

Directive

Third Party Due Diligence

May 30, 2016



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1. Introduction, scope and objective

LafargeHolcim often uses the services of Third Parties where it lacks internal resources or the requisite expertise. Sometimes we are even required by law to use Third Parties. A “Third Party” is any company or individual that is not affiliated with, or employed by, LafargeHolcim Ltd or its consolidated Group companies (hereinafter jointly referred to as “**LafargeHolcim**”, “**Group**” or the “**Company**”).

It is important that Third Parties who act for us or in our name do so in accordance with our values and the principles set out in our Supplier Code of Business Conduct. The reputation and behavior of Third Parties who act on our behalf impact our reputation as well as the quality of our services and products. It is our collective responsibility to prevent the engagement of questionable or unreliable Third Parties and to protect the Company by applying adequate due diligence standards before engaging Third Parties.

Key points to remember:

- Third Parties who are engaged by LafargeHolcim are required to adhere to our Supplier Code of Business Conduct.
- It is our responsibility when engaging Third Parties to make sure they not only agree to comply with our Supplier Code of Business Conduct, but that they understand the standards of the Code and are capable and willing to adhere to them.
- As reflected in the Supplier Code of Business Conduct LafargeHolcim has zero-tolerance for bribery and corruption and we expect the same from Third Parties when acting on our behalf (see Section 2.5 of the Anti-Bribery & Corruption (ABC) Policy). We cannot hire Third Parties to do something we are not allowed to do ourselves, like paying bribes.
- Particular risks arise if we are using Third Parties to interact with Public Officials for us or on our behalf, as in most countries strict laws and regulations apply.
- It is also our responsibility before engaging Third Parties that a proper assessment is done of the Third Party’s reputation and background to avoid situations where we should have known that the Third Party might represent an increased risk to violate our Supplier Code of Business Conduct or engage in illegal behavior. Failure to do so may lead to LafargeHolcim and you being subject to criminal investigations and penalties, including fines, imprisonment, blacklisting and profit disgorgement.
- Group Compliance has developed a comprehensive and risk-based Third Party Due Diligence (TPDD) process supported by a web-based TPDD tool, which enables you to fulfil and document all the requirements set out in this TPDD Directive.

This TPDD Directive provides you with the relevant mandatory principles, the necessary guidance as well as the measures you need to take to protect yourself and the Company when engaging and dealing with Third Parties, particularly those interacting on our behalf with Public Officials. The TPDD Directive also outlines how and when the TPDD tool must be used.

If you are involved in the selection, engagement, management or payment release process related to Third Parties who potentially interact with Public Officials, you need to thoroughly understand and follow this TPDD Directive.

The scope of the TPDD Directive is worldwide and applies to all LafargeHolcim Group companies as well as all of their respective employees, directors and officers.

Associated companies or joint ventures where LafargeHolcim does not exercise equity or management control (each an “**Associated Company**”) must be made aware of the TPDD Directive and its standards, and all available means shall be used to seek the adoption of the TPDD Directive or at least equivalent standards by the Associated Company.

2. Third Party Due Diligence scope and process

The rules and requirements governing the TPDD process are determined through a risk-based approach by assessing a number of factors, including the nature of the Third Party's envisaged activities. Based on such assessment the transaction with a Third Party is either "in-scope" or "out of scope" of the TPDD process.

For "in-scope" transactions the TPDD process outlined in Subsection 2.3 needs to be followed and completed before engaging the Third Party. For "out-of-scope" transactions no TPDD is required.

The general risk mitigation rules set out in Section 3 below need to be followed in all transactions with Third Parties, irrespective of their being "in-scope" or "out-of-scope".

2.1 Which transactions are "in-scope" of the TPDD process?

The TPDD process applies only to all transactions with Third Parties that have potential interactions with Public Officials (as defined in Annex 1) on behalf of LafargeHolcim. This includes, among others, lawyers acting in court, tax advisors, lobbyists, visa agents, government relations consultants, custom brokers and clearing agents, importers, security service providers, former Public Officials as well as associations and consortium or joint venture partners with potential Public Official interaction.

In order to determine whether a particular transaction is "in-scope" of the TPDD process, you can either apply the criteria set out in Annex 3 or complete the "Scope Check" section of the TPDD tool.

2.2 How do I start the TPDD process?

Access the TPDD tool via the TPDD section of the [Group Compliance Resource Center](#) (Integrity@LH) on the intranet or directly at <https://tpdd.lafargeholcim.com> (TPDD landing page) to start the TPDD process. The tool is embedded in the LafargeHolcim single-sign-on environment, so no log-in or password is required for users with a google-based email address.

2.3 What are the workflow steps of the TPDD process?

The TPDD process embedded in the TPDD tool consists of the following steps:

- **Step 1: Scope Check** – by using a simple questionnaire the requestor can determine in the initial step whether the transaction is "in-scope" or "out-of-scope" of the TPDD process.
- **Step 2: Risk Assessment** – for "in scope" transactions, this step determines the applicable risk classification of the transaction, which will be relevant for the due diligence intensity and the approval requirements. The applicable risk classification is mainly driven by the nature of the Third Party's activities, location, the payment structure and amount, the intensity of the Public Official interactions and other factors. Based on the answers given, TPDD Tool will automatically determine whether the transaction falls into the "low risk", "medium risk" or "high risk" category.
- **Step 3: Due Diligence** – this step enables the requestor to examine the integrity and qualification of the Third Party. In case of a "medium risk" and "high risk" classification, the Third Party or the contact person at the Third Party company will receive an automatic email from the TPDD tool and be asked to provide answers to the risk-appropriate TPDD questionnaire together with supporting documentation (paperless mode). Alternatively, the TPDD questionnaire can be downloaded from the TPDD Tool, printed and manually sent to a Third Party.
- **Step 4: Approval** – all "in-scope" Third Party transactions must be approved by the requestor's supervisor regardless of risk category. For "medium risk" and "high risk" transactions additional approval from Compliance is required. The TPDD tool supports an automated approval and notification workflow. If an "in scope" Third Party is not approved by all relevant authorization levels any form of engagement and payments to that Third Party are prohibited.

- **Step 5: Remediation and contract management (Post Approval)** – an approver might require certain risk mitigation or remedial action, which is to be tracked in the post-approval tab of the TPDD tool. The TPDD requestor also is responsible for uploading the executed agreement with the Third Party into the post-approval section of the TPDD tool and monitoring the Third Party to ensure compliance with any limitations placed on the Third Party and generally to ensure the Third Party acts in accordance with LafargeHolcim standards.

2.4 Is a compliance clause required in the agreement with the Third Party?

Yes, compliance clauses are required in agreements with Third Parties. The mandatory contract provisions vary depending on the risk classification of the Third Party. The relevant provisions for each risk category are provided by Group Compliance for download in the TPDD Resource Center, which can be accessed via the Compliance Resource Center dashboard on the intranet or the TPDD tool landing page (see Section 2.2). For any exception hereto – e.g., due to conflicts with local laws – you must seek approval from your Local Compliance Officer.

2.5 What's the validity of an approved TPDD?

You may use the outcome of an approved TPDD transaction for similar transactions with the Third Party for up to **three** years after its final approval. Afterwards, the risk assessment and TPDD must be repeated by using the renewal functionality of the TPDD Tool before the Third Party can be retained again or new payments authorized under an existing contract. The TPDD Tool will notify the TPDD originator about an upcoming expiry of the TPDD's validity in order to initiate the renewal process in time.

2.6 Can TPDDs be reused for further transactions with the same Third Party?

The TPDD tool provides a “reuse” functionality, whereby the TPDD questionnaire provided by a Third Party can be re-used for further transactions with that Third Party, provided the new transaction falls into the same or a lower risk classification.

3. General safeguards and requirements for all Third Party engagements

3.1 Written Agreement or Purchase Order

Before any Third Party can start its activity, a written agreement or detailed purchase order needs to be executed and, where needed, the TPDD approvals have been obtained. You must ensure that the agreement or purchase order clearly defines the roles, services and responsibilities of the Third Party as well as those of LafargeHolcim, compliance terms and the basis for any payments made to the Third Party. The bank account details must be specified in any contract.

3.2 Remuneration and Payments

3.2.1 Basic guidance for remuneration agreements

The remuneration of (payment to) a Third Party must correspond with normal legitimate business practices and market standards and be justified in light of the activities the Third Party undertakes (i.e., payment is appropriate for the service provided).

The negotiated payment terms should be determined based on:

- (1) The expected work results,
- (2) The expected amount of time the Third Party needs to adequately provide the products or services agreed upon,
- (3) The expected amount of expenses incurred, and
- (4) A reasonable profit margin for the Third Party.

Excessively high payments, upfront payment terms, success fees and lump sum cost retainers might be a sign of inappropriate activities and, consequently, should be avoided unless they can be clearly justified.

In case the payment structure is determined as a percentage from the overall contract value (i.e., value of the underlying commercial deal), such percentage should decrease with an increasing contract value. For transactions that are in-scope of the TPDD process any form of success fee, bonus payment or otherwise outcome-related compensation (whether paid directly or indirectly) requires the prior approval of Group Compliance.

All expense claims relating to hospitality, gifts or expenses incurred by Third Parties in connection with services rendered for LafargeHolcim must be (i) properly invoiced and documented by receipts, and (ii) in accordance with applicable local laws, the LafargeHolcim Code of Business Conduct, the ABC Policy and other applicable directives. In other words, expenses may only be reimbursed to a Third Party if they could have been expensed internally by a LafargeHolcim Employee.

3.2.2 Rules for payments to a Third Party

Payments to a Third Party may only be authorized if all of the following conditions are fulfilled:

- (1) It has been assessed whether the transaction is “in-scope” or “out-of-scope” of the TPDD process.
- (2) If determined to be “in-scope”, the TPDD has been completed and duly approved in the TPDD tool.
- (3) A valid written agreement or detailed purchase order is in place.
- (4) A valid and comprehensive invoice has been issued by the Third Party.
- (5) The invoiced amount is in line with the contractual specifications.
- (6) The proof of performance has been received and reviewed.
- (7) The bank account to which funds are being transferred matches the bank account specified in the agreement or purchase order and vendor master file.
- (8) The bank account is registered in the same country where the Third Party has established or maintains its principle place of business or renders the services.
- (9) The recipient of payments (bank account holder) is the contracting Third Party.

Deviations from the conditions outlined above are only permitted with legitimate documented rationale and approval by the responsible Compliance Function.

3.3 Clarifying and resolving of red flags

Before entering into any agreement or engagement with a Third Party you need to clarify that there are no potential "red flags" that may indicate bribery, corruption or any other improper behavior.

A non-comprehensive list of red flags is provided in the TPDD Resource Center, which can be accessed via the Compliance Resource Center dashboard on the intranet or the TPDD tool landing page (see Section 2.2). Group Compliance will periodically update and amend this list.

Red flags suggest the need for further due diligence or negotiations before entering into a contract or transaction with the particular Third Party. Depending on the gravity of the detected red flag, it may be further assessed and resolved as follows:

- (1) Performing an internet integrity check on the Third Party and its key persons.
- (2) Obtaining clarifying information and supporting evidence from the Third Party.
- (3) Restructuring the transaction (e.g., the payment structure) to mitigate the risk.
- (4) Asking local compliance to initiate a Third Party Due Diligence (even for “out-of-scope” transactions).
- (5) On-site inspections or interviews of Third Parties.

Compliance personnel are required and authorized to request any of the above as well as any documents that may assist in the analysis of both “in-scope” and “out-of-scope” transactions for Third Party Due Diligence purposes. Employees are equally obligated to comply with any such requests.

Any failure to remedy a red flag must result in termination of negotiations or working relation (in the case of renewals) with such a Third Party.

3.4 Documentation and Records Keeping

As a listed company, LafargeHolcim must keep financial records and have appropriate internal controls in place that evidence the business reason for making payments to Third Parties.

All accounts, invoices and other documents and records relating to dealings with Third Parties should be prepared and maintained with strict accuracy and completeness. No accounts may be kept “off-book” to facilitate or conceal improper payments.

The TPDD Directive was approved by the Group Executive Committee on May 30, 2016 and will come into force on May 30, 2016.

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<p><i>Responsible Group Executive Committee Member:</i> Eric Olsen, Group CEO <i>Responsible Person:</i> Xavier Dedullen, Chief Legal & Compliance Officer / Laurie Waddy Franke, Head Group Compliance</p>	

Annexes

Annex 1: LafargeHolcim Policies and Directives related to this Directive

Link to Policy	Policy/Directive	Definition / Description	Responsibility	Reference
Policy Framework	Code of Business Conduct	Comprehensive guidance document on workplace-related conduct requirements	Compliance	CoBC
Policy Framework	Anti-Bribery and Corruption Policy	Sets out the rules and principles to prevent bribery and corruption	Compliance	ABC Policy
Policy Framework	Responsible Lobbying Directive	Sets forth the guiding principles and rules of conduct for lobbying activities	Sustainable Development	Responsible Lobbying Directive
Policy Framework	Conflict of Interest Directive	Relevant principles and guidance for avoiding and dealing with conflicts of interest	Compliance	Conflict of Interest Directive

Annex 2: Definitions and Abbreviations

<i>Director</i>	Member of Group Company board of directors (including executive and non-executive directors) or, in Group Companies applying a two-tier board system, any member of the supervisory board.
<i>Due Diligence</i>	Investigation of a business or person prior to signing a contract, thereby acting with a certain standard of care.
<i>Employee</i>	All officers and employees of LafargeHolcim, including interns, temporary workers, contract workers and anyone over whom LafargeHolcim could reasonably be expected to exert control in the way the person completes his or her work.
<i>LafargeHolcim, the Group, or the Company</i>	LafargeHolcim Ltd and all of its consolidated affiliates from time to time.
<i>Local Compliance Officer</i>	Formally appointed Compliance Officer responsible for the defined location.
<i>Public Official</i>	Any officer, Employee or person acting on behalf of (a) a government, its department, agency or Government Instrumentality or (b) a Public International Organization. The term also includes political party officials and candidates for political office as well as family members of any of the above.
<i>Third Party</i>	Any legal entity or individual that is not a LafargeHolcim Group company, Director or Employee
<i>TPDD</i>	Third Party (Compliance) Due Diligence
<i>TPDD Resource Center</i>	Collaboration space on the LafargeHolcim intranet dedicated to the TPDD process and tool. Can be accessed via the Compliance

	Function Resource Center dashboard on the intranet or the TPDD tool landing page (https://tpdd.lafargeholcim.com).
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Annex 3: Determination of “in-scope” Third Parties

Type of Third Party	In scope of TPDD	Out of scope of TPDD
Supplier, Service Provider*, Distributor / Reseller	Interaction with public officials on our behalf	Interaction with us or private Third Parties**
Association	Industry or project specific association with public official interaction on behalf of its members	Associations representing general interests of members from multiple industries
Joint Venture or Consortium	Interaction with public officials on our behalf or on behalf of the joint venture	Only interaction with us or private Third Parties
	↓	↓
	You are required to perform a TPDD and follow the TPDD workflow	No TPDD required

* Service Providers may include consultants, customs agents, lawyers, etc.

** Third Parties are **out of scope** if they interact with public officials **on their own behalf** and not on behalf of the LafargeHolcim Group. For example, a consultant getting a licence to run his own business.