



# Imerys

## Sustainability Linked Bond Second Opinion

26<sup>th</sup> March, 2021

**Imerys is a global supplier of industry mineral-based specialty products** headquartered in Paris, France. The company has strong corporate sustainability management, including the use of Science Based Targets (SBTs). Imerys is exposed to both transition and physical climate risks. The company has mining and processing sites in all regions and is as such exposed to a range of near-term natural hazard risks and chronic climate change risks. The company is aware of risks and has taken steps to address these. For example, an interdisciplinary climate change working group was established in 2020 which will assess climate change related risks and opportunities using scenario analysis. The company has integrated climate risk and sustainability considerations into the operations of business areas, investments, and M&A activities, and has started comprehensive sustainability assessments of their products. CICERO Green is encouraged that Imerys intends that these assessments will impact product strategy.

Shades of Green by annual revenue 2020

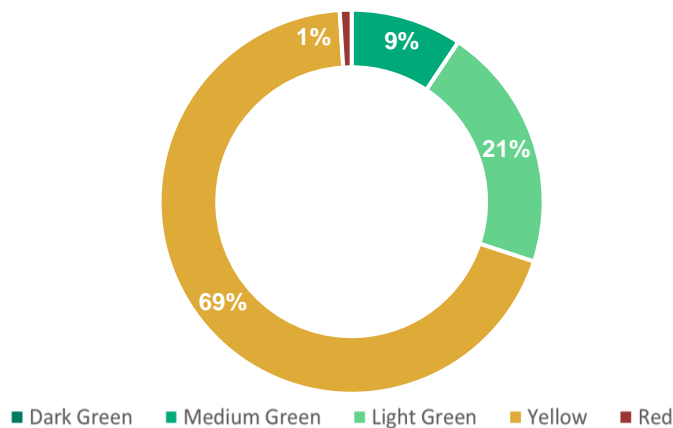


Figure 1: Shading of Imerys 2020 revenue from product segments, not considering eliminations from internal sales.

**A Shade of Green has been allocated to approximately one third of Imerys revenue.** The Medium Green Shade has been allocated to the 9 % of revenue from the Renewable Energy market segment and products related to improving the sustainability of building materials. The Light Green Shade has been allocated to 21 % of revenue. Revenue from the filtration & life sciences market as well as revenue related to products that reduce the weight of plastics used in vehicles and mineral applications for paints have been rated Light Green. The Light Green applications for paints replace either biocides or chemicals with higher emissions or environmental impacts. The Yellow shade<sup>1</sup> has been allocated to 69 % of revenue, reflecting that there is not enough information to conclude that end-uses directly contribute to the low carbon transition, and that a share of products likely support business

<sup>1</sup> We allocate a shade of green, yellow or red to revenues depending on how well they are aligned with a low-carbon, climate resilient future, see Terms and Methodology section

Included in the overall shading is an assessment of the governance structure of the sustainability linked bond framework. CICERO Shades of Green finds the governance procedures in Imerys' framework to be **Excellent**.



### SUSTAINABILITY LINKED BOND PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.



as usual economic activities. For example, Imerys produces refractory linings and insulation materials to protect furnaces and boilers in industrial processes, additives for rubber for tires, medical rubber and cables. Within the Yellow shaded revenue, there are also number of potential green applications that should be separated out for a more complete assessment. For example, Imerys produces components for the production of silicon used in solar panels. The Red Shading has been allocated to the 1 % of revenue from oil and gas applications, as these smaller revenue streams represent high emission markets with a risk of lock in.

**CICERO Green assesses the KPI to reduce Scope 1 and 2 emissions intensity (over revenue) to be material, and of high strategic significance to Imerys' current and future operations.** It is key to reduce the direct environmental impacts of energy and emission intensive mining operations (these represent 6.2% of total global energy consumption) as well as mineral transformation (e.g lime production). A KPI that focus mainly on reducing direct emissions from the company's operations does not fully capture the company's largest potential impacts. About half of Imerys total emissions are Scope 3. Low carbon enabling activities could increase direct emissions (for example carbon intensive mineral application dedicated to EV batteries) while reductions of direct emissions in energy intensive activities could lock-in high emission value chains. A relative KPI enables consideration of group performance, despite the heterogeneity in emission intensity of products. However, a relative KPI does not ensure an actual reduction in total emissions. Imerys has informed us that they are exposed to both cyclical volatility in specific markets, along with the structural decline of certain mature markets. Imerys will continue to report annually on absolute emissions allowing investors to track progress.

**The SPTs of reducing emissions intensity in line with a 2°C-trajectory, is considered by CICERO Green to be ambitious.** The SPT has been approved by the Science Based Target initiative, which is considered best-practice. The climate change targets for businesses operating within the industry mineral segment vary widely and it is therefore difficult to compare the ambition level of Imerys SPTs towards their peers. Investors should be aware that emissions were more than 6% higher in 2018 (base year) than the years 2014-2017<sup>2</sup>. Imerys will not use carbon offsets to reach their target. However, Imerys could meet the target by purchasing renewable electricity certificates and Power Purchase Agreements (PPAs) as means to reduce Scope 2 emissions. The strategies to achieve the SPT are focusing on improving energy efficiency, increasing the use of renewable energy, and reducing process emissions. Process emissions (representing 13% of Imerys Scope 1 & 2 emissions) result from release of CO<sub>2</sub> from the transformation of the raw material itself and cannot be reduced via energy efficiency or fuel switching. It will require a technology that captures the CO<sub>2</sub> in the flue gas, like carbon capture and storage (CCS) which is currently not a mature technology. However, Imerys carries out several R&D activities to reduce process emissions, and some of them can be expected to result in emissions reductions also within the coming years. Imerys has confirmed that they will report on the process emissions separately, so that progress can be observed.

**CICERO Green finds Imerys reporting and verification in line with the Sustainability-Linked Bond Principles administered by ICMA (SLBP) and is encouraged that Imerys will report on progress towards a wide range of climate and sustainability metrics within the annual Universal Registration Document.** CICERO Green has not reviewed to what degree the variation in the financial characteristics of an SLB is commensurate and meaningful. Investors are encouraged to review the terms sheets in detail and conduct their own assessment of the financial characteristics of the SLBs.

**Imerys SLB Framework will facilitate a continuation of the company's shift towards lower carbon investments and operations.** The Framework is supported at the corporate level by **excellent environmental governance** and transparent reporting to investors. However, the KPI does not fully address climate risk via Scope 3 emissions and the target could be met by purchasing renewable electricity certificates and PPAs. Imerys has additional corporate targets that address suppliers and scope 3 emissions.

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<sup>2</sup> The driver of the increase of emissions was acquisition activities by Imerys



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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated March 2021. This second opinion remains relevant to all sustainability linked bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

The structure of Sustainability Linked Bonds (SLBs) linking financial returns with environmental performance can provide security of environmental impacts. However, SLB's can vary widely in terms of environmental robustness depending on what KPIs are selected and how they are measured. We provide transparency on 1) The relevance, materiality and reliability of selected KPIs. 2) The rationale and level of ambition of the proposed Sustainability Performance Targets. 3) The relevance of selected benchmarks and baselines, as well as transparency on how well the strategy outlined to achieve them fits with a low carbon and climate resilient future. By considering these factors, we provide context to consider the ambition level of the SLB. Please note that CICERO Green does not evaluate any financial aspects of transaction, including to what degree the variation in the financial characteristics of an SLB is commensurate and meaningful.

Incorporated into the sustainability-linked bond assessment is our company climate risk assessment approach. We allocate a shade of green, yellow or red (see figure below) to revenues depending on how well they are aligned with a low-carbon, climate resilient future.

SHADES OF GREEN	EXAMPLES
 <b>Dark green</b> is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future.	 Solar energy projects
 <b>Medium green</b> is allocated to projects and solutions that represent steps towards the long-term vision but are not quite there yet.	 Green buildings with a high level of certification and energy efficiency
 <b>Light green</b> is allocated to transition activities. These projects and solutions could have lower emissions, but do not by themselves represent or contribute to the long-term vision.	 Substantially more efficient manufacturing of fossil fuel intensive materials
 <b>Yellow</b> is allocated to projects and activities that do not actively contribute to the transition. These activities could have some emissions and be exposed to climate risks. This category also includes those with too little information to assess.	 Manufacturing of consumer goods with some emissions
 <b>Red</b> is allocated to projects and activities that have no role to play in a low-carbon and climate resilient future. These are heaviest emitting assets, with the most potential for lock-in of investments and risk of stranded assets.	 New infrastructure for fossil fuels

A governance assessment is embedded in our methodology, which considers corporate-level targets and policies that can give insight to the direction of the company and its ability to implement the SLB. While companies from all sectors can design a robust SLB, transparency on how a company is engaged in a transition to green can give important context to investors about how the SLB fits with a corporate sustainability strategy. We assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



## 2 Assessment of Imerys activities and environmental governance

### Company Description

Imerys is a global supplier of mineral-based specialty products for different industrial sectors, headquartered in Paris, France. The group has ca 16,400 employees in 40 countries. The revenues in 2020 were €3.8 billion, with 48% generated in Europe, Middle East and Africa, 29% in the Americas, and 23% in Asia Pacific. Annual capital expenditure is between €300 million and €350 million.

Imerys operates 240 industrial sites including 102 mines, mostly open pit. In addition to owning their own mines, Imerys also sources some of their raw material. The raw minerals<sup>3</sup> are processed or synthesized by Imerys to develop the properties required for their end-use applications. The main customer market is construction with 32%, followed by the consumer market with 23% and industry market with 13%. Imerys has two main segments:

- **Performance minerals segment.** Performance minerals are used as functional additives, and customers are within plastics, rubber and paints; paper and board; ceramics; filtration; mobile energy; food and beverage, and health and personal care markets.
- **The High Temperature Materials & Solutions segment.** The minerals in this segment are to facilitate a manufacturing process typically working with high temperatures. Customers are within iron and steel, refractory, foundry, thermal, metal flow, abrasives, and building and infrastructure.

### Background information on the mineral sector

Industry minerals are irreplaceable in many everyday products, by adding value to a range of products. Industry minerals belong in the non-energy extractive sector and are extracted and further processed before used as additives in different products. Most common raw materials that are extracted (mined) include, among others, bauxite, calcium carbonate, diatomite, talc, alumina, and graphite.

Mining operations can be energy intensive and is estimated to 6.2% of total global energy consumption. Mineral transformation processes will in many cases be energy intensive and can emit large quantities of GHG, among others when embedded CO<sub>2</sub> is released during transformation, like for lime production. Other minerals require chemical and physical transformation, that might be chemical as well as energy intensive, like soda ash and glass manufacturing. Costs and availability are important elements of consideration when choosing an appropriate mix of energy sources, as well as the social and reputational implications of the chosen energy sources, the viability of energy sources, and the management of the availability of energy over the entire mine life.

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<sup>3</sup> Examples of minerals are Andalousite, Bauxite, Bentonite, Carbonate, Feldspar, Kaolin, Lime, Talc, Wollastonite, Ball Clay, Chamotte, Diatomite, Perlite, Graphite, Mica, and others.



## Sector Risk Exposure



**Physical climate risks:** Increased precipitation leading to increased environmental contamination of the mining operations, rising sea levels and storms surges impairing low-lying coastal operations and extreme weather events disrupting supply chain are physical climate risks highly relevant to the mining sector. The severeness of this risk is highly dependent on the type and location of the mine, and detailed location and sector-based analysis should be conducted. Imerys' supply chain – both downstream and upstream, is likely exposed to disruptions from extreme weather – mainly through transportation routes.

**Transition risks:** New and tightened carbon pricing policies and border tax adjustment policies could constitute both a transitional risk and opportunity for Imerys, as could shifting consumer preference. The lock-in of uncompetitive and carbon intensive processes can also constitute a transition risk. Imerys sells to a range of sectors, some with high transition risks, and is therefore exposed to the risk of reduced demand for some products.

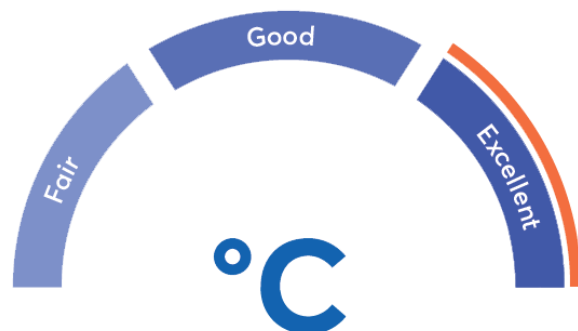
**Environmental risks:** Imerys operates mines all over the world, with different degrees of environmental risks, including deforestation, loss of biodiversity and pollution (mainly soil and water pollution) from mining operations. The different level of environmental regulation in the countries Imerys operates requires that the group has management routines to ensure compliance with accepted international environmental management in countries with lax regulation.

**Social risks:** Imerys' business could pose a risk to the health and safety of the employees. There is also potential for corruption, human rights violations in their supply chains, including risks for violations of workers' rights. Imerys might also face the risk of being engaged in legal proceeding, if some of their minerals are to be contaminated, having an impact on the consumer's health. For example, the company's North American talc entities have been included in a mass tort litigation regarding potential health hazards from a product that includes talc<sup>1</sup>.

## Governance Assessment

When assessing the governance of Imerys, CICERO Green looks at four elements: 1) Strategy, goals, and targets 2) lifecycle considerations including supply chain policies and environmental considerations towards customers 3) the integration of climate considerations into their business and the handling of resilience issues; and 4) reporting. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Imerys has a strong corporate sustainability management, including the use of Science Based Targets<sup>4</sup> (SBTs) for reduction of Scope 1 and 2 emissions aligned with a 2°C-trajectory. Imerys has a SBT related to engage suppliers to set reduction targets for their operations and as such impacts Scope 3 emissions. Imerys' SBT has been the groups Climate Change strategy target since 2019 and has been integrated into business strategy and operations. The issuer has established emission



<sup>4</sup> <https://sciencebasedtargets.org/>

<sup>1</sup> 'Second Opinion' on Imerys' SLB Framework



reduction targets for all five business areas<sup>5</sup>, adapted to the different activities and their appropriate reduction means and reduction possibilities and will measure performance during quarterly business reviews. Individual performance incentives have been linked to the GHG intensity targets for relevant senior management teams. Imerys reports emissions and other relevant sustainability issues in an integrated financial and sustainability report.

Imerys conducts regular materiality assessments to identify key sustainability risks. Imerys conducts climate risk assessments based on three IEA-scenarios but has not yet started systematic reporting in line with the TCFD-recommendations. Comprehensive risk assessments are carried out in high-risk countries, however, a more formalized process involving third parties could be expected given the otherwise strong governance and high risks present in Imerys operations.

Imerys is working on assessing the sustainability of their products, including the carbon footprint and risks related to customers. CICERO Green is encouraged that Imerys intends to use the assessments product strategy work. Imerys has taken steps to integrate climate risk into financial decisions. Most prominently, an internal carbon price has been integrated into the Group's relevant cap-ex decisions, and innovation processes and the KPI has been integrated within the merger and acquisition process.

The overall assessment of Imerys' governance structure and processes gives it a rating of **Excellent**. See appendix 1 for a more detailed description of Imerys sustainability management.

### Imerys emissions

In 2020 Imerys', Scope 1 emissions were 1,510,000 tons CO<sub>2</sub>eq and Scope 2 emissions were 984,000 tons CO<sub>2</sub>eq<sup>6</sup>. In 2020, 87% of these emissions originated from energy use (use of electricity and fossil fuels and) and 13% from processes. Only a small percentage of direct energy use is from renewable sources; 3% of the energy was generated using biomass and renewable energy installation amounts to 68 MW installed capacity, most of it being fed into local grids.

Scope 1 and 2 emissions from 2014<sup>7</sup> to 2020 are summarized in the table below and show an 11% decrease in absolute emissions. This represents a 1.9% annual emission reduction.

Year	2014	2015	2016	2017	2018	2019	2020
Total CO <sub>2</sub> emissions TCO <sub>2</sub> eq	2,815,000	2,781,000	2,794,000	3,110,000	3,421,213	2,843,377	2,493,782

Most Scope 1 emissions are generated in France and the United States (ca 27% each), followed by China (ca 16%) and the UK (ca 6%). For Scope 2 emissions, the United States and China represent the largest emissions, with 37% and 14% respectively and result mainly from the purchase of electricity from fossil intensive grids.

The performance minerals segment represents the highest scope 1 emissions with ca 41%, and the refractory, abrasives and constructions business area (RAC) (part of the high temperature materials & solutions segment) represents ca 37%. For the RAC business the emissions result from combustion of fossil fuels (46.7%), use of

<sup>5</sup> Imerys organization is made up of two segments, grouping five business areas built around the Group's core markets: The Performance Minerals segment spans three geographic business areas (Europe, Middle East and Africa (EMEA)), Americas and Asia-Pacific (APAC)) serving the plastics, paints & coatings, filtration, ceramics, renewable energy and paper & board markets. The High Temperature Materials & Solutions segment spans two business areas: High Temperature Solutions, and Refractory, Abrasives & Construction serving the refractory, foundry, iron & steel, abrasives and building chemistry markets.

<sup>6</sup> Scope 1 emissions are direct emissions from sources owned or controlled by Imerys and are generated from energy-related emissions such as fossil fuels, diesel and process related emissions. Scope 2 emissions are indirect location-based emissions, mainly related to purchased electricity and heat.

<sup>7</sup> According to Imerys today's reporting methodology was introduced in 2014.





electricity (30.6%) and from process emissions (21.6%). In the performance minerals segment the main emission sources are fuels used for combustion, predominately natural gas (41%), and the process emissions represent a lower share (ca 9%).

Imerys produces a range of products, and some of them require processes that are energy and emission intensive such as lime and carbon black. Lime is used in a wide range of products, including refractories, ceramics and glass. Carbon black is used as a high-performance additive in e.g. lithium-ion batteries to improve the conductivity of the battery. Lime is produced from calcination of calcium carbonate (de-carbonization) in rotary kilns that are fueled by coal or natural gas. There are also CO<sub>2</sub>-emissions from the de-carbonization of the calcium carbonate (process emissions). Carbon black is produced from incomplete combustion of petroleum products. These processes are not easily powered using electricity due to the high energy demand. Whether coal or gas is used will depend on e.g. the location of the site and fuel availability, but Imerys informs that in the majority of cases, natural gas will be used.

Emissions are reduced through improving energy efficiency including reducing the use of fossil fuels and increasing the use of renewable energy. Energy efficiency analysis are disclosed in a quarterly energy report and have been linked to performance against internal energy efficiency KPIs. According to the issuer, the group has not set group-wide targets related to energy efficiency or renewable energy, but have established targets for the different business areas based on what are the appropriate reduction measures in the different areas. Imerys is also evaluating their sites' energy performance and energy efficiency, with a particular focus on the top 60 energy consuming sites representing 80% of the group's consumption.

To reduce the process emissions the group has established several R&D-activities, including working with the cement industry to investigate carbon capture and storage (CCS) of CO<sub>2</sub>, as well as investigating a technology to reduce CO<sub>2</sub> emissions to 0% by mineralization, allowing formation of stable minerals. Another option is to reduce the CO<sub>2</sub> footprint the binders, as the limestone is used as a raw material.

Imerys is regulated by the California and the EU emissions trading schemes (ETS), which in total cover ca 30% of the group's Scope 1 emissions<sup>8</sup>. According to the issuer, they are approaching the emissions reductions based on volume of emissions and possibilities for reductions and not whether they are covered by an ETS.

Imerys' Scope 3<sup>9</sup> emissions represent about 55% of the total emissions and were reported to 3,938,321 tons CO<sub>2</sub> in 2020. The Scope 3 emissions are not included in the SLB KPI. The main sources are emissions generated from the purchased goods (63.9%). To reduce emissions, Imerys has proposed a supplier engagement target that will cover 71% of the suppliers (by spend) within the Scope 3 emissions categories<sup>10</sup>, representing around 95% of the group's total Scope 3 emissions. Suppliers will be encouraged to set science-based emissions reduction targets. Imerys engages to fulfill the target by 2023 (5 years from the submission in 2019). As transportation is an important element within the Scope 3 emissions, the company has identified some levers and taken actions to reduce transportation related emissions, including switching to lower carbon modes of transport and optimizing loading and empty running (i.e. reducing the number of trucks needed to transport the same product quantity). The company has also recently launched a new Scope 3 quantification exercise with its purchasing department to increase the level of accuracy of its Scope 3 estimation based on activity data rather than financial data. This

<sup>8</sup> The California ETS covers ca 2% of the scope 1 emissions and 1% of the scope 2 emissions. Ten of Imerys 125 plants in Europe (France, Hungary, Belgium, Denmark, and the United Kingdom) are covered by the EU ETS scheme. According to the issuer this constitutes ca 28% of scope 1 emissions and 2% of the scope 2 emissions.

<sup>9</sup> Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the group value chain, including both upstream and downstream emissions.

<sup>10</sup> Scope 3 categories are given as purchased goods and services, fuel and energy related activities (not included in scope 1 or 2), upstream transportation and distribution, waste generated in operations and downstream transportation and distribution.





project will involve an assessment of each category to quantify CO<sub>2</sub> Scope 3 emissions and will identify a list of levers to reduce those emissions. Imerys has estimated, using Scope 3 Evaluator <sup>11</sup>, that these categories represent around 95% of the group total Scope 3 emissions.

### Assessment of Imerys' revenues

According to CICERO Green's methodology a shade of green should be allocated to the revenue stream and investments according to how these streams reflect alignment of the underlying activities towards a low carbon and climate resilient future and taking into account governance issues. (See methodology page for further details on shading).

Shades of Green by annual revenue 2020

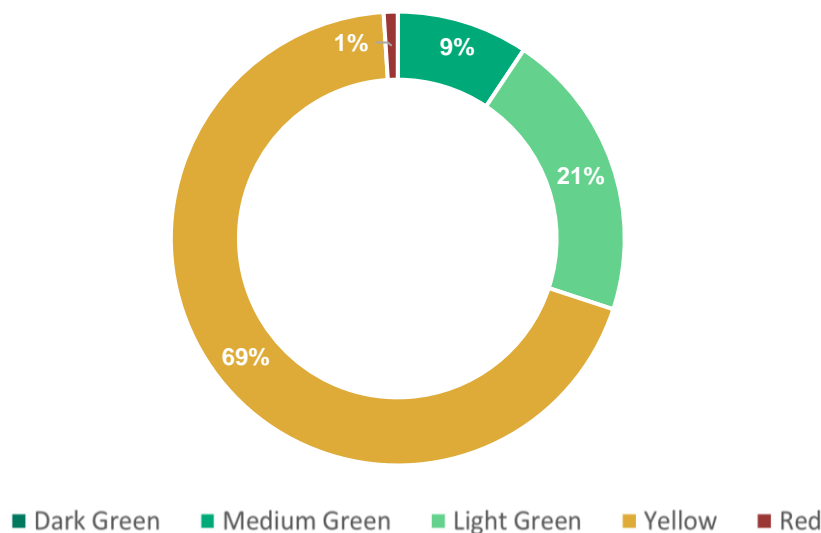


Figure 2: Shading of Imerys 2020 revenue from product segments, not considering eliminations from internal sales.

Imerys mineral-based products have a wide range of end applications in a wide range of different industrial sectors, where they are a vital part of the supply chain or production process and will increase performance in the processes or products where they are added. Our shading has focused on the end-use, but also takes Imerys own emissions into account.

A Shade of Green has been allocated to one third of Imerys revenue. The Medium Green Shade has been allocated to the 9 % of revenue from the Renewable Energy market segment and products related to improving the sustainability of building materials. Imerys products within the Renewable Energy market are key to the supply chains of among others lithium-ion batteries, mostly for electric cars, and fuel cells, technologies that represent the low carbon economy or steps towards this vision. The products can also be used in e.g. hybrid vehicles. A share of Imerys products within the building and infrastructure market contribute directly to lower emissions building materials, by e.g. reducing the amount of cement in flooring applications. Imerys has estimated that these products can lead to a 40 % reduction in emissions in the final application.

The Light Green Shade has been allocated to the 21 % of revenue. All revenue from the filtration & life sciences market is shaded Light Green as they likely represent lower emissions products. Examples of products for this market include natural mineral solution for cosmetics and natural solutions for animals' wellbeing. Imerys has



informed us that the majority of products for this market have a sustainability proposition and are replacing chemical or petroleum solutions. For example, the ImerCare® product perlite which replaces plastic microbeads. Light Green has also been allocated to revenue related to products that reduce the weight of plastics used in vehicles which reduces fuel use and mineral applications for paints. The Light Green applications for paints replace either biocides or chemicals with higher emissions or environmental impacts. Some of product applications have positive impacts on pollution and local environments and others contribute to lower carbon products.

The Yellow shade has been allocated to 69 % of Imerys revenue, reflecting that the end-uses do not directly contribute to the low carbon transitions and that there are emissions associated the activities. The Yellow shade reflects that more information is needed on the specific product segments and their end-uses. A share of Imerys products could likely be viewed as supporting business as usual economic activities. For example, Imerys produces refractory linings and insulation materials to protect furnaces and boilers in industrial processes that likely have emissions associated with the activities. Another example is the end uses of Imerys additives, which include rubber for tires, medical rubber and cables, and adhesives and sealants, a broad range of economic activities. Within the Yellow shaded revenue, there are also number of potential green applications that should be separated out for a more complete assessment. For example, Imerys produces components for the production of silicon used in solar panels. Imerys work on quantifying the impact of their products will support a more detailed analysis of revenue.

The Red Shading has been allocated to the 1 % of revenue from oil and gas applications, as these represent high emission markets with a risk of lock in. Imerys has informed us that there are no dedicated assets that serve these markets. They have further informed us that a negligible share of revenue is related to improving coal-mining safety in their customers' coal mines (calcium carbonate dust), and they have no application for non-conventional oilfield (tar sands)<sup>12</sup>.

Our analysis is based on product grouping and descriptions by Imerys, and we have not assessed every product within the revenue streams. Within all revenue streams, there could products that should be shaded different. This implies that there could be e.g. Light Green or Yellow shaded revenue within the Medium Green categories.

### Imerys investments plans

Imerys has a growth strategy based on reaching the growth level of its underlying markets by 2022 (about 2% per year in value, in normal economic conditions). Imerys is taking concrete steps to increase green revenue, reduce climate risk and reduce emissions from all products.

Imerys has explained that their current investment plans support the continued development of the renewable energy business. For example, a recent acquisition includes an investment of €35 million in a plant in Bodio, Switzerland, to expand production capacity for high-purity synthetic graphite used in Lithium-ion batteries, mostly for electric cars. This investment is the first of a series of capacity expansion projects the group envisages to support and accompany the expected strong growth of the electric vehicles market worldwide.

The company has integrated climate considerations into investment decisions, which should facilitate a shift towards lower carbon investments. The internal carbon price and a sustainability screening, including climate risk, is included in the assessment of potential M&A opportunities and internal investment decisions. Imerys has also integrated sustainability criteria, including climate as a key screening criterion for all projects in the innovation pipeline. Imerys has also informed us that as they conduct product assessments, they will develop dedicated action plans for the products that are assessed as the most emissions intensive.

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<sup>12</sup> Imerys disposed of their Oilfield Solutions business in 2019.



One element of Imerys growth strategy is expanding its footprint in high growth regions, particularly emerging markets. This could increase environmental risks and the share of emissions not covered by an emissions trading scheme. Imerys has, however, informed us that as they are already present in these markets and have an established internal risk management process, they do not foresee an increase in risks. They have further informed us that they approach emissions reductions across plants regardless of emissions trading schemes. Provided a sufficiently high internal carbon price, this approach reduces long term transition risk as it prepares the company for higher external carbon prices and potential future climate legislation in regions without ETS already in place.

Imerys has a small segment of clients with high emissions and associated climate risks (e.g. oil, gas, coal). The company has informed us that they have begun an assessment of the transitional risk associated with end markets and that this assessment will inform the group risk assessment and strategy going forward. However, some lock-in risks will be present also in Imerys future investments as there will likely be process emissions associated with production processes also in the future.



## 3 Imerys Sustainability Linked Bond Framework

### Description of the Sustainability Linked Bond Framework

Imerys has set up a Sustainability Linked Bond framework where Imerys would pay a premium<sup>13</sup> to investors if the company fails to reduce Scope 1 and 2 emissions intensity (over revenue) by 22.9% in 2025 and 36% in 2030, with 2018 as the baseline. Whether or not the company will reach the target will be externally verified.

### Selection of Key Performance Indicators (KPIs)

Imerys has selected one KPI:

- ✓ Greenhouse Gas emissions Intensity for Scope 1 and 2 emissions expressed as tons of CO<sub>2</sub> emissions per million Euros of revenue.

According to Imerys the intensity based KPI is material to their business, and allows them to manage the overall performance of the GHG-emissions reduction considering the heterogeneity in the emissions intensity across the group's activities.

### Calibration of Sustainability Performance Targets (SPTs)

Imerys' Sustainability Performance Targets are:

- ✓ SPT 1: Reduce GHG emissions (Scope 1 and 2)<sup>14</sup> by 22.9% per million euros of revenue by 2025, from a 2018 base year.
- ✓ SPT 2: Reduce GHG-emissions (Scope 1 and 2) by 36% per million euros of revenue by 2030, from a 2018 base year.

SPT2 implies that Imerys shall reduce emissions from 745 CO<sub>2</sub> ton CO<sub>2</sub>e/€M in 2018 to 477 CO<sub>2</sub> ton CO<sub>2</sub>e/€M in 2030 and corresponds to an average annual decrease in CO<sub>2</sub> intensity against the revenues by 3.7%. The 2025 GHG emissions target implies a reduction from 745 tCO<sub>2</sub>e/€M in 2018 to 575 tCO<sub>2</sub>e/€M in 2025, which corresponds to reduction of 22.9% relative to the 2018 baseline and is based on the average annual decrease of 3.7% towards Imerys' 2030 target. The emissions intensity was reduced by 11.9% from 2018 to 2019 due to a divestiture of major emitters, as well as the decrease of the emissions of the largest emitter within the group. However, the emission intensity increased slightly (0.5%) from 2019 to 2020 due to reduction in production volumes decreasing efficiency, combined with a reduction in revenues due to the Covid-19 pandemic.

The SPT2 has been approved by the Science Based Target initiative (SBTi) as being on a 2°C trajectory. Imerys has chosen 2018 as the baseline as it was the most recent year before Imerys submission of its SBT target in 2019. Not reaching the 2025 and 2030 SPTs have been chosen as the trigger events, at which the financial/structural characteristics of the bond can change depending on the achievement of the SPT. To reach the target of a 36% reduction in Scope 1 and 2 emissions by 2030 (SPT2), the issuer has established emissions reduction targets for their business areas with regular review of progress as well as the intermediate target of 22.9% reduction within 2025 (SPT1).

<sup>13</sup> The failure by Imerys to satisfy the SPT(s) as of the respective Target Observation Date(s) will trigger a premium payment, or, as the case may be, a step-up coupon margin until i) maturity date or ii) at the time specified in the documentation.

<sup>14</sup> Scope 1 and 2 GHG emissions includes CO<sub>2</sub> and other GHG emissions as defined in the GHG Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (Revised Edition).



### *Bond Characteristics*

Imerys has established failure to reach the SPT by 2030 as the trigger event, and the time at which the coupon bonds/structural characteristics of the bond can change depending on the achievement of the SPT. Unless otherwise stated, the proceeds of Imerys' Sustainability-Linked Bonds will be used for general corporate purposes.

The failure by Imerys to satisfy the SPT(s) as of the respective Target Observation Date(s) will trigger a premium payment, or, as the case may be, a step-up coupon margin until i) maturity date or ii) at the time specified in the documentation.

The step-up margin or premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction (e.g. Final Terms of the Sustainability-Linked Bond).

### *Reporting*

Transparency, reporting, and verification of impacts are key to enable investors to follow the performance of the KPIs selected. Procedures for reporting and disclosure are also vital to build confidence that SLB is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Imerys commits to report the performance on the KPI against the baseline on an annual basis. The results will be reported in the Imerys Universal Registration Document and will be publicly available on the Group on the website: [www.Imerys.com](http://www.Imerys.com). The same section of the Universal Registration Document also includes: data on absolute emissions for Scope 1 and 2, a breakdown of these by process and energy, energy use by source and information on Scope 3 emissions and strategy.

Relevant information on the trigger event or premium payment or adjustment to the coupon step-up as applicable, will be provided, and a report will be published each time there is a modification to the bond structural/financial characteristics.

When appropriate and feasible, quantitative and qualitative explanations on the performance will be disclosed. It may include but not limited to market changes, operational issues/performance, M&A activity, exceptional events. Imerys informs us that they will report on the performance against the SPT annually in the annual financial report (Universal Registration Document), including quantitative and qualitative explanations on the performance. According to the issuer, the information given will enable investors to monitor the level of ambition of the SPTs.

Information may also include when feasible and possible:

- ✓ Qualitative or quantitative explanation of the contribution of the main factors, including M&A activities, behind the evolution of the performance/KPI on an annual basis.
- ✓ Illustration of the positive sustainability impacts of the performance improvement.
- ✓ Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant.
- ✓ Updates on new or proposed regulations from regulatory bodies relevant to the KPIs and the SPTs.

### *Verification*

In addition to this pre-issuance Second Party Opinion, Imerys will have the KPI externally verified by a third-party. The KPI has been reported since 2016 and will be included in future financial reporting. The data required for the KPI (Revenues in Euros, and Scope 1 and Scope 2 GHG emissions) and the KPI itself (Scope 1 and 2 GHG emissions expressed as tons of CO<sub>2</sub> emissions per million Euros of revenue) are verified by Imerys Statutory Auditors for each of Imerys annual financial reports, as such, performance against the SPT is externally verified annually. Verification documentation will be made publicly available on Imerys' website.



Likewise, the percentage by which the Scope 1 and 2 GHG emissions have been reduced compared to the 2018 baseline is externally verified annually and published within the Imerys Universal Registration Document, available on the Company's website.

### Assessment of Imerys' SLB framework

In this section we comment on Imerys SLB framework alignment with the SLBP. According to the SLBP, the KPIs should be relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/ or future operations. The SLBP further recommends that three benchmarking approaches are considered during the target-setting exercise, the below table summarizes the conclusions of our review of Imerys target-setting process. We also include some comments on methodology choices including benchmarks and baselines, as well as comments on bond characteristics, reporting and verification.

Definition	CICERO Green Comments
<i>KPI addresses material issue</i>	<ul style="list-style-type: none"> <li>✓ Imerys business has significant emissions, as such the KPI is directly addressing material sustainability impacts. However, the KPI excludes about half of Imerys total emissions (Scope 3 emissions).</li> <li>✓ Transition risk presents material risks to Imerys' business and climate change is identified as a material issue in the group's materiality assessment, and the KPI is directly addressing these risks.</li> <li>✓ Since there are limited commercially viable solutions to address process emissions and the KPI only includes Scope 1 &amp; 2 emissions, climate risks still exist.</li> </ul>
<i>KPI is of strategic significance</i>	<ul style="list-style-type: none"> <li>✓ A relative KPI enables consideration of group performance across products and ensures that the KPI remains relevant even if changes in activities occur. However, unrelated revenue fluctuations can impact the KPI.</li> <li>✓ Imerys most strategic sustainability decisions are related to how well the whole value chain of Imerys products contributes to a low carbon and climate resilient future. A KPI that focus mainly on reducing direct emissions from the company's operations does not fully capture the company's largest potential impacts. Low carbon enabling activities could increase direct emissions (for example carbon intensive mineral application dedicated to EV batteries) while reductions of direct emissions in energy intensive activities could lock-in high emission value chains.</li> </ul>

Imerys KPI covers Scope 1 and 2 emissions. Combined these emissions represent 44.6% of group's total emissions. Scope 3 emissions are not included in the KPI, but represent 55 % of the total emissions. Imerys has informed us that there are significant challenges in obtaining and accurately calculating robust emission data within their supply chain, however, they have recently launched comprehensive mapping of upstream Scope 3 emissions. This detailed mapping will support the development of a longer-term Scope 3 reduction target. Imerys has also committed to providing transparency on Scope 3 emissions in the annual Universal Registration Document, allowing investors to track progress on potential reductions in Scope 3 and the SBT on supplier engagement.

A relative KPI enables consideration of group performance, despite the heterogeneity in emission intensity of products. The denominator being group revenue and the general nature of the KPI ensures that it remains relevant even if changes in activities occur (such as mergers or acquisitions). Imerys has a recalculation policy that applies





to structural changes<sup>15</sup>. The policy requires a baseline recalculation if the if the changes drive an increase/decrease in emissions of greater than 5%. Imerys may also choose to recalculate the baseline for changes less than 5%, especially when structural changes occur. A recalculation of the baseline would be audited along with the rest of the emissions accounting. Given that changes in emissions also under 5 % may impact SPT achievement it is important that the recalculation policy is implemented in a neutral way.

A relative KPI also has the benefit of being easy to communicate, ensuring consistency and comparability across products. However, an unrelated revenue increase (ex. related to increased prices) while maintaining current absolute emissions would also lead to an improvement in the SPT. Imerys has informed us that their market is expected to have a growth rate similar to GDP growth over the next ten-year period, therefore the revenue trajectory cannot be sufficient to reach the target set. At a general group level the KPI makes it harder to track progress on emission reductions for Imerys products. To ensure a continued reduction in emissions across product segments, Imerys has established KPIs and targets on business area level. Each business areas owns their targets and management remuneration is tied to achieving these. A relative KPI does not ensure an actual reduction in total emissions, but Imerys will continue to report annually on absolute emissions allowing investors to track progress.

Imerys mineral-based products have a wide range of end applications in a wide range of different industrial sectors. Some of Imerys products contribute directly to the low carbon transition, for example conductive additives for EV batteries. However, the majority of Imerys revenue has been allocated the Yellow shading, reflecting that there is not enough information to conclude that end-uses directly contribute to the low carbon transition, and that a share of products likely support business as usual economic activities. Imerys also has some client segments with high emissions and associated risk (e.g. oil, gas and a small fraction of coal). The selected KPI focuses Imerys attention on reducing emissions across all products, but does not encourage a consideration of end markets. Imerys has an awareness of the transition risks associated with its customers and has begun an assessment of end markets, the risks associated with end markets will also be assessed during the product evaluations.

Imerys' business impacts other sustainability issues (e.g., biodiversity and pollution) that are not covered by the KPI. The company has strategies and measurable targets in place that cover these areas. These targets are public and Imerys reports on progress. Local environmental risks are particularly pertinent for Imerys. These are managed by the operations teams, which include dedicated environmental professionals responsible for Imerys environmental management systems.

### Comments on target-setting

Benchmark	Imerys SPT	CICERO Green Comments
<i>Own performance</i>	Imerys has estimated that the SPT will translate to a reduction in the KPI (GHG emission intensity measured towards revenue) of 3.7% per year..	<p>✓ Imerys has been working on reducing emissions since 2007, and according to the issuer achieved an approximate 1.9% annual reduction in total emissions since 2014<sup>16</sup>. Annual reductions in the KPI between 2014 and 2020 represents an 2.3% annual reduction.</p> <p>✓ According to Imerys' SBTi-report, the SPT translates to a ca 2% annual reduction in absolute emissions</p>

<sup>15</sup> The policy also covers methodology changes, data errors and other changes. The recalculation policy is in line with the GHG Principles and will be made publicly available

<sup>16</sup> Changes in methodology and perimeters hinder a direct comparison of emissions before 2014.



		<p>(given an economic growth of 2% per year). Considering that several emission reducing projects have already been implemented, the slight increase in new over past performance can therefore be amenable with an increase in ambition.</p> <ul style="list-style-type: none"> <li>✓ The investor should be aware that emissions were 6 percent higher in 2018 than previous years (2015-2017), making it easier to reach the SPT in 2030 compared to if another base year had been chosen.</li> <li>✓ Imerys has a recalculation policy that applies to structural changes. Given that changes in emissions also under the threshold may impact SPT achievement it is important that the recalculation policy is implemented in a neutral way and the reasoning for doing the recalculation or not, also for smaller changes (less than 5 percent), is scrutinized by the verifier.</li> </ul>
<i>Peers</i>	<p>The climate change targets for businesses operating within the industry mineral segment, including cement production, vary widely. Some businesses have relative targets based on production output, some have absolute targets, and some have targets including carbon neutrality within 2030 or 2050 (cement producers)<sup>17</sup>. Offsets are included for some of the businesses with carbon neutrality targets. Several operations do not have targets but refer to carbon reduction possibilities.</p>	<ul style="list-style-type: none"> <li>✓ Imerys business cannot be directly compared to a standardized industry making comparisons challenging, we have defined Imerys peers as broadly the mineral segment.</li> <li>✓ Given the range of KPIs and perimeters within the minerals segment, it is difficult to compare the ambition level of Imerys SPTs towards their peers' carbon reduction targets. For the ones identified with absolute reduction targets (targets identified are a 2% annual reduction or a reduction of 17.5% by 2030 from a 2018 baseline) Imerys targets seems to be in line with peers.</li> </ul>
<i>Science-based scenarios or international targets</i>	<p>Imerys has used the Sectoral Decarbonization Approach (SDA) method, which uses data from IEA ETP 2DS to break down the CO<sub>2</sub> budget in the period 2011–50 into the sectors that it currently covers.</p>	<ul style="list-style-type: none"> <li>✓ The SPTs have been approved by the SBTi as being consistent with reductions required to keep warming to well-below 2°C.</li> <li>✓ It is considered a strength that Imerys has used a Sectoral Decarbonization Approach (SDA)<sup>19</sup> methodology approved by the SBTi to determine their SPTs.</li> </ul>

<sup>17</sup> Some examples of targets include: Sibelco (i.a. Producing industrial minerals) aims at a 2% reduction in absolute CO<sub>2</sub>-emissions by 2025. BASF (i.a. producing industrial minerals) aims at a carbon neutral growth until 2030 (keep total greenhouse gas emissions stable at the 2018 level while growing production volumes) but without concrete reduction targets. Lhoist (producer of lime, dolomite and industrial minerals) aims at improving carbon performance but has no concrete targets. Lafarge: Aims to achieve net CO<sub>2</sub> (kg) emissions per ton of cementitious material (scope 1) equal to or lower than 475kg, by end of year 2030, i.e. a reduction of 17.5% from a 2018 baseline.

<sup>19</sup> <https://sciencebasedtargets.org/resources/files/Sectoral-Decarbonization-Approach-Report.pdf>



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According to Imerys' SBTi report, offsets cannot be counted as progress towards the target.	✓	The investor should be aware that Imerys has included the purchase of certificates of origin and PPAs as means to reduce Scope 2 emissions, meaning that the SPTs can be reached without actual emissions reductions.
From 2021, the Scope 2 emissions will move from location-based to market-based <sup>18</sup> .		

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The Sectoral Decarbonization Approach (SDA) method uses data from IEA ETP 2DS to break down the CO<sub>2</sub> budget in the period 2011–50 into the sectors that it currently covers. CO<sub>2</sub> budgets per sector are compatible with the global carbon budget defined in RCP 2.6 (IPCC's scenario representing approx. 1°C temperature increase in year 2100). The benchmark scenario used is the International Energy Agency (IEA), Energy Technology Perspectives 2°C scenario (IEA ETP 2DS), adjusted for sectoral specificities (e.g., process emissions).

When establishing the SPTs Imerys considered the average industry reduction trajectories given in the IEA ETP 2DS (-5.5%), as well as the cement reduction trajectory that has a lower reduction rate before 2030 due to major reduction technologies like CCS are not yet mature (-0,8%). Imerys related their emissions from energy to the industry trajectory and their process emissions to the cement trajectory. Furthermore, Imerys concluded that they were better positioned than their competitors for their energy emissions due to already deployed reduction efforts in the fuel mix. From this Imerys concluded that they needed to reduce emissions with around 4% annually to be aligned with the IEA ETP 2DS. The SPT translates into an average yearly carbon intensity reduction of 3.7%.

The strategies to achieve the SPT are focused on improving energy efficiency, increasing the use of renewable energy, and reducing process emissions. Process emissions results from release of CO<sub>2</sub> from the transformation of the raw material itself and cannot be reduced via energy efficiency or fuel switching. It will require a technology that captures the CO<sub>2</sub> in the flue gas, like CCS. This is currently not a mature technology and reductions can therefore not be expected within the next few years. However, Imerys carries out several R&D activities to reduce process emissions, and some of them can be expected to result in emissions reductions also within the coming years. Imerys has confirmed that they will report on the process emissions separately, so that progress can be observed.

Energy efficiency and the use of renewable energy will be financially beneficial for Imerys, by reducing both any applicable carbon taxes and energy and fuel costs. In addition, the risk of increased carbon prices could also have a negative financial impact on Imerys and a high carbon footprint can constitute a reputational risk for Imerys if not properly managed. It is beneficial that there are other financial levers supporting the implementation of the KPI, however, it makes asserting the appropriate "Business as Usual" trajectory challenging.

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<sup>18</sup> [Scope2\\_ExecSum\\_Final.pdf \(ghgprotocol.org\)](#). A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have purposefully chosen.



Imerys current SPT, puts them on track to alignment with a 2°C scenario, a longer timeline is required to ensure that emission reductions continue along the same trajectory. Imerys has confirmed that they calculated the trajectory to 2050 based on the 2°C scenario and have since likewise estimated the trajectory at 1.5°C from 2030<sup>20</sup>. Imerys has further informed us that they are working towards establishing and validating a 2050 target.

*Summary of key factors beyond the issuers' direct control that may affect the achievement of the SPTs:*

Given the wide and balanced range of end-markets that Imerys serves, they are exposed to end market volatility. Imerys has informed us that they are exposed to both cyclical volatility in specific markets, such as the iron and steel or automotive industries, along with the structural decline of certain mature markets, such as the printing and writing paper sector. Of relevance to investors is that given the vital nature of Imerys products to their customers' processes and products, according to Imerys these changes mainly result in changes in demand over price volatility. This reduces the risk of distortions of the KPI from price fluctuations impacting revenue, over actual changes the emissions intensity of products sold.

*Comments on Bond Characteristics, Reporting and Verification*

Component	CICERO Green Comments
Bond Characteristics	<ul style="list-style-type: none"> <li>✓ CICERO Green has not reviewed to what degree the variation in the financial characteristics of an SLB is commensurate and meaningful.</li> <li>✓ Investors are encouraged to review the terms sheets in detail and conduct their own assessment of the financial characteristics of the SLBs.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>✓ Imerys commits to report the performance on the KPI against the baseline on an annual basis, as well as data on absolute emissions for Scope 1 and 2, a breakdown of these by process and energy, energy use by source and information on Scope 3 emissions and strategy.</li> <li>✓ CICERO Green is encouraged that Imerys will report on progress towards refined quantification of Scope 3 emissions and the SBTi supplier engagement target annually within the Imerys Universal Registration Document and other climate-specific reports (such as CDP, Carbon Disclosure Product).</li> </ul>
Verification	<ul style="list-style-type: none"> <li>✓ Aligned with the SLBP.</li> </ul>

<sup>20</sup> Imerys has informed us that the calculations were based on the respective International Energy Agency scenarios following the same trajectory calculation approach as used for the target set for 2030 and validated by the SBTi.



*Comments on methodology choices including benchmarks and baselines*

Definition (SLBPs)	Imerys framework	CICERO Green Comments
A clear definition of the KPI(s) should be provided.	<ul style="list-style-type: none"> <li>✓ Greenhouse Gas emissions Intensity for Scope 1 and 2 emissions expressed as tons of CO<sub>2</sub> emissions per million Euros of revenue.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The definition and perimeter of the KPI is clearly defined.</li> </ul>
The KPI should be measurable or quantifiable on a consistent methodological basis.	<ul style="list-style-type: none"> <li>✓ The chosen KPI has been reported since 2014, and the company has provided historic data on this KPI for the last 3 years.</li> <li>✓ Imerys follows the GHG Protocol Corporate Standard for calculating emissions. HFCs, PFCs, SF<sub>6</sub> and NF<sub>3</sub> are excluded gases as they represent a small share of emissions.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The calculation methodology for emissions is clearly defined.</li> <li>✓ The chosen KPI can be quantified consistently over time.</li> <li>✓ The baseline year (2018) is viewed as reasonable as it corresponds to the year provided to SBTi. Imerys has a recalculation policy that applies to structural and methodology changes, and data errors. The policy is in line with the GHG Protocol and will be made publicly available.</li> <li>✓ However, the investor should be aware that emissions were ca 6 % higher in 2018 than former years, making it easier to reach the SPT in 2030.</li> </ul>
The KPI should be externally verifiable.	<ul style="list-style-type: none"> <li>✓ The CO<sub>2</sub> emissions data are covered by the limited assurance on Imerys compliance with regards to the French law on extra-financial disclosure (“Déclaration de performance extra-financière”).</li> <li>✓ Financial statements are audited by Statutory Auditors.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Imerys KPI and KPI-data are externally verified.</li> </ul>
The KPI should be able to be benchmarked, i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT’s level of ambition.	<ul style="list-style-type: none"> <li>✓ Imerys SPTs are approved by the Science Based Target initiative (SBTi) using the International Energy Agency, Energy Technology Perspectives 2°C scenario (IEA ETP 2DS), as benchmark.</li> <li>✓ No further benchmarks towards similar mineral companies were used to establish the target.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Imerys SPTs has been approved by the Science Based Target initiative as being on a 2°C-trajectory.</li> <li>✓ The climate change targets for businesses operating within the industry mineral segment, vary widely and it is therefore difficult to compare the ambition level of Imerys SPTs towards their peers’ carbon reduction targets.</li> </ul>



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The SPT should be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond.

- ✓ SPT1 should be achieved by 2025.
- ✓ The SPT2 should be achieved by 2030.

- ✓ The SPTs timelines have been determined prior to issuance.
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## Appendix 1: Summary of Imerys sustainability management

Imerys has committed to contributing to sustainable development and is coordinating its sustainability work through a group-wide program called SustainAgility. The program includes six pillars (safety and health, human capital, environmental stewardship, climate change, business conduct, and product management) and is according to Imerys integrated in all Imerys' business segments. Imerys has conducted a materiality assessment to identify key sustainability risks. The most important issues identified include: health and safety of the group's employees, impact of natural habitat and biodiversity, climate change, and ensuring ethical business conduct, see appendix 2 for a summary of key strategies for these issues.

Imerys is specifically focusing on contributing to nine of the SDGs: Good Health and Well-Being (SDG 3), Quality Education (SDG 4), Gender Equality (SDG 5), Clean Water and Sanitation (SDG 6), Decent Work and Economic Growth (SDG 8), Responsible Consumption and Production (SDG 12), Climate Action (SDG 13), Life on Land (SDG 15) and Peace Justice and Strong Institutions (SDG 16).

Imerys has established a Group Code of Business Conduct and Ethics that is covering, among others, the need to comply with all applicable laws and regulations, respect health and safety regulations, respect human rights and commit to the highest international standards of environmental protection and taking actions for sustainable development. Imerys is a member of the United Nations Global Compact (UNGC) and committed to supporting the Ten Principles of UNGC in the areas of human rights, labor, environment, and anti-corruption, and embed the UN Global Principles within the group strategy and operations.

Most of Imerys' mines are located in heavily regulated countries considered to be low risk by the company, but the group is also mining in areas with higher risks. Imerys has informed us that they conduct comprehensive risk assessments for high-risk countries where they assess risks for the different sites/enterprises. However, there is no formalized process for ensuring continued compliance or requirement to conduct third-party audits for high-risk sites. Considering that the company operates in some of the countries with the lowest protection of among others workers' rights, tracking through use of frequent inspections using third parties and continuous reporting to the Board would be expected.

Imerys has also conducted a materiality assessment to identify key sustainability risks. The most important issues identified include: health and safety of the group's employees, impact of natural habitat and biodiversity, climate change, and ensuring ethical business conduct. Environmental risks are, in the materiality assessment, identified to be mainly linked to pollution of soil and water, as well as impact on biodiversity from mining activities.

**Climate change.** The Imerys Group has included climate change as a priority CSR-theme since 2017 and has been working to establish relevant KPIs and targets. The group has defined Scope 1 and 2 emissions reduction targets, which have been approved by the Science Based Target initiative (SBTi)<sup>21</sup>.

In 2019, the Scope 3 emissions represented about 55% of their total emissions. Imerys' main source of Scope 3 emissions is generated from purchased goods and services, fuel and energy related activities (not included in Scope



1 and 2), upstream transportation and distribution, waste generated in operations and downstream transportation and distribution. Imerys reports on Scope 1, Scope 2, and Scope 3 emissions in their annual reports.

To strengthen the work on reducing carbon emissions, Imerys has introduced an internal carbon price of 50€/tCO<sub>2</sub>) for all the energy-related projects and capital expenditure (CAPEX) projects impacting CO<sub>2</sub> emissions by approximately or more than 1000 tons (above a defined monetary threshold).

In line with the recommendations of the TCFD, the issuer has identified the physical and transitional climate change risks the group are exposed to that resonate well with the risk identified in the risk assessment of the sector. The type and level of each risk determines how the group is managing the risk, including to mitigate, transfer, accept, or control. For the risk assessment process at the business level, the business areas (BA) management teams review, during every quarterly business review, ongoing progress towards the BA specific climate change targets and the progress of the actions that have been identified to reduce emissions within the BA. This enables the management team to assess if there is a risk of not achieving the climate change targets set for the year, and appropriate mitigation measures can be identified and implemented where necessary. At the group level, the formal risk assessment process is carried out once every two years and includes a detailed review of the group's main risks and the mitigation actions put in place to manage them. It also involves all internal stakeholders, i.e., the people and groups of people responsible for the group's main risks and the committees tasked with reviewing and validating their work. The risk management action plans drawn up after mapping has been completed and are updated and reviewed each year. Imerys conducted the first climate-related transitional risks analysis in 2018 based on 3 IEA's scenarios, this study has since been updated, and the full updated scenario analysis is still ongoing. The physical risk assessment and the transitional industrial risk assessment have been completed, and the remaining part of the transitional risk assessment is ongoing and should be completed in 2021. Imerys will update its general risk mapping in 2021 and the scenario analysis will be completed in due time. Imerys operates in a range of different legal regimes, spanning the EU regime and less strict countries in Southern Africa and Asia. For Imerys' emission intensive operations, higher carbon prices might give them a competitive advantage, if they manage to reduce emissions by e.g., replacing coal with bio-mass waste in its calcination processes, or replacing electricity from a carbon intensive grid by renewables. The company has informed us that it recently introduced an internal carbon price to mitigate the transition risk of increased carbon prices. Imerys has also informed us that its exposure to acute physical risk is presently considered not relevant due to the geographic spread of the group's activities, but is followed together with transitional risks, among others through a study on the vulnerability of industrial sites to extreme weather events and natural disasters.

***Environmental stewardship including biodiversity and natural habitat:*** Imerys has focused their work towards the environment on three main elements:

- Reducing the risks and impacts of their operations through the deployment of a continuous improvement program designed to help reduce the risks and impacts of its operations as part of its risk prevention effort. Within the context of the continuous improvement program, Imerys has developed a tool for sites to self-assessment and measure their progress. The program covers e.g., environmental management and legal compliance.
- Reducing the environmental footprint through efficient/optimal use of natural resources.
- Integrating the preservation of biodiversity into all operations with concrete actions for conservation and restoration, including the completion of a biodiversity and land improvement program by 2021.

The group has introduced an Environmental Management System (EMS). The EMS is used to identify, prioritize, and roll out checks to manage all potentially material environmental impacts resulting from the group's industrial operations and includes internal compliance audits. Furthermore, a regulatory watch system is being deployed at



each site in the group's main operating countries to identify weaknesses in the regulatory systems. Direct and indirect impacts on biodiversity surrounding the quarries is another important environmental risk for the group, identified as material in the group's materiality assessment. Imerys has identified the surfaces disturbed by the groups mining activities. They are working with rehabilitation of land and raising awareness in the communities where the mines are located. Imerys has signed the *act4nature* to protect biodiversity.

**Health and Safety.** Targets are related to improvement of the group's safety culture, including a 30% improvement against a 2019 baseline in the occupational health performance by the end of 2022. In this 2019 baseline, Imerys launched a gap analysis on the company's sites current occupational health risk management practices covering chemical, physical and biological agents. Based on International standards for Industrial Hygiene, the baseline assessment covered the identification, the assessment, the control, and the monitor and review, and covered, among other topics, hazardous substances, noise, body vibrations, thermal environment, ionising and non-ionising radiation, waterborne pathogens, food safety hazards, mine ventilation, and welfare and wellbeing. Upon completion of the baseline, Imerys has tabulated each business area's score and defined a roadmap to improve against the initial baseline.

**Business Conduct.** Targets are related to improving the external CSR (Corporate Social Responsibility)-rating of the group and deploy a CSR rating scheme covering at least 50% of the group's suppliers by spending by the end of 2022. The external CSR rating of the group is carried out by the international business sustainability assessment company EcoVadis, and based on its general improvement for the pillars of environmental activity, labor and human rights, ethics, and sustainable procurement, Imerys went from a score of 64% in 2019 to a score of 74% in 2020. The aim is to continually improve by assessing the group's performance against the industry's benchmarks.

**Product management.** This is included in the SustainAgility program, and the group aims to assess 40% of their products against environmental and social criteria by the end of 2022. Imerys is using Life Cycle Assessments to quantify their impacts on environment and society along their life cycle. For example, the company is assessing in a first time the cradle to gate activities, to quantify and monetize the environmental impacts of mining and manufacturing activities. In a second time, the company assesses the gate to end of life activities, by evaluating market signals as well as environmental and social impacts along the downstream value chain, including the use of customer plants, transport, consumer, and recycling/end of life.



## Appendix 2: Referenced Documents List

Document Number	Document Name	Description
1	Imerys Sustainability Linked Framework, dated March 2021.	Sustainability Linked Framework.
2	Imerys 2020 Annual Results, Presentation, dated 02-18-2021	Giving information on the financial results in 2020.
3	Imerys Universal Registration Document, CSR-report, 2019, dated March 2020.	Combining information on financial and CSR for the Imerys Group.
4	Imerys SBTi Target Submission Form and Guidance, dated February 2018.	Guidance on the establishment of the SPT.
5	Imerys Group Code of Business Conduct and Ethics, dated 02-17-20.	Setting out Imerys general principles of ethical business conduct.
6	CDP Climate Change Questionnaire 2020, dated August 31, 2010.	Giving input on Imerys CO <sub>2</sub> -emissions in 2019.
6	Imerys chapter 3, in the Universal Registration Document for 2020, draft.	Combining information on financial and CSR for the Imerys Group, draft CSR-information.
7	Internal presentation on CO <sub>2</sub> -targets, dated August 2018.	Giving input on Imerys emissions trajectories compared with IEA's Energy Technology trajectory.



## Appendix 3: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

