of Borrower: Spain

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Introduction

Cementos Molins S.A. (“Cementos Molins”, the “company”, or the “borrower”) is a manufacturer and distributor of ready-mix concrete, portland cements, calcium aluminate cements, pre-cast concrete products and other related building materials. The company was founded in 1928 and is based in Madrid, Spain. Cementos Molins comprises six Spanish and 11 international companies located in seven countries and whose activities relate to the production of cementitious materials.

Cementos Molins has negotiated a Sustainability Linked Loan (SLL) where the interest rate of the loan is tied to a Sustainability Performance Target (SPT) that includes a Key Performance Indicator (KPI) linked to Cementos Molins Industrial (CMI), a wholly owned subsidiary dedicated to the production of portland cement, and which is associated with the company’s material sustainability-related issues. Cementos Molins confirmed to Sustainalytics that the loan will be used by the companies comprising the “Grupo Relevante”¹ (“Relevant Group”) of Cementos Molins, for operations inside and outside of Spain. Sustainalytics notes that CMI is responsible for 99.9% of total carbon emissions from the Relevant Group’s operations.²

The company has engaged Sustainalytics to review the SLL and provide an opinion on the alignment of the loan with the Sustainability Linked Loan Principles (SLLP).³

As part of this engagement, Sustainalytics engaged various members of the company’s management team who provided information to understand the SPT and associated KPI, the company’s sustainability strategy, as well as the processes that it has in place to verify its performance in relation to the SPT. Sustainalytics also reviewed relevant public documents.

This document contains Sustainalytics’ opinion of Cementos Molins’ SLL, reviewed against the SLLP.

Sustainalytics’ Opinion

Alignment with the Sustainability Linked Loan Principles 2019

The four core components of the Sustainability Linked Loan Principles are:

1. Relationship to Borrower’s Overall Corporate Social Responsibility (CSR) Strategy
2. Target Setting – Measuring the Sustainability of the Borrower
3. Reporting
4. Review

¹ Members of the “Grupo Relevante” (“Relevant Group”) include Cementos Molins S.A., Cemolins Internacional S.A., Cemolins Servicios Compartidos S.L., Prefabricaciones y contratas S.A.U. (PRECON), Propamsa S.A.U. (PROMSA), Promotora Mediterránea-2 S.A. (PROMSA), and Cementos Molins Industrial S.A.

² Data provided by Cementos Molins for Scope 1 emissions of its operations in Spain in 2018.

³ The Sustainability Linked Loan Principles (SLLP) were launched by the Loan Markets Association in March 2019. They are administered by the LMA and are available at: https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf

Cementos Molins Sustainability Linked Loan

Sustainalytics is of the opinion that the Cementos Molins' SLL aligns to the four core components of the Sustainability Linked Loan Principles 2019.

Section 1: Relationship to Cementos Molins' Sustainability Strategy

Cementos Molins has demonstrated its commitment to its sustainability strategy through the following efforts, as reported in its Memoria Annual: 2018,⁴ its Environmental Policy⁵ and its Corporate Social Responsibility and Sustainable Policy.⁶

- Cementos Molins did a materiality assessment in 2015 where it identified climate change and energy consumption, including greenhouse gas emissions (GHG), as part of its environmental materiality. Hence, the company has made the reduction of CO₂ emissions from its operations one of its top priorities as outlined in its Corporate Social Responsibility and Sustainable Policy, approved by the Board of Directors, which includes:
 - Improve efficiency along the supply chain and move towards a circular economy;
 - Promote a low carbon production methodology;
 - Use alternative fuels and incorporate clean technologies;
 - Promote environmental protection and natural heritage conservation.
- The company has set a goal to 2024, to reduce CO₂ emissions per tonne of cement produced at its subsidiary Cementos Molins Industrial by 2% compared to the base year (2018 levels).
- Initiatives implemented by Cementos Molins to achieve a low-carbon production model include the incorporation of sustainable fuels and technologies to minimize its environmental impact. Further measures to address its environmental footprint include the restoration of quarries, and water and primary resource optimization.
- Cementos Molins' commitment to environmental protection is also reflected in the 38 facilities across Spain, Argentina, Mexico, Uruguay, Bangladesh and Tunisia, that are certified under ISO 14001: Environmental Management Systems.
- In 2018, Cementos Molins became a member of the Global Cement and Concrete Association (GCCA), whose mission is "to improve the global social and environmental impact of the sector's activities and products."⁷
- Furthermore, the company's Environmental Policy sets the general principles to achieve a sustainable business, from an environmental perspective, by performing environmental risk assessments, adopting measures to reduce the environmental impact, applying preemptive measures to protect the environment and addressing stakeholder relations.

Sustainalytics is of the opinion that Cementos Molins' sustainability strategy and management systems demonstrate the company's commitment towards sustainability. The company's SPT and KPI are aligned with the company's sustainability strategy. Given this alignment and Cementos Molins' approach to sustainability, Sustainalytics is of the view that the SLL will help advance the company's subsidiary sustainability strategy and can help the company to mitigate associated risks.

⁴ Cementos Molins, "Memoria Annual: 2018", at :https://www.cemolins.es/uploads/media/B1-Listas/043-Información-financiera_Memorias-anales/Memorias_Cementos_Molins_CAS/ePapers_MemoriaCM_2018-CAST.pdf.

⁵ Cementos Molins, "Política Medioambiental", at: https://www.cemolins.es/uploads/media/B1-Listas/024_Políticas-corporativas/Politica-Medioambiental-Grupo-Cementos-Molins.pdf.

⁶ Cementos Molins, "Política General de Responsabilidad Social Corporativa y Sostenibilidad", at: https://www.cemolins.es/uploads/media/B1-Listas/024_Políticas-corporativas/Politica-RSC-y-Sostenibilidad-Grupo-Cementos-Molins.pdf.

⁷ Global Cement and Concrete Association, "Our Mission", at: <https://gccassociation.org/about-us/purpose-mission/>

Cementos Molins Sustainability Linked Loan

Section 2: Target Setting

The Sustainability Linked Loan Principles state that appropriate SPTs should be negotiated and set between the borrower and lender for each loan transaction. As outlined in the SLLP, a borrower may elect to tie the interest rate of the loan to improved performance on KPIs associated with the company's material sustainability-related issues. Sustainalytics' ESG Risk Rating⁸ identifies *Carbon – Own Operations* as one of the most material sustainability issues for the construction material subindustry (see rationale below). Cementos Molins' SPT target (stipulated under target setting milestones) is based on the following KPI (see Appendix 1 for a detailed definition):

Category	KPI ⁹	KPI definition ¹⁰ and relevance to business model based on Sustainalytics ESG Risk Rating	SPT Targets	Baseline Date
Greenhouse Gas Emissions	Annual (net) direct emissions per tonne of portland cement	Annual (net) direct CO ₂ emissions per tonne of cement production.	Cementos Molins Industrial has a target to decrease 2% of CO ₂ emissions, in respect to the 2018 baseline by 2024.	December 2018

Target setting milestones:

Year	2019	2020	2021	2022	2023
Emission reduction target in respect to the 2018 baseline¹¹	0%	-0.5%	-1.0%	-1.5%	-2.0%
Verification date	March 2020	March 2021	March 2022	March 2023	March 2024

Sustainalytics' ESG Risk Rating for the Construction Materials subindustry identifies *Carbon – Own Operations* as the most material sustainability issue. The global construction materials subindustry is a big contributor to climate change. The US Energy Information Administration (EIA) recognizes the subindustry as the most energy intensive of all manufacturing industries. Additionally, cement is the second-most consumed resource in the world and its production contributes to approximately 8% of global CO₂ emissions.¹² To bring the cement industry in line with the Paris Agreement, its annual emissions need to fall by at least 16% by 2030.¹³ Cement production requires significant quantities of energy, sourced primarily from the direct combustion of fossil fuels and the electrical grid. As global carbon legislation for GHG emissions tightens, increasing energy efficiency becomes crucial for companies to mitigate operating and compliance costs. Energy is among the most significant costs in the cement industry, typically comprising 12-30% of a company's total operating expenditures, and even modest improvements in energy practices can have material impacts on profitability.

⁸ See Appendix for ESG Risk Rating methodology.

⁹ Please refer to Appendix 1 for further details on Cementos Molins' KPIs.

¹⁰ Please refer to Appendix 1 for further details on Cementos Molins' KPIs.

¹¹ Cementos Molins has reported a carbon intensity of 0.651 tCO₂ per t of cement (December 2018).

¹² E360 Digest, "The Cement Industry, One of the World's Largest CO₂ Emitters, Pledges to Cut Greenhouse Gases", <https://e360.yale.edu/digest/the-cement-industry-one-of-the-worlds-largest-co2-emitters-pledges-to-cut-greenhouse-gases>.

¹³ Chatham House, The Royal Institute of International Affairs, Making Concrete Change: Innovation in Low-carbon Cement and Concrete: <https://reader.chathamhouse.org/making-concrete-change-innovation-low-carbon-cement-and-concrete#>.

Cementos Molins Sustainability Linked Loan

The Cement Sustainability Initiative (CSI) reported in 2016 that the EU Emission Trading System (ETS) has not resulted in a decline in GHG emissions for the cement industry, as the EU industry's GHG emissions continue to rise. Low-carbon cement companies have commercialized technologies that enable a lower-carbon future for cement production, but these technologies have not yet been widely adopted. Best practice includes strong GHG reduction and renewable energy programmes, as well as investments in carbon-reducing technologies.

Sustainalytics notes that the company's KPI is applicable only for its subsidiary Cementos Molins Industrial and not applicable for other Cementos Molins' subsidiaries, some of which produce equally carbon-intense materials. Nevertheless, Cementos Molins confirmed to Sustainalytics that the use of the loan will be focused on covering the financial needs of the "Grupo Relevante" ("Relevant Group") of which Cementos Molins Industrial contributes 99.9% of total carbon emissions (2018 data).¹⁴ In addition Cementos Molins confirmed to Sustainalytics that in case there will be material changes to the operations of the Relevant Group, the company will consider adjusting the KPI. Given that the loan will be directly only to the Relevant Group, and given that the KPI selected by Cementos Molins' is material to its business model and directly linked to the most material sustainability issue, Sustainalytics considers improvements in performance on the KPI by Cementos Molins Industrial will contribute to mitigating material environmental risk associated with the company's core business and will enhance its sustainability more generally. Regarding the percentage of carbon reduction, Sustainalytics notes that Cementos Molins Industrial's SPT does not fully align with internal low carbon trajectories for the industry.¹⁵

The SLLP specify that targets should be based on recent measurements of selected KPI performance. Sustainalytics notes that Cementos Molins' baseline performance was validated by a third party, which falls within the SLLP's suggested time period of the previous 6-12 months.

Section 3: Reporting

The SLLP recommends that borrowers make and keep readily available up-to-date information relating to their SPT. Cementos Molins has committed to share its progress against the SPT with its lenders within 180 days after the end of each fiscal year.

Although Cementos Molins reports carbon emissions in its Annual Report ("Memoria Annual"), on a country-by-country basis, Sustainalytics encourages Cementos Molins to publicly disclose additional information on the performance on its KPI.

Section 4: Review

Cementos Molins will utilize a Monitoring Plan ("Plan de Seguimiento"), developed and approved by the Government of Cataluña, for the internal monitoring of CO₂ emissions at Cementos Molins Industrial.¹⁶ The Environmental Department will be the internal team tasked with retrieving and compiling this data, which will then be verified on a yearly basis by a third party. The baseline data, calculated with the same methodology as the CO₂ emission calculation going forward, is also audited by a third party. In addition, the annual equivalent of cement production is calculated using data which is included in the financial audit.

The company has also communicated to Sustainalytics that any changes in the CO₂ emissions calculation methodology must be included in a new version of the Monitoring Plan and must be submitted for approval by the competent authorities. Any change in the KPI calculation will be communicated to all relevant stakeholders and, if commonly agreed, will be changed and disclosed for the following year(s).

Sustainalytics believes that Cementos Molins' external assurance practices, along with the involvement of the Environmental Department for data extraction and internal validation, enhance credibility and transparency of underlying information linked to the company's SPT.

¹⁴ Scope 1 emissions data provided by Cementos Molins

¹⁵ See Appendix 1 for a low carbon trajectory from the IEA's "Technology Roadmap report"

¹⁶ Please refer to Appendix 1 for further details on Cementos Molins' KPIs.

Conclusion

Sustainalytics is of the opinion that Cementos Molins' SLL KPI is meaningful and will support the company's sustainability strategy and efforts to contribute to reducing the carbon intensity of the cement industry in Spain. In addition, the use of setting GHG reduction target as the KPI associated with the company's material sustainability-related issues is aligned with the Sustainability Linked Loan Principles. Based on the above considerations, Sustainalytics is of the opinion that Cementos Molins' SLL is aligned with the SLLP.

Appendix 1: Cementos Molins' Key Performance Indicator (Metric)

- **Annual (net) CO₂ emissions per tonne of portland cement** describes total emission derived from:¹⁷
 - Emissions from decarbonation of raw materials
 - Emissions from fuels used at the different stages of the production process (excluding those corresponding to biomass or biogenic carbon)

According to the IEA's "Technology Roadmap report,"¹⁸ in collaboration with CSI, the intended realization of 2-degree Celsius Scenario (low variability case) implies significant reduction of direct carbon emissions from cement manufacturing by 2050, and includes monitoring of specific key indicators for the global cement industry, including but not limited to the reduction of direct (process and energy-related) CO₂ intensity of cement (tCO₂ per t cement) to 0.52 by 2030 and 0.37 by 2050 from 0.54 (2014), which translates into a 3.7% and 31% reduction until 2030 and 2050 respectively.

Appendix 2: About the Sustainalytics ESG Risk Rating

With a clear focus on financial materiality, Sustainalytics' ESG Risk Ratings measure the degree to which a company's enterprise value is exposed to material ESG issues. Specifically, the ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an assessment of unmanaged ESG risk. The ESG Risk Rating for a company is a quantitative score based on a scale from 0-100 and is categorized between five levels of risk: negligible, low, medium, high and severe. The numerical assessments represent units of unmanaged ESG risk, with lower scores representing less unmanaged ESG risk. The risk assessments are absolute, meaning that a high-risk assessment reflects a comparable degree of unmanaged ESG risk relative to any other company in the research universe.

¹⁷ Cementos Molins has communicated to Sustainalytics that it will use a methodology established in the "Plan de Seguimiento," in accordance to the Commission Regulation (EU) No 601/2012 of 21 June 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council. The emissions will be verified by an organization accredited under the EU emissions trading system (EU ETS).

¹⁸ WBCSD, Technology Roadmap: Low-Carbon Transition in the Cement Industry: <https://www.wbcsd.org/Sector-Projects/Cement-Sustainability-Initiative/Resources/Technology-Roadmap-Low-Carbon-Transition-in-the-Cement-Industry>

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