

Statement regarding exclusion from portfolio

PFA has not informed HeidelbergCement about the decision to exclude the shares from its portfolios and no detailed information has been provided that would give a thorough explanation for this step. Furthermore, PFA has not been in contact with HeidelbergCement and did not enter into an engagement dialogue in the past months. HeidelbergCement is concerned that the decision of PFA did not take into account all relevant information about the specific situation and the company has already contacted PFA to clarify the situation.

From HeidelbergCement's perspective, the quarrying activity of Hanson Israel in the West Bank is compatible with international humanitarian law as it produces substantial advantages for the local Palestinian population.

Furthermore and in-line with the second guiding principle of the chapter on human rights of the OECD Guidelines for Multinational Enterprises and article 49 of the Fourth Geneva Convention, Hanson Israel does not deliver building materials to Israeli settlements in the West Bank or the construction of border protection systems. As such, Hanson Israel is not complicit in activities that are not in line with the international law on occupation and the operations are not in conflict with UN Global Compact principles 1 and 2.

Hanson Israel is criticized for selling sand, gravel and crushed rock that the company is mining in the Nahal Raba quarry to construction projects in Israel. Background are the rules on occupation set out in the Hague Regulations and the Fourth Geneva Convention that restrict the occupant to the administration and use of resources in an occupied area. Documents typically referenced in this context state that operating mines is compatible with occupation law as long as such exploitation is within what is considered to be customary. The presumption of the Hague Regulations and the Fourth Geneva Convention is, that occupation is a temporary situation. In the following, we highlight some key aspects that are important to take into account when evaluating the activities of Hanson Israel in light of international humanitarian law.

The occupation of the West Bank is a special case as it already lasts for more than 40 years. According to common interpretations of article 43 of the Hague Convention (IV) from 1907 and article 64 of the Fourth Geneva Convention from 1949 with respect to the duties of an occupier in a situation of long-term occupation, opening and operating the quarry under these circumstances is compatible with international humanitarian law when it prevents a socio-economic decline of the region without compromising the existing raw material reserves in the area. For the Nahal Raba quarry, this is the case.

a) The local Palestinian population benefits from the quarry operations

The Nahal Raba quarry pays royalties and leasing fees that are used by the civil administration for local projects, for example infrastructure projects, in Area C of the West Bank. In addition, the local Palestinian population benefits especially from the creation of attractive jobs in a region that is otherwise characterized by high unemployment and long-term economic stagnation. Significantly more than 50% of employees and contractors working in the quarry are local Palestinians. Since 2012, the number of Palestinian employees increased by 11%. Palestinian and Israeli employees are treated the same and receive equal payment that is several times higher than the average wages paid in the West Bank. As the income is typically spent in the West Bank, it contributes as well to

socio-economic growth and through tax payments also to the financing of the Palestinian administration which benefits the whole population. In addition, employees benefit from state-of-the-art trainings, which open up new career opportunities and from healthcare organized by Hanson Israel. Palestinian and Israeli employees work together in intercultural teams, which also open up informal channels of cultural exchange that foster mutual understanding.

b) The quarrying does not compromise the existing raw material reserves in the area beyond what is customary

The extraction of mineral resources in the quarries in the West Bank operated by Israeli companies is very limited and impacts existing raw materials reserves only by about 0.01% per year. Would the quarries continue with the mining volume as of today, the reserve lifetime would last several hundred years. The reason for selling a majority of the volume to construction projects in Israel is simply due to the fact that the demand from Israel is higher than the demand in the West Bank. There is no discrimination of Palestinian customers. In addition, the export of quarry material to Israel is customary as also the Palestinian quarries in the area are exporting the majority of the quarry products to Israel due to the specific demand situation.

Potential actions

A restriction of the use of quarried material to the West Bank only would finally result in the closing of operations which would have a substantial adverse effect on the local socio-economic situation. The closing of the operations would destroy the base of living for many families in the West Bank and lead to an increase in unemployment in a region with already high levels of unemployment. As such, and following the recommendations of the German Employers' Association (BDA) made in 2011, HeidelbergCement does not consider this to be an option as it would deteriorate the humanitarian situation of the population in the West Bank.

Instead, HeidelbergCement is currently working on setting up a dialogue with Palestinian stakeholders in order to perform a due diligence regarding the operations in Area C as it is recommended by the OECD guiding principles.

HeidelbergCement is convinced that investors who are acting in a responsible way and are taking into account the specific situation at the Nahal Raba quarry will come to the conclusion that the operations are compatible with international humanitarian law and that a divestment decision is not justified as it would lead to a deterioration of the economic and humanitarian situation of the Palestinian population in the West Bank.