

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Sustainability-Linked Financing Framework

Grupo Cementos de Chihuahua S.A.B. de C.V.

4 January 2022

### VERIFICATION PARAMETERS

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<b>Type(s) of instruments contemplated</b>	<ul style="list-style-type: none"><li>▪ Sustainability-Linked Instruments</li></ul>
<b>Relevant standards</b>	<ul style="list-style-type: none"><li>▪ Sustainability-Linked Bond Principles (as of June 2020), as administered by the International Capital Market Association</li><li>▪ Sustainability-Linked Loan Principles (as of May 2021), as administered by the Loan Market Association</li></ul>
<b>Scope of verification</b>	<ul style="list-style-type: none"><li>▪ GCC's Sustainability-Linked Financing Framework (as of 3 January 2022)</li></ul>
<b>Lifecycle</b>	<ul style="list-style-type: none"><li>▪ Pre-issuance verification</li></ul>
<b>Validity</b>	<ul style="list-style-type: none"><li>▪ As long as GCC's Sustainability-Linked Financing Framework and SPT benchmarks remain unchanged</li></ul>

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## SCOPE OF WORK

GCC S.A.B. de C.V. (“GCC”, “the issuer” or the “company”) commissioned ISS ESG to assist with its Sustainability-Linked Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. The sustainability credibility of the KPI selected and the Sustainability Performance Target (SPT) calibrated – whether the KPI selected is core, relevant and material to GCC’s business model and industry and whether the associated target is ambitious.
2. GCC’s Sustainability-Linked Financing Framework (3 January 2022) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBP), administered by the International Capital Market Association (ICMA), and against the Sustainability-Linked Loan Principles (SLLP), administered by the Loan Market Association (LMA).
3. GCC’s sustainability performance, according to the ISS ESG Corporate Rating.

## GCC’S BUSINESS OVERVIEW

Created in 1941, GCC is a supplier and producer of cement and mortar, ready-mix concrete, aggregates and other building materials and services. GCC’s operations stretch from the state of Chihuahua in northern Mexico to the U.S. Its distribution network reaches Canada and specialty products spread throughout Latin America (e.g. Brazil, Argentina, Chile, Colombia and Peru).

## ISS ESG SPO ASSESSMENT SUMMARY

SPO SECTION	EVALUATION SUMMARY <sup>1</sup>
<p><b>Part 1:</b></p> <p><b>Focus on KPI selection and SPT calibration</b></p>	<p><b>KPI selection: Material<sup>2</sup> to the issuer’s business model and sustainability profile</b></p> <p><b>Sustainability Performance Target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Ambitious against issuer’s past performance</b></li> <li>▪ <b>Ambitious against issuer’s industrial peer group</b></li> <li>▪ <b>Committed<sup>3</sup> to be ambitious against the Paris climate goals &amp; UN SDGs</b></li> </ul> <hr/> <p>The KPI selected is core, relevant and material<sup>4</sup> to GCC’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of GCC.</p> <p>The SPT calibrated by GCC is ambitious against the company’s past performance and against the construction materials industry practices in terms of defining a GHG emission reduction target. GCC is one of 30 companies in its industry to have GHG emission reduction targets<sup>5</sup>, out of 99 companies included in the industry<sup>6</sup>. The SPT remains in a similar order of magnitude as other top tier companies. GCC has committed that the SPT will be in line with the Paris Agreement and a well below 2° Celsius warming scenario. GCC has made public its commitment to setting a specific net CO<sub>2</sub> reduction target in line with climate science and is currently still in the process of verifying the target with the ScienceBased Targets initiative (SBTi); and hence, ISS ESG could not confirm, at the time of issuance, the alignment of the specific target with the Paris climate goals. However, should the final verified target be more conservative than those presently set out, the company has committed to comply with the more ambitious set of targets, as reflected in the offering circular and the terms &amp; conditions of the instruments. ISS ESG finds that GCC thus clearly demonstrates its ambition and commitment to align with the Paris climate goals. The target is set in a clear timeline, is benchmarkable and supported by a clear strategy and action plan.</p>

<sup>1</sup> ISS ESG’s evaluation is based on the engagement conducted since March 2021 and on GCC’s Sustainability-Linked Financing Framework (3 January 2022 version).

<sup>2</sup> ISS ESG’s materiality assessment takes into consideration a mix of relevant market standards, including the SBTi and industry standards and practices. In this case, GCC’s scope 2 emissions account for more than 5% of its total scope 1 and 2 emissions. As included in SBTi criteria C5, scope 2 emissions should be included when they represent more than 5% of the total scope 1 and 2 emissions. However, scope 1 emissions in the cement sector are generally considered as more material than scope 2 emissions by sector standards. For example, the European Union Emission Trading System’s (EU ETS) treatment of cement emissions (and the corresponding EU Taxonomy criteria) focuses on scope 1 emissions of cement production exclusively. Also, the Transition Pathway Initiative’s (TPI) methodology note (July 2018) on the carbon performance assessment of cement producers focuses on scope 1 emissions only. This is why the KPI was assessed as material.

<sup>3</sup> GCC is currently in conversation with the SBTi to get the SPT and its baseline verified. Should the final verified targets be more conservative than those presently set out, the company has committed to comply with the more ambitious set of targets, as reflected in the terms and conditions of the instruments. The new targets would also be released on the company’s website.

<sup>4</sup> ISS ESG bases this analysis on the issuer’s own emissions reporting and makes no comment on the quality or consistency of the issuer’s scope 1, 2 or 3 emissions reporting, either in relation to the GHG Protocol, or to established practices for the issuer’s sector.

<sup>5</sup> Analysis based on ISS ESG universe (as of December 2021)

<sup>6</sup> GCC, which is not part of the ISS ESG universe, is ranked as the 99<sup>th</sup> company within the group of 99 companies belonging to the Construction Materials sector and part of the ISS ESG Corporate Rating universe.

**Part 2:**

**Aligned with ICMA Sustainability-Linked Bond Principles and LMA Sustainability-Linked Loan Principles**

**Alignment with the SLBP and SLLP**

The Issuer has defined a formal framework for its sustainability-linked instruments regarding the selection of KPI, calibration of the Sustainability Performance Target (SPT), characteristics of the sustainability-linked instruments, reporting and verification. The framework is in line with the SLBP administered by the ICMA, and the SLLP administered by the LMA.

**Part 3:**

**Consistent with issuer's sustainability strategy**

**Link to issuer's sustainability strategy**

GCC is a supplier and producer of cement, concrete, aggregates and construction-related services, primarily operating in Mexico and the United States. As cement production is a highly energy- and resource-intensive process, eco-efficiency in these areas is of significant importance for the company. GCC pursues several initiatives to advance the transition to alternative fuels (biofuels) and raw materials and to reduce the company's carbon and other air emissions, as well as its consumption of energy and key input raw materials.

The KPI selected by the issuer is related to climate change. Climate change has been defined as one of the key priorities of the issuer in terms of its sustainability strategy; and ISS ESG finds that this is a material sustainability topic for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPI's clear link to one of the key sustainability priorities of the issuer and due to an ambitious SPT against the company's past performance, peer group and due to its commitment to be aligned with the Paris climate goals.

## ISS ESG SPO ASSESSMENT

### PART 1: SUSTAINABILITY CREDIBILITY OF KPI AND SPT

#### 1.1. KPI selection

##### KPI selected by GCC

###### FROM ISSUER'S FRAMEWORK

- **KPI:** Reduction in CO<sub>2</sub> intensity measured as specific net kg CO<sub>2</sub>/ton cementitious material (scope 1).
- **SPT:** Reduction in CO<sub>2</sub> intensity, calculated as specific net kilograms of CO<sub>2</sub> (scope 1) emissions emitted per ton of cementitious material, to be equal to or lower than 576kg CO<sub>2</sub>/ton cementitious material (equivalent to a 22% reduction from the 2018 baseline year by 2030) or the SBTi-validated target, expected by 31 October 2022.

**Long-term goal:** Deliver carbon neutral concrete<sup>7</sup> by 2050.

**Rationale:** In order to enhance its power and to address environmental issues, where GCC has the ability to effect positive change, the company intends to issue sustainability-linked instruments (SLIs) leveraging ambitious timelines to achieve sustainability performance targets that are material to its business. Its framework provides a high-level approach to its SLIs and investors should refer to relevant documentation for any securities transactions. GCC recognizes the role of sustainable finance in supporting the transition to a low-carbon and more resource-efficient economy and thus hopes its issuance of SLIs will inspire other companies to do the same.

Cement production is an energy intensive process which releases CO<sub>2</sub> emissions into the atmosphere. The desire for the industry to move to a low-carbon economy has resulted in focused efforts to reduce its overall carbon footprint by reducing energy consumption, using alternative fuels (such as biofuels), producing blended cements, and switching to renewable energy sources. GCC recognizes that decarbonization is its industry's main challenge. GCC is committed to accept its share of the worldwide responsibility in keeping the global rise in temperature to well-below 2°Celsius. As such, the company has concluded that the best option for its first SLB would be to define an ambitious and material specific net CO<sub>2</sub> emissions reduction target. Reducing specific net kg CO<sub>2</sub>e/ton cementitious products is a key strategy for GCC to mitigate climate change. Given the high intensity of scope 1 emissions in GCC's business, this is core, material and relevant. In the search for the efficiency of its processes, GCC has already managed to considerably reduce the emissions associated with its operations. GCC remains focused on developing solutions which lead to better results.

GCC is determined to support initiatives associated to averting global warming risks. Climate change is a challenge for not only the cement sector but to all companies across the world. The company sees this commitment as an opportunity to improve its internal processes, integrate ESG challenges into its strategy and influence its entire value chain. GCC is using 2018 as its baseline because this was the first year all eight plants were in their portfolio. Regarding structuring the KPI GCC reports specific net CO<sub>2</sub> emissions according to the Getting the Numbers Right reporting protocol developed by the Cement Sustainability Initiative and the World Business Council for Sustainable Development.

**Baseline:** 746 specific net kg CO<sub>2</sub>/ton cementitious products

<sup>7</sup> As per the SBTi definition.

**Baseline year:** 2018

**2030 goal:** 576 specific net kg CO<sub>2</sub>/ton cementitious products

**Scope<sup>8</sup>:** Production of cementitious materials. Specific net CO<sub>2</sub> emissions reduction KPI (scope 1) and associated target cover approximately 78.70% of GCC's current carbon emissions, according to the issuer, whereas scope 2 makes up around 6.78% and scope 3 approximately 14.52%. As scope 2 and 3 emissions amount to a small percentage, concentrating on scope 1 emissions for the KPI is where the most material impact can be achieved. This approach aligns with the EU Taxonomy technical criteria for the cement industry in relation to the climate change mitigation environmental objective. Additionally, the company is seeking the validation of the SBTi for this approach.

## Materiality and Relevance

Climate change mitigation is considered as a key ESG issue faced by the Construction Materials industry according to key ESG standards<sup>9</sup> for reporting and ISS ESG proprietary assessment. Companies in this industry are highly energy-intensive, namely during the process and chemical reactions while clinker is produced, and while producing construction materials, making it a highly CO<sub>2</sub> emitting industry. In this context, the industry is exposed to climate change mitigation challenges such as environmental impacts of raw material extraction, eco-efficiency of production as well as pollution risks and impact.

ISS ESG finds that climate change mitigation and the GHG emissions reduction KPI selected by GCC is:

- **Relevant** to GCC's business as its industry is highly CO<sub>2</sub> emitting and exposed to climate change mitigation solutions (e.g. eco- and energy-efficiency of production processes).
- **Core** to the issuer's business as climate change mitigation reduction measures will impact key processes and operations of the firm.
- **Material<sup>10</sup>** to GCC as a global leader in building materials and cement production with its highly GHG emissions intensive activities. The issuer can have a material impact on the issue. GCC has decided to concentrate on scope 1 emissions exclusively as it accounts for around 78.70% of GCC's CO<sub>2</sub> emissions, whereas scope 2 emissions make up for approximately 6.78% and scope 3 close to 14.52% as of 2020.<sup>11</sup> By concentrating on scope 1 emissions, the issuer aims to focus its attention on the most material impact that can be achieved in the context of this framework. As such, the KPI does not cover scope 2 nor scope 3 emissions (representing its emissions deriving from the electricity consumed and its entire corporate value chain).

<sup>8</sup> Paragraph not extracted from the issuer's framework.

<sup>9</sup> Key ESG standards include SASB and TCFD, among others.

<sup>10</sup> ISS ESG's materiality assessment takes into consideration a mix of relevant market standards, including the SBTi and industry standards and practices. In this case, GCC's scope 2 emissions account for more than 5% of its total scope 1 and 2 emissions. As included in the SBTi criteria C5, scope 2 emissions should be included when they represent more than 5% of the total scope 1 and 2 emissions. However, scope 1 emissions in the cement sector are generally considered as more material than scope 2 by sector standards. For example, the EU ETS's treatment of cement emissions (and the corresponding EU Taxonomy criteria) focuses on scope 1 emissions of cement production exclusively. Also, the TPI's methodology note (July 2018) on the carbon performance assessment of cement producers focuses on scope 1 emissions only. This is why the KPI was assessed as material.

<sup>11</sup> ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's scope 1, 2 or 3 emissions reporting, either in relation to the GHG Protocol or to established practices of the issuer's sector.

## Consistency with company's sustainability strategy

GCC identified climate change mitigation as one of its priority long-term goals. The definition of the specific net CO<sub>2</sub> emissions reduction KPI is consistent with GCC's strategy of mitigating climate change (see sustainability pillars below).

In 2018, GCC's sustainability strategy was redesigned to align with the Global Cement and Concrete Association's (GCCA) sustainability guidelines.<sup>12</sup> GCC's sustainability pillars are: Climate & Energy, Circular Economy, Health & Safety, Environment & Nature and Social Responsibility. In 2019, GCC focused on three pillars: Climate & Energy, Circular Economy and Health & Safety. In 2020, GCC committed to setting science-based emissions reduction targets in line with the level of decarbonization required to keep global temperature increase well-below 2 degrees Celsius by joining the SBTi. In 2021, GCC announced that it joined the global industry to state a collective ambition for carbon neutral concrete by 2050 in order to meet the global climate challenge.

GCC has created internal teams to include its sustainability pillars in its global strategy. Most of those teams are working on climate change mitigation projects (see energy department, renewable energy and innovation department teams):

- **Energy department:** It seeks to plan the transition towards renewable energy sources for electrical energy for GCC plants, as well as increasing the usage of natural gas.
- **Renewable energy contracts:** GCC entered into long-term agreements with solar and wind energy suppliers to reduce net CO<sub>2</sub> emissions and energy costs and to mitigate energy price fluctuations in Mexico and the US.
- **Corporate technical and operations office:** The team is made of varied and complementary disciplines such as health and safety, engineering, technology and process, raw materials and high-performance systems.
- **Innovation department:** It develops new products and processes tailored to GCC customers' challenges. GCC's research and development activities are focused on creating cements with lower clinker factor which intend to help meet the net CO<sub>2</sub> reduction targets. This group follows breakthrough technologies like carbon capture in order to be an early adopter of such technologies once they are fully developed.
- **Innovandi:** An industry-led effort to connect the cement and concrete industry with scientific institutions and drive new ways of working and supporting effective innovation with actionable research.

ISS ESG finds that the KPI selected by GCC is consistent with the overall company's sustainability strategy.

## Measurability

- **Material scope and perimeter:** The KPI selected covers approximately 78.70% of GCC's scope 1 emissions, with the remainder resulting from scope 2 and 3 emissions. This represents a material scope of operations and activities of the issuer. The KPI covers CO<sub>2</sub> emissions only, which account for the vast majority of GHG emissions of the Construction Materials industry.

<sup>12</sup> Global Cement and Concrete Association, Sustainability Guidelines, <https://gccassociation.org/sustainability-innovation/sustainability-charter-and-guidelines/>

- **Quantifiable:** The KPI selected is measurable and quantifiable. The KPI, specific net CO<sub>2</sub> intensity per ton of cementitious material produced, is widely disclosed and standardized in the market. The issuer is referring to key reporting and accounting protocols for CO<sub>2</sub> emissions such as the GCCA Sustainability Guidelines.
- **Externally verifiable:** The KPI selected is externally verifiable under relevant standards for this Second Party Opinion. The GCCA Sustainability Guidelines for the monitoring and reporting of specific net CO<sub>2</sub> emissions from cement manufacturing are part of a package of guidelines developed to support compliance with the GCCA Sustainability Charter. This document, in conjunction with the GCCA Sustainability Framework Guidelines, provides guidance to GCCA's full members to fulfil the requirements of the GCCA Sustainability Charter relating to climate change and energy. It is based on the CEN Standard EN 19694-34. The KPI, specific net CO<sub>2</sub> intensity calculated as specific net kg CO<sub>2</sub> emitted/t cementitious material (scope 1), is and will be audited and verified annually on a limited assurance basis by an external verifier.
- **Benchmarkable:** By referring to commonly acknowledged CO<sub>2</sub> accounting standards and protocols, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation with this KPI has been analyzed in section 2.

**Opinion:** ISS ESG finds that the KPI selected is core, relevant and material to GCC's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of GCC.

## 1.2. Calibration of SPT

### SPT set by GCC

#### FROM ISSUER'S FRAMEWORK<sup>13</sup>

**Sustainability Performance Target:** Carbon intensity reduction, calculated as specific net kilograms of CO<sub>2</sub> (scope 1) emissions emitted per ton of cementitious material, to be equal to or lower than 576 specific net kg CO<sub>2</sub>/ton cementitious material (equivalent to a 22% reduction from the 2018 baseline year by 2030) or the SBTi-validated target, expected by 31 October 2022.

**Sustainability Performance Target Trigger:** The carbon emissions intensity for the year ended 2030.

**Sustainability Performance Target Observation Date:** 31 December 2030.

**2018 Baseline Intensity:** 746 specific net kg CO<sub>2</sub>/ton cementitious product (scope 1).

**Strategic 2030 Goal and Selection of Methodology for Calculating the SPT:** This SPT aligns with GCC's 2030 goal of reducing scope 1 GHG emissions intensity by 22%.

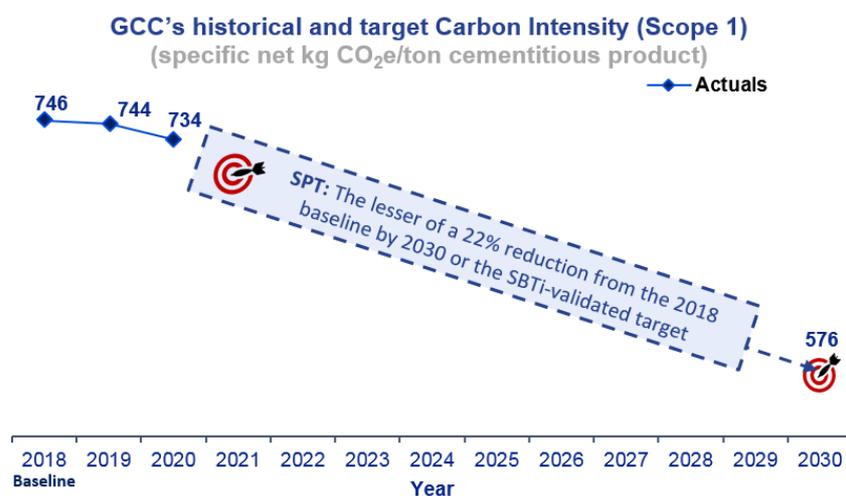
**Factors that support the achievement of the target:**

<sup>13</sup> This table is displayed by GCC in its Sustainability-Linked Financing Framework and has been copied to this report by ISS ESG for clarity.

- Expressing strong commitment of its Board of Directors on its sustainability strategy
- Demonstrating public commitment to the SBTi and KPI validation, currently in progress
- Increasing use of alternative fuels (biofuels)
- Increasing production of blended cements to reduce its clinker ratio
- Optimizing use of electrical and thermal energy
- Replacing use of coal with natural gas

**Risks to the target:**

- Decrease in production and extreme events, such as pandemics
- Equipment failure, among other operational factors
- Stricter or change in regulations



Source: GCC as of December 2021

**Ambition**

**Against company's past performance**

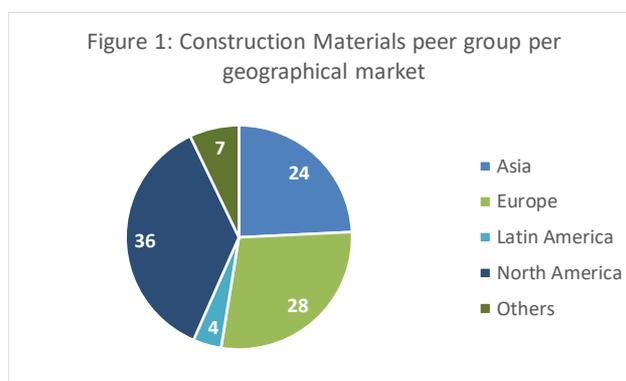
GCC set the SPT to reduce its specific net CO<sub>2</sub> emissions (scope 1) intensity equal to or less than 576 specific net kg CO<sub>2</sub>/t cementitious material produced by 31 December 2030. This equates to an estimated reduction of 22% compared to the 2018 baseline year on scope 1. GCC remains actively engaged with SBTi and expects to receive SBTi confirmation on the targets no later than 31 October 2022. Should the final verified targets be more conservative than those presently set out, the company has committed to comply with the more ambitious set of targets as reflected in the terms and conditions of the instruments. The new targets would also be released on the company's website. This gives ISS ESG strong confidence that the SPT will be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to pre-industrial

temperatures. Like all SBTi-validated targets, it has been developed in line with the GHG Protocol Corporate Standard and covers all relevant GHGs. The issuer provided historical performance data on specific net CO<sub>2</sub> emitted per ton of cementitious material for scope 1 emissions for the reporting years 2018 to 2020, aligning with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles. The 2018 baseline year is in the process of verification by the SBTi, validation is expected by 31 October 2022.

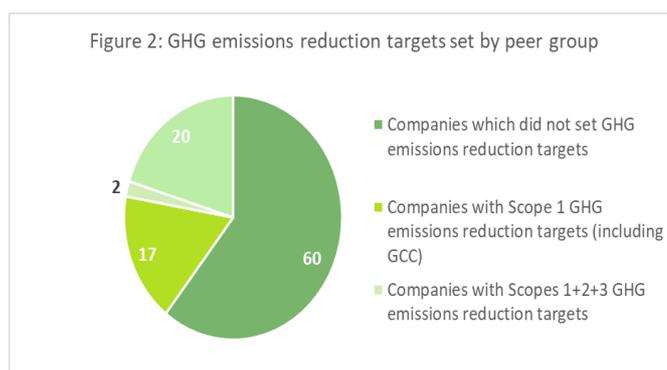
In this context and compared to the baseline year, the SPT set by GCC is perceived by ISS ESG as ambitious against the company’s past performance. ISS ESG also notes that GCC has not set a linear transition pathway but has only committed to reach its 2030 target.

**Against company’s industrial peers**

ISS ESG conducted a benchmarking of the SPT set by GCC against its Construction Materials peer group of 99 listed companies derived from the ISS ESG universe. The companies are located in the geographical markets displayed in figure 1. As of 27.12.2021, ISS ESG evaluates GCC as a medium performer in terms of GHG emissions intensity of its direct operations against its industry peers. The company’s GHG emissions intensity has remained stable at a common industry level in recent years. GCC is one of 30 out of 99 companies in the Construction Materials peer group to have a firm GHG emissions reduction target set, and it thus belongs to the top 30% of its industry in terms of existence of such targets (see figure 2). Once GCC will receive confirmation from the SBTi regarding its targets, the company will be part of the top 10% tier of its industry in terms of having an SBTi verified target. The company is only considering the scope 1 GHG emissions reduction target in the context of its Sustainability-Linked Financing Framework, due to the fact that scope 1 accounts for around 78.70% of its emissions, whereas scopes 2 and 3 respectively account for 6.78% and 14.52% approximately.



Source: ISS ESG, as of 27.12.2021



Source: ISS ESG, as of 27.12.2021

ISS ESG concludes that the SPT set by the issuer is ambitious compared to Construction Materials industry practices in terms of defining a GHG emissions reduction target. A further increase in level of ambition could be achieved by including scope 2 and scope 3 emissions as targets.

**Against international targets**

**Paris Agreement**

GCC is engaging with the SBTi, a collaboration between the Carbon Disclosure Project, the United Nations Global Compact, the World Resources Institute and the World Wildlife Fund (WWF), applying a Beyond 2°C Scenario (B2DS) developed by the International Energy Agency (IEA) as part of its publication, Energy Technology Perspectives (ETP) 2017 (IEA, 2017). The SBTi is currently in the process of verifying the GHG emissions targets (scope 1, 2 and 3) to be consistent with reductions required to keep global warming to well-below 2°C. GCC commits to receive SBTi's confirmation on the targets no later than 31 October 2022. Should the final verified targets be more conservative than those presently set out, the company has committed to comply with the more ambitious set of targets as reflected in the terms and conditions of the instruments. The new targets would also be released on the company's website. In the context of this framework, the company considers only scope 1 CO<sub>2</sub> emissions as part of its SPT.

ISS ESG finds that the SPT is ambitious against the company's past performance and its peers. GCC has committed in its terms and conditions to align its SPT with the targets set by SBTi, in the case that SBTi deems that the SPT currently set is not ambitious enough. This gives ISS ESG strong confidence that the SPT will be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to pre-industrial temperatures. The benchmark selected by the issuer is to be provided by an independent third party based on a methodology established in the industry. Moreover, as part of its alignment with the SBTi, GCC will revalidate its carbon intensity reduction target five years from its initial assessment by the SBTi. The company will subsequently align its carbon intensity reduction target with the Business Ambition of 1.5° Celsius.

#### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

#### Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2018 and provided all yearly GHG emissions intensity data available (scope 1) since then, as requested under the SLBP and SLLP. The baseline year (2018) is in the process of verification by the SBTi (expected by 31 October 2022) while 2019 and 2020 will not be audited.
- **Benchmarkable:** By referring to the commonly acknowledged Getting the Numbers Right (GNR) database, the KPI is easily comparable with the data reported by other companies.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and an annual SPT measurement.

#### Supporting strategy and action plan

To reduce its specific net CO<sub>2</sub> emission intensity per tons of cementitious material (scope 1) by 2030, GCC is aiming to implement the following measures:

- Increasing use of alternative fuels (biofuels);
- Increasing production of blended cements to reduce the clinker ratio;
- Optimizing use of electric and thermal energy; and

- Replacing use of coal with natural gas.

The supporting strategy and action plan contemplated by GCC is aligned with recommendations released by the International Energy Agency<sup>14</sup> on the need of cement companies to decarbonize to align with the Paris Agreement and a 2° Celsius warming scenario, by improving energy efficiency, switching to lower-carbon fuels, improving process efficiency and advancing process and technology innovations such as CCUS. This action plan is perceived as credible to support the achievement of the SPT set by GCC.

**Opinion:** ISS ESG finds that the SPT calibrated by GCC is ambitious against the company's past performance and against industry peers. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan. Furthermore, ISS ESG welcomes GCC's initiatives to commit in the instrument's offering circular to align its SPT with the targets set by the SBTi, in the case that SBTi deems that the SPT currently set is not ambitious enough. This gives ISS ESG strong confidence that the SPT will be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to pre-industrial temperatures. Furthermore, the SPT positively contributes in advancing SDG 13 "Climate action".

<sup>14</sup> IEA, November 2021, Cement, <https://www.iea.org/reports/cement>

## PART 2: SUSTAINABILITY-LINKED BOND PRINCIPLES AND SUSTAINABILITY-LINKED LOAN PRINCIPLES

### Rationale for Framework

#### FROM GCC'S FRAMEWORK

In order to enhance its power and to address environmental issues where it has the ability to effect positive change, GCC intends to issue Sustainability-Linked Instruments ("SLIs") leveraging ambitious timelines to achieve sustainability performance targets that are material to its business. Its framework provides a high-level approach to its SLIs and investors should refer to relevant documentation for any securities transactions. GCC recognizes the role of sustainable finance in supporting the transition to a low-carbon and more resource-efficient economy, and thus hopes its issuance of SLIs will inspire other companies to do the same.

**Opinion:** ISS ESG considers the rationale for issuance provided by GCC to be aligned with the SLBP and SLLP. The issuer has committed to publicly disclose the framework in a comprehensive and credible manner.

#### 2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of the KPI selection available in section 1 of this report.

**Opinion:** The KPI is relevant, core and material to the issuer's overall business and of high strategic significance to the issuer's current and/or future operations (detailed analysis has been conducted in section 1 of this report). The KPI is quantifiable, externally verifiable and benchmarkable. It is well quantified and calculated on a consistent methodological basis. The definition of the applicable scope and the perimeter for the KPI is provided.

#### 2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of the SPT in section 1 of this report.

**Opinion:** ISS ESG considers the calibration of the SPT description provided by GCC as aligned with the SLBP and SLLP. The SPT is ambitious against the company's past performance, compared to Construction Materials industry practices in terms of defining a GHG emissions reduction target and in line with the Paris Agreement and a well-below 2° Celsius warming scenario according to SBTi. The SPT remains in a similar order of magnitude as top tier companies in the Construction Materials industry in the ISS ESG universe, however is not as ambitious as other companies' targets due to the fact that GCC has not established scope 2 and scope 3 emission targets. Additionally, some macroeconomic factors that may affect the achievement of the target are disclosed in the framework (e.g., decrease in production and extreme events such as pandemics; equipment failure among other operational factors; stricter or change in regulations). The timeline, calculation methodology and benchmark for the target achievement are clearly defined.

## 2.3. Characteristics of Sustainability-Linked Instruments

### FROM ISSUER'S FRAMEWORK

The financial characteristics of any security issued under this Framework, including a description of the selected KPI(s), SPT, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction (e.g. final terms of the relevant SLI).

For any securities issued under this Framework, there will only be one trigger event impacting the financial characteristics of the security. The occurrence of a trigger event will result in a coupon step-up, accruing from date specified by the relevant instrument (or an increase of the premium, as the case may be).

A step-up of the coupon shall be triggered if:

- A KPI has not achieved the SPT on the target observation date (as detailed in the relevant documentation of the specific transaction);
- The verification (as per the verification section of GCC's Framework) of the SPT has not been provided and made public by the time of the notification date, as defined in the instrument documentation; or
- The Company fails to provide satisfaction notice as of the notification date related to achieving the SPT, each as defined in the instrument documentation.

**Opinion:** ISS ESG considers the characteristics of the SLI's description provided by GCC as aligned with the SLBP and SLLP. The issuer gives a description of the potential variation of the financial characteristics of the instruments, while defining the KPI and SPT and its calculation methodology. Additionally, the final terms describe the instruments' structure chosen for this issuance (i.e. increase in the coupon margin). The instruments' documentation includes an optional redemption section (please refer to the instruments' documentation for more details).

## 2.4. Reporting

### FROM ISSUER'S FRAMEWORK

GCC will communicate annually on the relevant KPI and SPT, making up-to-date information readily available on its website and/or publicly disclosed. GCC's annual report and sustainability performance report will include:

- up-to-date information on the performance of the selected KPI;
- a verification assurance report relative to the SPT outlining the performance against the SPT and the related impact, and timing of such impact, on an instrument's financial performance; and
- any relevant information enabling investors to monitor the progress of the SPT.

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; and

- illustration of the positive sustainability impacts of the performance improvement.

**Opinion:** ISS ESG considers the reporting description provided by GCC as aligned with the SLBP and SLLP. This will be made publicly available annually and include detailed information, reflecting best market practices.

## 2.5. Verification

### FROM ISSUER'S FRAMEWORK

Annually, up to and including the target observation date, GCC will seek independent and external verification of its performance level against the SPT for the stated KPI by a qualified external reviewer with relevant expertise. The verification of the annual performance against the SPT will be made publicly available on GCC's website at <https://www.gcc.com/>.

Following a target observation date, a verification assurance certificate confirming whether the performance on the KPI meets the relevant SPT will be published on GCC's website.

GCC may obtain and make publicly available a Second Party Opinion (SPO) and/or other external review from consultants with recognized environmental and social expertise to provide an opinion on the sustainability benefit of this Sustainability-Linked Financing Framework as well as the alignment to the SLBP and SLLP. The SPO will be available on the SPO provider's website.

**Opinion:** ISS ESG considers the verification description provided by GCC as aligned with the SLBP and the SLLP.

## PART 3: GCC'S ESG PERFORMANCE AND STRATEGY

**Methodological note:** Please note that GCC is not part of the ISS ESG Corporate Rating universe. Thus, the sustainability profile is an assessment conducted by the analyst in charge of the Construction Materials industry based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

### Industry classification:

Construction Materials

### Key issues of the industry:

1. Eco-efficiency of production
2. Labor standards and working conditions
3. Environmental impacts of raw material extraction
4. Business ethics
5. Products and services with environmental benefits

### Indicative ESG risk and performance assessment:

GCC is a supplier and producer of cement, concrete, aggregates, and construction-related services, primarily operating in Mexico and the United States. As cement production is a highly energy- and resource-intensive process, eco-efficiency in these areas is of significant importance for the company. GCC pursues several initiatives to advance the transition to alternative fuels (biofuels) and raw materials and to reduce the company's carbon and other air emissions as well as its consumption of energy and key input raw materials. Moreover, some efforts regarding the protection of biodiversity at quarrying sites and reclamation have been implemented. It remains unclear, however, if a comprehensive strategy for the closure and decommissioning of quarries is in place at all extraction sites. Elements of a health and safety management system for employees have been implemented, and the effectiveness of these measures is monitored through the tracking of workplace accidents and fatalities. Yet, while one plant is certified according to ISO 45001, there is no evidence of a certified health & safety management system that covers all locations. GCC has policies in place to address social issues (mainly labor rights) in its supply chain and relevant aspects of business ethics and responsible business practices. However, not all relevant topics are covered comprehensively.

### Indicative product portfolio assessment:

#### ▪ Social impact of the product portfolio:

As GCC's products and related services do not directly facilitate or obstruct the achievement of global sustainability objectives, the company's portfolio of cement, concrete, and aggregates is considered to have no-net positive or negative social impact.

#### ▪ Environmental impact of the product portfolio:

As GCC's products and related services do not directly facilitate or obstruct the achievement of global sustainability objectives, the company's portfolio of cement, concrete, and aggregates is considered to have no-net positive or negative environmental impact.

**Controversy risk assessment:**

There is no indication of GCC being involved in any of the below-mentioned controversies.

Based on a review of controversies over a two years period, the top three challenges that have been reported against companies within the Construction Materials industry are as follows: Failure to conduct human rights due diligence, failure to assess environmental impacts and failure to prevent water pollution. These key industry issues are being closely followed by failure to mitigate climate change impacts; failure to respect the right to just and favorable conditions of work; failure to respect consumer health and safety, and anti-competitive behaviour.

**Comment:** Improved disclosure of relevant policies and management procedures as well as data on ESG key performance indicators on the industry’s key issues named above could further benefit the assessment.

*Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of GCC’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along GCC’s production processes.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>Services related to coal production</b>	Not significant <sup>15</sup>	OBSTRUCTION	 
<b>Cement, concrete, and aggregates</b>	N/A	NO NET IMPACT	N/A

*Contribution of the KPI to sustainability objectives and priorities*

ISS ESG mapped the KPI selected by the issuer for its SLIs with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Construction Materials industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of the KPI selected.

<sup>15</sup> The coal is mainly used for internal purpose.

KPI SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Reduction in CO<sub>2</sub> intensity measured as specific net kg CO<sub>2</sub>/ton cementitious material (scope 1)</b>	✓	✓	Contribution to a material objective

**Opinion:** *ISS ESG finds that the KPI is consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry.*

## DISCLAIMER

1. Validity of the SPO: For GCC's Sustainability-Linked Instruments issuances as long as the Sustainability-Linked Financing Framework (January 3<sup>rd</sup>, 2022), SPTs benchmarks and structural instruments characteristics described in this document do not change.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: Methodology

### ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important Instruments issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

### Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA and the Sustainability-Linked Loan Principles, as administered by LMA

ISS ESG reviewed the Sustainability-Linked Financing Framework of GCC, as well as the concept and processes for issuance against the SLBP administered by the ICMA and the SLLP administered by the LMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Instruments market by clarifying the approach for issuance.

ISS ESG reviewed the alignment of the concept of the GCC's issuance with mandatory and necessary requirements as per the Appendix II - SLI Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

### Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to GCC's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPT against GCC's own past performance (according to GCC's reported data), against GCC's Construction Materials peers (as per ISS ESG Peer Universe and data), and against international benchmarks such as the Paris agreement and the UN SDGs (according to the ISS ESG proprietary methodology). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of GCC.

## ANNEX 2: Quality management processes

### SCOPE

GCC commissioned ISS ESG to compile a Sustainability-Linked Financing SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the SLBP and the SLLP and to assess the sustainability credentials of its Framework, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA Sustainability-Linked Bond Principles
- LMA Sustainability-Linked Loan Principles

### ISSUER'S RESPONSIBILITY

GCC's responsibility was to provide information and documentation on:

- Sustainability-Linked Financing Framework
- Documentation of ESG risks management

### ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked Instruments to be issued by GCC based on ISS ESG methodology and in line with the ICMA SLBP and LMA SLLP.

The engagement with GCC took place from March 2021 to January 2022.

### ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of GCC themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For Information about this Sustainability-Linked SPO, contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

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