

Holcim SLB recalculation event

Emiel Loh (*), Josephine Richardson, Prahalad Prasad

Holcim (ticker HOLNSW) is a Swiss multinational building materials manufacturer, and one of the largest cement producers in the world. Cement production accounts for roughly 8% of the world's CO_2 emissions and 9% of global industrial freshwater use. It is considered a hard-to-abate sector.[1] This makes any commitments to decarbonisation and water use reduction by a cement company highly material to the cause of a sustainable transition.

Holcim has five Sustainability-Linked bonds (SLBs) outstanding. Two bonds have Sustainability Performance Target (SPT) observation dates at the end of 2025. These cover net Scope 1 carbon intensity and specific water use withdrawals.

In 2022, the company recalculated both Key Performance Indicators (KPIs), leading to a restatement of the 2018 baselines, and therefore an associated update to the absolute SPT levels, where they are defined relative to the baselines.

Using the updated figures, we rate the 2025 carbon intensity SPT **Likely MEET** and the specific water withdrawal SPT **Currently MET**.[2] Comparing the current KPI reporting with the old absolute SPTs could result in estimating a lower probability of targets being met.

Pricing on the 26s SLBs is inconclusive. The CHF 0.375% 26s are trading tighter than one 2027 bond of similar size, which could imply an expectation of receiving a step-up coupon.

Interestingly, out of the SLBs referencing 2030 targets, the EUR 0.5% 31s and USD 2.2% 31s do not seem to allow for the recalculation of SPTs, as they use absolute targets. This could make the targets less likely to be achieved compared to the recalculated target used for the CHF 1% 32s.

Table 1: Holcim SLB details. Source: Holcim, AFII.

Description	SPT 1: Scope 1 carbon intensity	SPT 2: Specific water withdrawal	Observation date	Currency	Amount outstanding (mn)	Total non-discounted payment
€1.625% 26s	≥ 9.7% decrease (2018 baseline)	≥ 25% decrease (2018 baseline)	31/12/2025	EUR	150	0.125% per SPT
CHF0.375% 26s	≥ 9.7% decrease (2018 baseline)	N/A	31/12/2025	CHF	325	0.375%
€0.5% 31s	≤ 475kgCO_2/ton	N/A	31/12/2030	EUR	850	0.75%
$2.24% 31s	≤ 475kgCO_2/ton	N/A	31/12/2030	USD	100	0.75%
CHF1% 32s	≥ 17.5% decrease (2018 baseline)	N/A	31/12/2030	CHF	100	0.75%

[1] "Nature Positive Role of the Cement and Concrete Sector", Sep 2023.

[2] For details on the ranking methodology please see "A watershed year for the SLB market", AFII, 15 Jul 2025.

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(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org). Author for contacts: eml@anthropocenefii.org

SLB issuance

Holcim has five outstanding SLBs totalling €1.5bn, as shown in Table 1 on the first page. The EUR 1.625% 26s and CHF 0.375% 26s have their targets observed at the end of this year.

The company uses two KPIs for its outstanding SLBs: net Scope 1 CO_2 emissions per ton of cementitious material produced ($kgCO_2$/ton), and specific freshwater withdrawal (l/ton), also from cementitious material produced.[3]

The EUR 1.625% 26s have two SPTs: a 9.7% decrease in net carbon intensity and a 25% decrease in specific freshwater withdrawal, compared to a 2018 baseline. The coupon steps up by 0.125% at maturity for each missed SPT.

Meanwhile, the CHF 0.375% 26s uses the same net carbon intensity SPT as the EUR 1.625% 26s and has 0.375% premium payment at maturity if the SPT is missed.

Recalculation of SPTs

Notably, of Holcim's five SLBs, two seem to have absolute SPTs and three have relative SPTs, which in principle allows for the possibility of a recalculation.

According to Holcim's third supplement to the base prospectus (published 4 Aug 2021) which covers both 26s, a "*significant change to the structure of the Group, or a significant change in methodology in calculation (of the KPIs)"* would result in a recalculation event where the SPT is changed.[4]

Additionally, notification of any recalculation event would be published in the sustainability performance report alongside a limited assurance report.[4]

In its 2022 sustainability performance report, Holcim amended the 2018 baseline figure of both their KPIs; from 576 to 590 $kgCO_2$/ton for KPI1 and from 317 to 377 (l/ton) for KPI2. The associated SPTs were also adjusted.

According to Holcim, the amendment to both KPIs was a result of acquisition and divestment. Holcim's independent verifier stated: "*We also verified, on a test basis, the calculations of the restatements of some Sustainability Indicators…to take into account the structural changes of the Entity (divestments and acquisitions) in accordance with the Global Cement and Concrete Association (GCCA), Greenhouse Gas Protocol (GHG Protocol) and Science-Based Targets initiative (SBTi) guidelines"*, which included both KPIs.[5]

Indeed, in 2022 Holcim reported 19 acquisitions and four divestments, of which 13 were bolt-on acquisitions in aggregates and ready-mix concrete businesses. All of these impacted the SLBs' KPIs.[6]

As a result of these acquisitions, the company posted record net sales and net income in 2022, though since then both metrics have declined, as shown in Appendix 1.

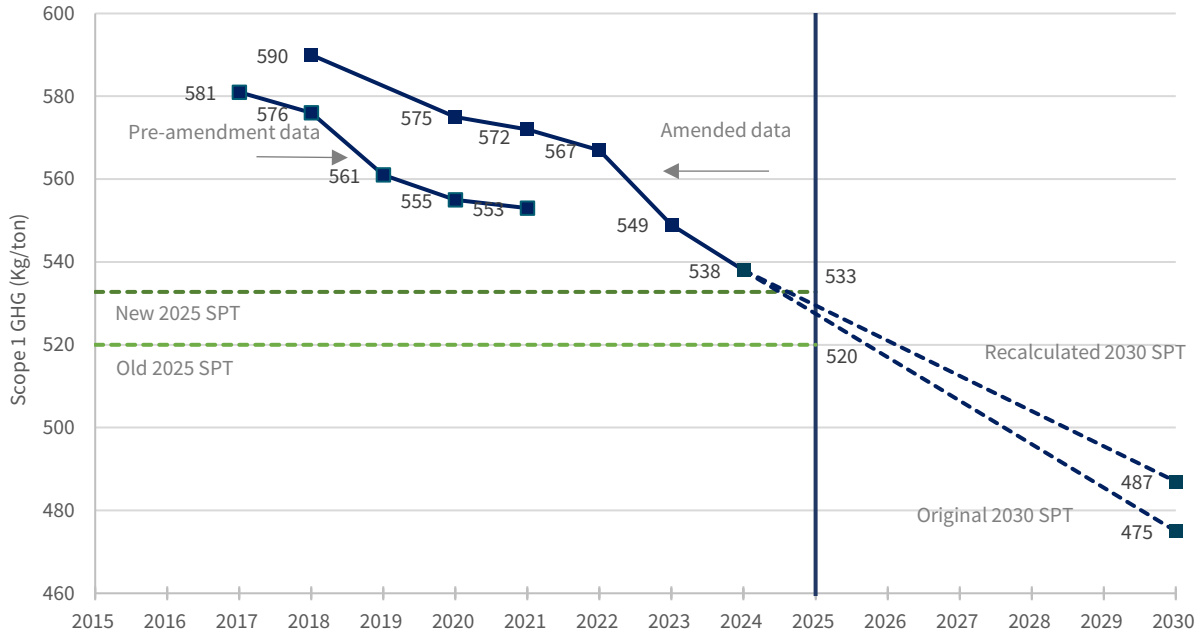
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[3] "2022 Sustainability-Linked Financing Framework", Holcim, Feb 2022.
[4] "Third Supplement dated 7 Jan 2022 to the Base Prospectus dated 4 August 2021", Holcim, 7 Jan 2022.
[5] Pg 20, "Holcim Sustainability Performance Report 2022", Holcim, 24 Feb 2023.
[6] "Record performance and successful transformation in 2022", Holcim, 24 Feb 2023.

However, the recalculation only applies to one of the three SLBs being observed in 2030: the CHF 1% 32s.[7] In contrast, the EUR 0.5% 31s and USD 2.24% 31s reference an absolute SPT of 475kgCO_2/ton instead of a percentage target as is done in the prospectus and final terms of Holcim's other SLBs.[8,9]

Figure 1 overleaf shows the trajectory needed to achieve both 2030 SPTs. This illustrates how a greater reduction in emissions is needed to meet the target referenced by the EUR 0.5% 31s and USD 2.24% 31s than the CHF 1% 32s.

Figure 1. Net Scope 1 GHG (KgCO_2/ton) net of cementitious material produced. Source: Holcim.



For KPI2, there is no 2030 target, and only one bond references the 2025 target, which according to the recalculated data, was achieved in 2024 (shown in Figure 3 later in the document).

It is worth recognising that the recalculation event in itself does not necessarily impact the likelihood of targets being met or missed. However, the disparity between calculation methods may do so. If the baseline and SPT are calculated using one method, and the most recent data using an alternative method, then this mismatch could make a material difference. In the case of Holcim's recalculation of KPI1, the recalculation has so far led to higher reported emissions. Use of an SPT calculated using an earlier methodology, now requires a greater reduction in order to achieve the target. As mentioned above, these restatements are reported to be in accordance with the GCCA, GHG protocol and SBTi.

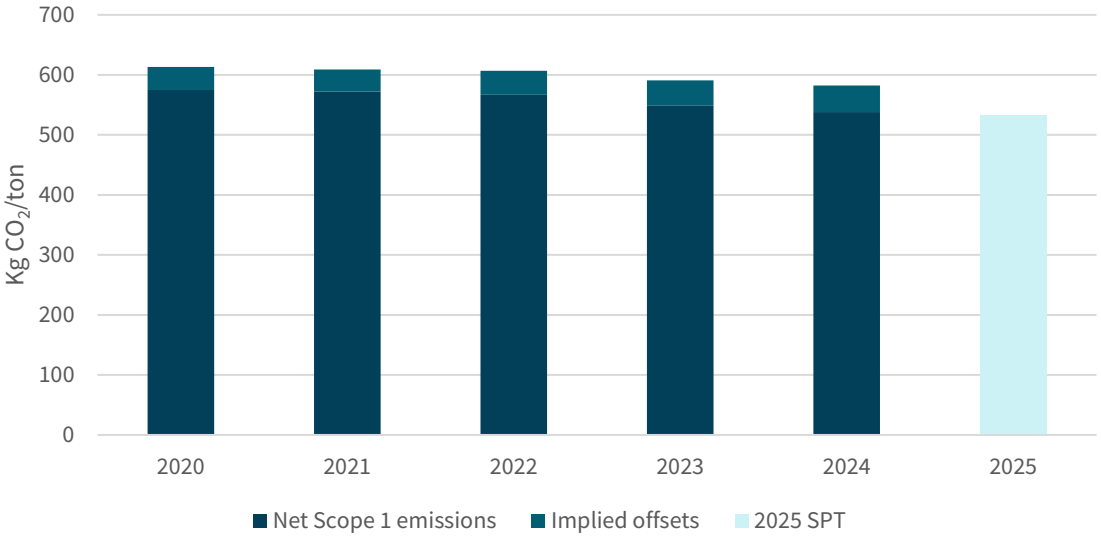
Recalculation events that impact SPTs can materially impact the probability of targets being achieved. **Therefore, it is important that the market is made fully aware if SPTs can be recalculated, and if a recalculation occurs, as this can impact SLB pricing.**

[7] Pg 3,"Holcim Jan 2022 CHF SLN Final Terms 2032 Notes", Holcim, Jan 2022.
[8] Pg 30, "€850,000,000 0.500 per cent. Sustainability-Linked Notes due 2031", Holcim, 19 Nov 2020.
[9] Pg 3, "Holcim Aug 2021 USD Final Terms", Holcim, 31 Aug 2021.

SPT 1 analysis

Holcim's reductions in net Scope 1 emissions from cementitious material production have resulted from two main factors: annual decreases in gross Scope 1 emissions and steadily increasing use of

Figure 2. Holcim gross and net Scope 1 emissions from production of cementitious material, and implied offsets. Source: Holcim, AFII.



offsets, as shown in Figure 2. These reductions do not include any contributions from carbon capture, utilisation, and storage (CCUS), which Holcim excludes from its 2025 and 2030 SPTs.[3]

Cement is made through grinding limestone, gypsum, and clay together to make a powder called raw meal — which then undergoes raw material calcination. As part of this process, the raw meal is heated at an extremely high temperature, typically via fuel combustion, to create clinker. Finally, the clinker is then ground with other materials to make cement.

Holcim's Scope 1 emissions come from two primary sources: 65% from raw material calcination and 33% from the fuel combustion for cement production.[10] This means that reducing the amount of clinker used in cement and using more alternative fuels have the biggest impact on its Scope 1 total.

As shown in Appendix 2, Holcim has decreased the percentage of clinker used in cement (clinker factor) and increased its use of raw materials for producing cement and alternative fuels for combustion every year since 2020. This provides reasonable evidence that there is a trend that appears likely to continue, and to result in ongoing reductions in Scope 1 emissions.

Aside from reducing emissions organically, the only other option available to Holcim for reducing emissions is to purchase offsets. However, the company explicitly states that it does not rely on offsets to reach its 2050 net-zero goal.[3]

Using the average annual reduction since 2018 would give a figure of 529kgCO_2/ton, while repeating the reduction from 2023-2024 would result in 527kgCO_2/ton —below the SPT of 533 kgCO_2/ton.

Therefore, given Holcim's commitment to reducing emissions from the use of clinker and fuel combustion as well as the continued use of more offsets since 2020, we rate this SPT **Likely MEET**.[2]

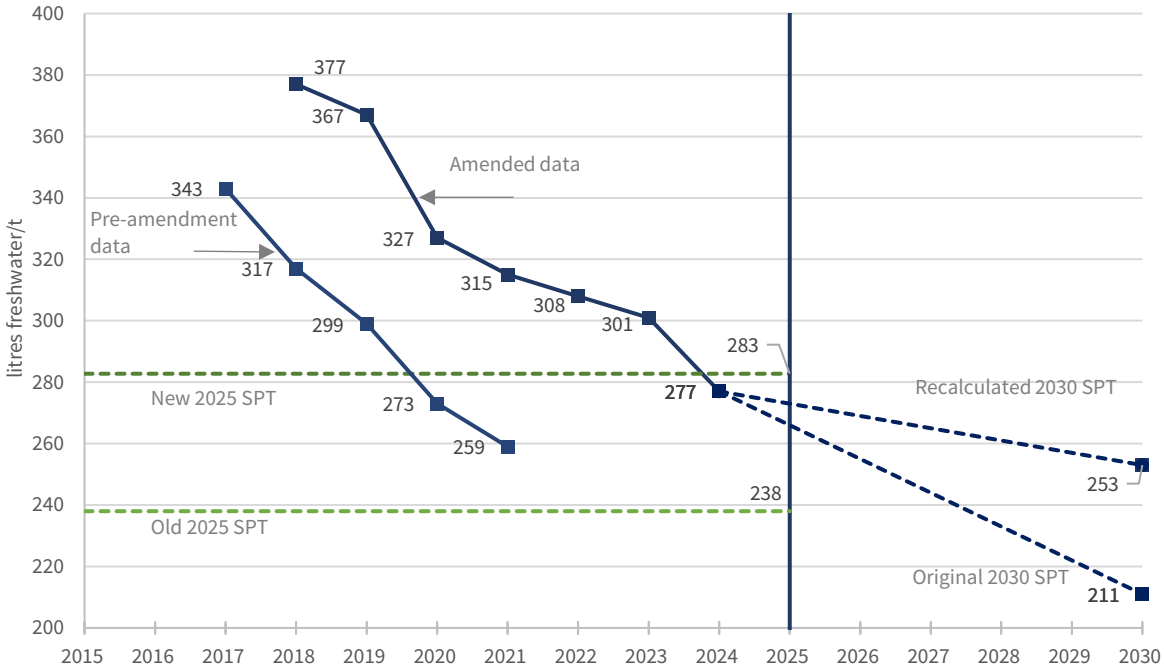
[10] "Holcim Climate Report 2024", Holcim, 28 Feb 2025.

SPT 2 analysis

Based on 2024 data and the amendment of the Sustainability Performance Baseline (shown in Figure 3), Holcim has achieved in 2024 the target level for specific freshwater withdrawal for 2025.

If data were available for the prior calculation method, it may be the original SPT would also have been achieved.

Figure 3. Specific freshwater withdrawal from production of cementitious material (litres freshwater/t). Source: Holcim.



Holcim has implemented a number of strategies in recent years to reduce its freshwater consumption. In the Philippines, the company has reduced withdrawals by 64% since 2018, driven by improvements to water recycling facilities, rainwater harvesting, and digitised monitoring tools.[11] In Ecuador, Holcim has collaborated with beverage company Tesalia to re-use treated industrial wastewater for concrete production.[12]

Holcim was also one of the first companies to adopt Science-Based Targets for Nature, with the intention of reducing freshwater withdrawals in its direct operations in Mexico. It also aims to gather more robust data for future science-based target setting.[13]

This SPT is ranked **Currently MET**.[2] This is because it is a numerical KPI, and could technically increase in the future, although the strategies outlined above should prevent this.

[11] "Record performance and successful transformation in 2022", Holcim media releases, 24 Feb 2023.
[12] "Reducing freshwater withdrawals in Ecuador through industrial partnerships", 2 Jun 2025.
[13] "SBTN October announcement release", SBTN, Oct 2025.

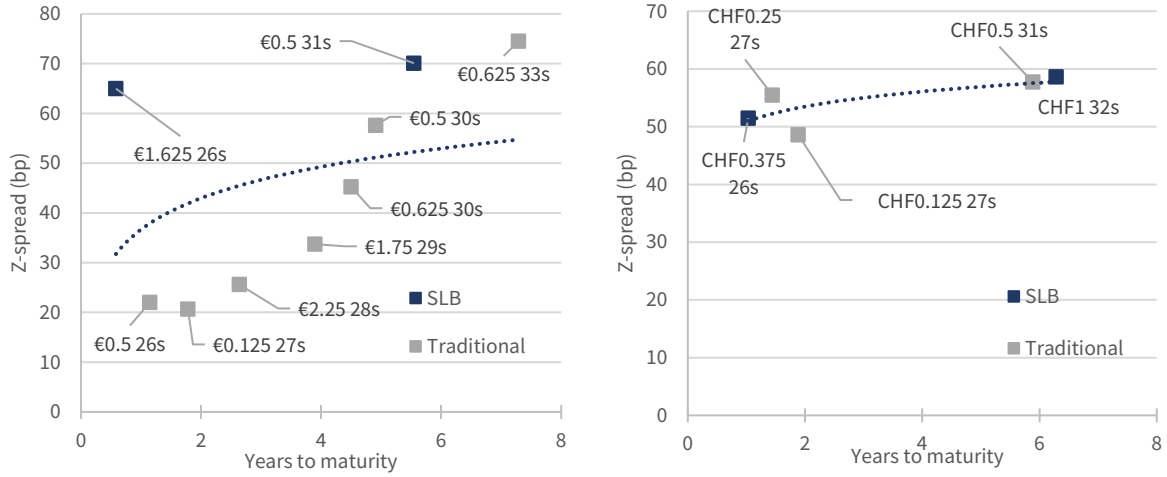
Market pricing

Holcim has bonds outstanding in CHF/EUR/GBP and USD. However, as the two SLBs exposed to the 2025 SPT are denominated in CHF/EUR we have focused our analysis on these two currencies only.

2025 SPT

When looking at the EUR bonds (LHS of Figure 4) the SLB that references the 2025 target, the 1.625% 26s, seems to be trading much wider than all vanilla bonds of similar maturity.

Figure 4. Holcim bond pricing, LHS EUR and RHS CHF bonds. Source: Bloomberg Finance L. P., accessed 7 Oct 2025.



The SLB has a much smaller notional, EUR 150mn, while the other bonds are at least EUR 500mn in size, which may suggest the SLB pricing is a result of liquidity. Either way, pricing so much wider than vanilla bonds assigned zero value to the option of receiving any step-up coupon.

There are fewer CHF bonds (RHS of Figure 4) for comparison at the short-end, and the SLB seems priced in between two longer-dated bonds, with a flat curve to the longer-dated bonds.

The 0.125% 27s is of smaller size, at only CHF 145mn, whereas the 0.375% 26s and 0.25% 27s are both over CHF 300mn, a more traditional benchmark size. If we consider the 0.25% 27s as the better comparison, then the SLB seems to be trading around 8bps tighter, which could imply some option value.

2030 SPT

As described earlier, there is potentially some basis between the 2030 SPT SLBs, in that the CHF bond allows for a recalculation of the baseline and SPT, and the EUR and USD do not.

The recalculation so far has served to increase historical KPI figures, and so increase the SPT. In the absence of a second recalculation that reduces historical KPI figures, this should make the original SPT strictly harder to achieve, and so give a greater chance of a step-up to the EUR 0.5% 31s than the CHF 1% 32s. As shown in Table 1, the total non-discounted materiality is the same for both bonds, so absent discounting differences, this means the EUR 31s should have a higher option value than the CHF 32s.

However, in Figure 4 both seem to be pricing roughly in line with vanilla bonds, implying limited option value for either.

Conclusions

Holcim is one of the largest producers of cement in the world. Cement is a hard-to abate sector, making the company's commitments to decarbonisation through SLBs meaningful.

Holcim has recalculated its KPI figures, leading to an increase to the 2018 baselines for its SPTs. While the recalculation alone does not in principle change the likelihood of achieving the targets, in this case the new recalculated targets are closer to the current KPIs than the original targets calculated using the initial method. Failure to process the recalculation event could lead to inaccurate SPT probability assessments. Interestingly, two of the SLBs referencing 2030 targets appear not to allow for recalculation of the SPTs, which could lead to higher probabilities that the target will not be achieved.

Using the recalculated baselines, we rank the 2025 net Scope 1 carbon intensity SPT **Likely MEET** and the specific freshwater withdrawal SPT **Currently MET**.[2]

Market awareness of whether a recalculation is permitted or has already occurred is important. When comparing the CHF 0.375% 2026s to a longer-dated bond with similar size outstanding, one could argue that the former carries some option value — implying some expectation of receiving a step-up coupon. However, that expectation is significantly reduced once the possibility of a recalculation is factored in.

Appendix 1

Table 2: Holcim Net Sales and Income. Source: Holcim.

Year	Net Sales (million CHF)	Net Income (million CHF)
2020	23,142	1,697
2021	26,834	2,298
2022	29,189	3,308
2023	27,009	3,060
2024	26,407	2,926

Appendix 2

Table 3: Holcim drivers of Scope 1 emissions. Source: Holcim.

Year	Alternative raw materials contained in cement (%)	Extended clinker factor (%)	Thermal substitution rate alternative fuels plus biomass (%)
2020	7	73.9	25
2021	8.3	73.6	26
2022	9.3	73	28
2023	10.2	72	30
2024	10.8	71.7	32

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