

Enterprise Risk Management Report

-Financial year ended 31 December 2018-



May 2019

CONTENTS

1. Enterprise Risk Management (ERM)	3
2. Internal Control System	5
2.1. Entity Controls	6
• Code of Ethics and Conduct and anonymous reporting lines	7
• Organisational structure and responsibilities for the financial statements	8
• Training to properly apply accounting principles and required regulations	9
2.2. Mechanisms for capturing and preparing financial information	10
2.3. Control activities	10
2.4. Internal Audit	12
2.5. Reporting and Communication	13
2.6. Activities Outsourced to third parties	13
3. Internal control system improvements 2018	14
4. Financial Reporting Assessment for the financial year 2018	17
5. Risk factors	18
5.1. Main risks potentially affecting the achievement of business objectives	18
5.2. Economic loss risks detected during the financial year	19
6. External auditor's report	21

1. Enterprise Risk Management (ERM)

Enterprise Risk Management (ERM) at CEMEX Latam Holdings, S.A. and its group companies (the “Company”, “CEMEX Latam” or “CLH”) is a monitoring process to identify, assess and mitigate risks applicable to all group companies. The Company’s business units (Colombia, Panama, Costa Rica, Nicaragua, El Salvador and Guatemala) have an ERM process in place and in operation.

ERM provides a comprehensive and structured approach to proactively identify the main risks and manage them together with those responsible for their mitigation. The ERM department follows a process that encourages discussion between those responsible for operations within the business units and the management, and subsequently, with the General Manager and Managing Director of CLH. The responsibility for monitoring the risks lies with the Audit Committee and ultimately with the Board of Directors.

Internal and external risks identified that may impact the Company are classified in accordance with their nature into the following categories:

- Strategic.
- Financial.
- Tax.
- Internal operational.
- Political, economic and social.
- Compliance.
- Other

ERM within CLH provides an effective system because the process followed is based on Standard ISO 31000, allowing a comprehensive picture to be obtained, focussed on assessing and prioritising risks.

The Company’s bodies responsible for preparing for and executing Enterprise Risk Management are the following:

- **Board of Directors:** responsible for approving the general policies and strategies, including the general risks policy. To do so, the Board of Directors relies on the Audit Committee.
- **Audit Committee:** assists the Board in risks oversight and control, ensuring the efficiency of internal controls listed in the action plans designed to mitigate the same.
- **Senior Management:** the General Manager and Managing Director, together with an internal team consisting of the managers of each business unit, follow up on the main risks identified and validate the measures necessary to deal with the same.
- **ERM:** responsible for executing the Company's risks policy, establishing procedures to allow those risks to be identified, analysed and assessed and their treatment to be defined.
- **Risks Management Committee:** responsible for managing the risks agenda, defining risk appetite by business unit, and managing the mitigation measures and action plans implemented at CLH.
- **Internal Control:** responsible for monitoring "internal operational risks", which are risks arising in the course of operation and for which mitigation actions may be established and controlled by the Company.
- **Internal Audit:** responsible carrying out tests based on the risks identified.
- **Tax:** responsible for executing the tax-related Risks Management System.

Because not all risks are the same and given the complex nature of the market, the tolerance level varies according to the Company's risk appetite, and risks are therefore assessed at an operational, strategic and tactical level.

Mitigation measures are defined according to their probability, impact and trend. Four alternatives are considered to respond to the risk:

- Mitigate (control/reduce): develop actions to limit the risk to an acceptable level.

- Accept (accept/retain): the inherent risk is accepted and no further actions are taken.
- Transfer (insure/outsource): the risk is controlled by purchasing insurance or transferring the process or service to a third party.
- Avoid (avoid/eliminate): the process or service associated with the risk identified is stopped.

Risks for which the response is “Mitigate (control/reduce)” and which are connected with internal operational risks, are applied CLH’s internal control system, which aims to establish and formalise internal controls which help to mitigate them in the different processes.

2. Internal Control System

Internal control at CLH is based on the 2013 COSO framework (Committee of Sponsoring Organisations of the Treadway Commission), which provides guidance for companies based on best practices for risk management and control. It is globally accepted by most compliance-related regulatory authorities.

Internal control is broadly defined as a process, effected by an entity’s Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations: control activities related to the effectiveness and efficiency of the entity’s operations, including operational and financial performance goals and safeguarding assets against losses or fraud.
2. Reliability of financial reporting: activities related to internal and external financial reporting, including reliability, timeliness, transparency or other terms as established by regulators, standard setters or the entity’s policies.

3. Compliance with applicable laws and regulations: control activities related to adhering to laws and regulations that the entity must follow and adhere to.

The Enterprise Risk Management methodology described is used to identify the main potential risks that may, individually or in the aggregate, give rise to a significant deviation from the business objectives.

A suitable assessment of internal operational risks is carried out by the Internal Control department, which makes sure that sufficient internal controls exist. This assessment allows a clear picture to be obtained of how risks are being deal with by clearly described and documented internal controls.

2.1. Entity Controls

Entity controls put in place by the Company ensure consistent and general application of the guidelines throughout the business units. Entity controls are promoted by the management and are considered “fundamental principles” or the basis on which CLH operates. They include matters related to the control environment and ensure the existence of a code of ethics and conduct (“Code of Ethics”), proper monitoring of risks, employee training and the existence of whistleblowing lines, inter alia. The Internal Control department is responsible for ensuring that they exist and are documented.

Entity controls include, but are not limited to, matters related to the financial reporting process, such as:

- **Code of Ethics and Conduct and anonymous reporting lines.**

The CLH Code of Ethics is mandatory for every Company employee and executive, who must sign it to acknowledge that they understand and accept the Code.

The Code of Ethics contains the fundamentals of all our business processes and is therefore continuously reviewed to integrate new topical issues, to introduce greater clarity on the subject of conflict of interest, to better structure

the document and to make the content more reader-friendly. In addition, it has specific sections addressing human rights, money laundering, handling of confidential and/or inside information and in relation to financial controls and records, inter alia.

The Audit Committee, the Corporate Governance Committee and the Board of Directors of CLH ultimately help to ensure compliance therewith.

The CLH business units have a local ethics committee (“Ethics Committees”) responsible for communicating, monitoring and enforcing the matters included in the code.

CLH has a whistleblowing line called ETHOSLine, through which employees are invited to report cases of deviation from the Code of Ethics, including matters related to financial reporting processes. Anonymous reporting is always available via telephone, online (<https://www.tnwgrc.com/CEMEX/>) and by email. This line is managed by a third-party provider who forwards reports or comments received to the Ethics Committees or to the Audit Committee, as appropriate.

Reports received on accounting and financial reporting processes are sent directly to the Audit Committee Chair; and reports relating to other matters are submitted to the Ethics Committee of the relevant business unit and to Internal Audit.

Additionally, there are other independent mechanisms to submit reports and complaints, including, but not limited to, the following:

- Website for suppliers:
<https://www.CEMEX.com/es/proveedores/resumen#abasto-línea-directa>.
- Messages sent directly to the Audit Committee Chair.
- Messages sent directly to Ethics Committees or to the Ethos Committee (Global).
- Messages sent directly to the Internal Audit and Internal Control areas.

- Other reporting channels, e.g. reports eventually submitted by clients and suppliers or direct reports to Ethics Committee members.

The status of investigations is periodically reported to the Audit Committee at CLH.

- **Organisational structure and responsibilities for the financial statements**

The following bodies are responsible for compliance and for ensuring that the financial statements are reliable:

Board of Directors: ultimately responsible for ensuring that the financial information the Company must publish from time to time fairly presents the Company's equity, financial position and performance, as provided for in the applicable laws.

Audit Committee: responsible for overseeing the efficiency of (i) the Company's internal control, (ii) internal audit, and compliance with its plan, which must contain the business risks and fully assess all the Company areas, (iii) the risk management systems, including tax risks, and for (iv) discussing with the auditor any significant internal control system weaknesses uncovered in carrying out its procedures.

Internal Control: responsible for properly assessing internal operational risks, including financial risks, making sure that sufficient internal controls exist to mitigate those risks.

Business Service Organisation (BSO): responsible for preparing the financial statements and executing the Company's internal controls and policies, including, but not limited to, authorisations, reconciliations, trend analyses, which serve to ensure that the financial information is reasonably presented and disclosed.

Accounting Technology: a group of expert accountants responsible for overseeing, disclosing and properly applying the accounting principles.

Additionally, they monitor and assess impacts by adopting new standards and updating the Company's accounting policies.

Compliance Officer: in charge of strengthening, executing and overseeing good corporate governance policies, and discharging, inter alia, the duties established in the Regulations of the Board of Directors.

Internal Audit: responsible for audit processes on existing controls, through an internal audit and revision schedule approved by the Audit Committee.

- **Training to properly apply accounting principles and required regulations**

The business units at CLH, through the Human Resources area, have in place formal recruitment practices to ensure that new employees are qualified to carry out job-related activities, considering the required profile, educational background and skills.

The accounting standards, policies, controls and procedures of the different areas of the organisation are documented and published in the CLH Policy Centre.

Employees are regularly trained and assessed based on metrics set having regard to their role and job performance objectives.

2.2. Mechanisms for capturing and preparing financial information

The information is managed on a same platform under the accounting system (SAP) that each country's BSO is in charge of, which allows tighter control of standardised processes to be guaranteed. In addition, the process has system access monitoring controls, guaranteeing a proper segregation of duties and appropriate authorisation levels.

The financial information consolidation process carried out by the BSO and certified by Accounting Technology is performed in a single system called "Hyperion Financial Management or HFM", supported with security levels,

segregation of duties and automatic control mechanisms that enable data entry integrity and reliability to be monitored.

In addition, the existence of the same chart of accounts for all CLH companies expedites consolidation and reporting (information) generated for all entities requiring the information.

2.3. Control Activities

Controls are designed and implemented for each of the internal operational risks identified according to criticality. Risk mitigation relies on a proper execution of the controls by risk owners. The controls are related to specific process steps and are commonly linked to policies and procedures.

The Company issues narratives with a detailed description of each process step and including:

- Flow diagrams to represent processes, including process inception, required authorisations, owners, internal controls and systems involved in the process.
- Diagrams of financial information interfaces between the systems involved in the process, including existing controls to ensure complete and accurate transfer of the information.
- Control matrices describing what is expected of the person executing the control, such as control objective, risk to be mitigated, execution frequency, owner, financial statement assertions, manual/automatic control, preventive/detective control, and specific evidence to be kept.
- Control narratives and matrices are kept up to date and are available at the CLH Policy Centre.

An important set of controls are those classified as Information System (IT) controls. These are classified as *general* controls and *application* controls and are monitored for all systems supporting operational processes, including those used for generating financial reports. *General IT* controls are controls related to administration of equipment and servers, information back-ups, infrastructure,

handling of security, software acquisition, development and maintenance. *Application* controls are embedded in the applications (e.g. SAP, Hyperion) and focus on the integrity, accuracy, authorisation, capture validity and processing of information through the systems.

2.4. Internal Audit

The Company continuously carries out internal audits of all its business units. Some are “recurring” audits, meaning that the process audits are systematically and continuously carried out.

The internal audit procedures are performed by an expert team who report to the CLH Audit Committee. Those procedures include detailed monitoring of the processes involved in preparing and reporting financial information and controls related to the operation.

The Internal Audit department develops a risk-based annual plan, ensuring that all operating units are tested from time to time to keep up the Company’s standard.

The audit results are shared with the process owners, the senior management and the Internal Control team. Commitments are established for the remediation of reported weaknesses and a database is kept with deficiencies, identifying owners, remediation plans and expected remediation dates.

The internal audit programme and the audit results are reported to the Audit Committee for approval.

For the audit tests performed at CLH in 2018, a new procedure was followed to include the Company’s strategic risks and those identified by ERM, Internal Control, Tax, and Legal, in accordance with the assurance map defined by the Company and approved by the Management and the Audit Committee. Additionally, during 2018, Internal Audit implemented the Standards required by the Institute of Internal Auditors (IIA) which conducted a GAP Analysis, with

satisfactory results. The gaps identified were closed and the certification was obtained in the fourth quarter of 2018.

2.5. Reporting and Communication

Communication is of the essence for a proper execution of the internal control system. This implies ensuring that the Audit Committee, the management and those responsible for the business units are duly informed of internal control weaknesses and/or faults.

Internal control deficiencies are assessed to establish their importance, severity and the possible need for immediate action. They are detailed and their impact is assessed with the process owner to determine the need to be duly reported and/or escalated to the management and the Audit Committee, depending on their classification.

In order to comply with statutory regulations, the financial reporting deficiencies unveiled are classified according to their potential economic impact as control deficiencies, significant deficiencies and material weaknesses. A control deficiency occurs where a control does not work as devised or is not performed but reasonably mitigates the risk. Significant deficiencies are deficiencies that individually or together with other deficiencies are sufficiently important and must be reported to the Audit Committee. A material weakness reflects an important possibility of a material error in the Company's financial statements and must be reported in a public report submitted by CLH to the stock exchanges.

Based on the internal audit results obtained, the Internal Control department agrees with the various owners such actions as are considered most appropriate to mitigate the risks uncovered and prevent their future occurrence.

2.6. Activities Outsourced to third parties

For processes outsourced to third parties, agreements are entered containing provisions in relation to the following, without limitation:

- The obligations and responsibilities taken on by each party.

- The levels of communication and notices to be exchanged by the parties.
- Billing conditions or terms, payment terms, etc.
- The applicable confidentiality rules.
- Penalties, if any, in the event of breach by one party.

Where the preparation of financial information has had to be outsourced to an independent expert (actuarial calculations, valuation of fixed assets, etc.), the Company makes sure that the professional's standard of technical competence and their support as a supplier meet the required needs, preferably selecting suitably certified firms.

CLH has IBM as its outsourced service provider, in charge of IT administration and service transactional activities which are part of the financial reporting process for all operating units.

The IBM service centres must keep a suitable control level and are required to comply with the Code of Ethics, internal controls and policies for the execution of the tasks assigned. They are included in the activities to monitor Internal Control and the internal audits.

3. Internal control system improvements 2018

The focus on Internal Control best practices resulted in preventive monitoring being implemented in Colombia, Panama, Costa Rica, Guatemala and El Salvador in order to carry out control design tests for different operational and support processes, including those connected with the financial statements. Training was provided and communications were made for a proper execution of controls, identifying root cause and opportunities for improvement in order for those controls to be effective. Bearing in mind Nicaragua's social and political circumstances during 2018, the preventive monitoring visit was rescheduled for the year 2019.

Additionally, a policy and control retraining campaign was embarked upon during the year 2018 (Guidelines, financial reporting controls, user profiles, segregation of duties and critical transactions) with the aim of improving process owner self-control

in operations, BSO and Supplies. During 2018, 355 persons from operating and support processes were trained.

Process	Colombia	Panama	Costa Rica	Nicaragua	Guatemala	El Salvador	TOTAL
Cement	43	4	21	2	21	-	91
Concrete	34	18	-	4	16	-	72
Logistics	15	5	7	-	14	2	43
Supplies	14	1	3	1	5	-	24
Aggregates	21	3	-	2	1	-	27
Accounting	5	5	5	4	10	3	32
Business Administration	6	6	4	3	3	2	24
Costs	1	5	1	3	4	1	15
Accounts Payable	3	2	3	2	3	1	14
Fixed Assets	3	1	2	2	2	3	13
TOTAL	145	50	46	23	79	12	355

During the year 2018, communications were sent out through the ethics committee to promoting a culture of using whistleblowing lines, where required. In addition, our management designed and implemented certain financial reporting internal controls based on our risk assessment and the monitoring of unusual significant operations to address the significant weakness reported in the years ended 31 December 2016 and 2017, including, but not limited to, the following:

- implementation of a new approval policy for unusual significant operations occurring at operating subsidiaries,
- a CAPEX committee at CLH to supervise investment projects, which is supplemented with a corporate committee at CEMEX when the materiality threshold of USD 25 million is exceeded,
- improvements to our internal audit procedures, and
- improvements to our current monitoring controls.

As a result of these activities and a boost to the control environment, the following was achieved:

1. Reduction of manual procedures in payment processing. The use of manual cheques was eliminated and automated protocols were established to process urgent payments.
2. In Colombia, internal controls in accounting and payment process achieved satisfactory results in the audits, their compliance level respectively increasing by 41% and 23%.
3. As a result of the implementation of the IICS (Integrated Internal Control System) monitoring tool, the process owner response rate to remediation plans increased by 54%.
4. As for the implementation of remediation plans derived from the audits performed, an implementation rate of 94% and 93% was achieved for Operating and BSO processes, respectively.
5. CLH informed that the company's internal audit function received the international certification issued by the US Institute of Internal Auditors (IIA), which proves that the functions meet international standards to perform assessments transparently and independently.
6. CLH put in place a training plan on the Code of Ethics, achieving a total audience of 332 employees from countries in the region, focussing on the first three tiers of the organisation.
7. Our health and safety indicators show positive results, and we have succeeded in reducing the lost time injury incidence rate (per million hours worked) by 13%, lost time accidents by 17%, and the number of fatalities by 66%.

4. Financial Reporting Assessment for the financial year 2018

During the year 2018, the Audit Committee has discharged financial reporting duties and responsibilities established in the Company's Internal Regulations, and has as a result taken the following actions:

- The Committee reviewed the individual (separate) and consolidated financial statements prepared under IFRS ("IFRS") which, upon being approved by the

Board of Directors, were submitted by the Company to the Colombian Financial Authority (“SFC”), in accordance with the provisions of instruction 10 of External Circular no. 004 of 2012, dated 9 March, establishing regulations for periodic material information reporting by securities issuers entered in the National Registry of Securities and Issuers of Colombia.

- The Committee, specifically in regard to the continuous efforts to remedy the irregularities that occurred in the process to buy land and other assets linked to building of the Maceo plant, and taking into account investigations and internal audits, and the external advisers’ findings, revised and approved the activities intended to remedy the internal control weakness in connection with significant unusual transactions, which CEMEX Group and CLH have defined as a material weakness. These activities include a new approval policy for significant unusual transactions, setting up a CAPEX committee at CLH and CEMEX to oversee major investment projects based on materiality, and strengthening internal audit procedures and improving existing monitoring controls so that they operate at a sufficient level of precision. These remedial activities have been implemented in full and their effectiveness will continue to be assessed during 2019.
- In addition, during the financial year 2018, the Audit Committee:
 1. Approved the Internal Audit area’s work plan and budget for that financial year, including processes related to financial reporting.
 2. Revised the progress of and compliance with the Internal Audit programme.
 3. Has been informed of and has monitored the results of the internal audits carried out during the year.

5. Risk factors

5.1. Main risks potentially affecting the achievement of business objectives.

At 31 December 2018, the following are the most important risks set out in the ERM matrices potentially impacting CEMEX and CLH:

1. Competitive dynamics and changes thereto due to new entrants, imports, production capacity in excess of market demand and vertical integrations.

2. Legal cases related to investigations, sanctions and other claims.
3. Communication and image. Damage to the corporate image resulting from investigations in connection with anti-competitive practices, anti-corruption, tax, litigations and legal contingencies.
4. Operational continuity. Primarily affected by employee Safety and Health, the state of production equipment, communities, environmental regulations and the new trend in cyber-attacks.
5. Environmental regulations. New laws or reforms may affect the useful life of cement plant limestone mining concessions. In addition, international laws sanctioning relevant third parties, governments or states may prevent business continuity.
6. Corporate Control and Governance. Inobservance of human resource policies and procedures, Code of Ethics, corruption practices, financial reporting internal control system, and the handling of inside information, by both employees and suppliers, contractors and clients.
7. Unmanageable exogenous effects such as macroeconomics, elections and climate change.
8. Suppliers and procurement in particular in connection with management of and compliance with agreements for the supply of services, raw materials and quality in the supplies in low-cost country purchases.

5.2. Economic loss risks detected during the financial year.

During the financial year, risks inherent in the business, the Company's activity and the market environment have materialised, as a result of events specific to the conduct of business and economic circumstances. The following were the most relevant risks.

- Competitive dynamics during 2018 turned out to be more complex, and risks linked to imports, pricing pressures and changes in production capacities materialised. In particular, the most significant impacts were the stagnation of macroeconomic fundamentals in Colombia and the delayed start to fourth generation infrastructure projects (4G); a significant increase

of imports in Panama and Guatemala by non-traditional players; the entry of an additional competitor in the Costa Rican market, resulting in a loss of market share. As part of the mitigation plan, sales have been reinforced with a commercial digital strategy, multiproduct sales solutions have been implemented, CEMEX's pricing strategy has continued and operational excellence continues to be encouraged.

- Damage to the company's image due to greater media exposure, public opinion, among other reasons due to the anti-competitive investigations of local and anti-corruption authorities of the U.S. Department of Justice (or the "DOJ"), the U.S. Securities and Exchange Commission (or SEC) in Colombia and Panama mainly. Routine anti-corruption and anti-bribery training has been provided to all personnel working in the company and internal controls are in place and permanently executed in order to mitigate improper conduct by employees.
- Greater scrutiny by the Colombian tax authority (DIAN), which commenced compliance proceedings for the income tax returns in the years 2011-2012. The Management is currently addressing the respective proceedings with the tax authority.
- Legal cases related to building of the new Maceo plant in the department of Antioquia in Colombia, including in relation to the DOJ's and the SEC's investigation proceedings against CEMEX, CLH's parent, for irregularities arising in connection with building of the plant.
- Nicaragua's political and social crisis has brought all of the country's economic branches, including construction, to a standstill, and has resulted in stagnation of the cement market and a 14% fall in company sales. The estimate is that the country's GDP shrunk by 4% in 2018 and that this trend will continue in 2019.
- Demand weakness in countries such as Colombia, Panama, Costa Rica and Nicaragua as a result of the construction sector having fallen in the

residential, commercial and industrial building segments, in addition to the delay in the commencement of important infrastructure projects.

- Impact in the cost of production due to the rising cost of raw materials such as coal and pet-coke, the foregoing as a result of price increases in the international markets. The Management is taking steps such as the use of alternative fuels, signature of long-terms rolling contracts for the supply of energy and fuels, development of processes and products to reduce heat consumption in furnaces, and hedging coal and diesel in the financial markets in order to reduce their price volatility.

6. External auditor's report

CLH is a subsidiary company of CEMEX, whose parent CEMEX S.A.B. of C.V is listed on the Mexican Stock Exchange and the New York Stock Exchange (NYSE), and consequently adheres to Mexican and US securities regulations, including the Sarbanes-Oxley Act of 2002. The business units making up CLH have internal control processes and mechanisms to disclose and certify the truthfulness of financial information.

The information on internal control systems and risk management in relation to the process to issue financial information submitted to the markets at CLH has not been audited by the external auditor. The external auditor audits the financial information taken from the consolidated financial information in the countries making up CLH in order to be able to issue an opinion as to whether the consolidated financial statements of CLH fairly present its financial position. The audit opinion is attached to the Consolidated Financial Statements of CLH and was satisfactory.