

Risk management and internal control systems in relation to the financial reporting process

-Financial year ended 31 December 2019-



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1. ENTITY CONTROL ENVIRONMENT

1.1 Bodies responsible

The following are the main features of the bodies and/or functions responsible within CEMEX Latam Holdings, S.A. and group companies (the “Company”, “CEMEX Latam” or “CLH”) for: (i) the existence and maintenance; (ii) implementation; and (iii) supervision of a proper and effective ICFR:

- **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 oversight of the financial reporting preparation and presentation process and financial reporting integrity and the effectiveness 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 discussing any significant internal control system weaknesses uncovered in the course of its procedures with the auditor and supervising the anonymous whistleblowing mechanism.
- **Corporate Governance Committee:** responsible for driving the corporate governance strategy, monitoring compliance with the internal codes of conduct and the corporate governance rules, driving, providing guidance on and overseeing action in relation to corporate reputation, and revising internal regulations from time to time.
- **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, 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 CEMEX Latam.

- **Internal Control:** responsible for duly assessing internal operational risks, including financial risks, ensuring that appropriate internal controls exist to mitigate such risks.
- **Internal Audit:** responsible for assessing effectiveness of controls in the processes which are part of the work plan for the year approved by the Audit Committee.
- **Tax:** responsible for executing the tax-related risks management system.
- **Business Service Organisation (BSO):** responsible for preparing the financial statements and executing the Company's internal controls and policies, which serve to ensure that the financial information is reasonably presented and disclosed.
- **Accounting Technology:** a group of accounting experts responsible for overseeing, disclosing and properly applying the accounting policies.
- **Compliance Officer:** in charge of strengthening, executing and overseeing the good corporate governance policies and discharging, inter alia, the duties established in the Company's internal regulations.

1.2 Financial reporting process elements

The entity controls established by the Company ensure that guidelines are consistently and generally applied in all the business units. The Internal Control department is responsible for ensuring their existence and documentation.

- **Code of Ethics and Conduct and anonymous whistleblowing line**

Compliance with the CLH Code of Ethics is mandatory for all Company employees and officers, 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 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.

CLH business units have a local Ethics Committee (“Ethics Committees”) responsible for communicating, monitoring and enforcing the code.

CLH has a whistleblowing line called ETHOS Line, through which employees are invited to report cases of deviation from the Code of Ethics, including matters related to financial reporting processes. An anonymous reporting option is available by 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 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 within the relevant business unit and to Internal Audit.

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

- **Training to properly apply accounting policies and 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 all 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. FINANCIAL REPORTING RISK ASSESSMENT

2.1 Main features of the risk identification process

CLH’s risk management system (ERM – Enterprise Risk Management) is a supervisory process based on Standard ISO 31000 and COSO 2013 (Committee of Sponsoring Organisations of the Treadway Commission) for identifying, assessing and mitigating 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 Risks Committees, the Audit Committee and, ultimately, with the Board of Directors.

Internal and external risks identified that may impact the Company are classified based on their nature, into the following categories:

- Strategic
- Financial
- Tax
- Internal operational
- Political, economic and social
- Noncompliance with laws and regulations

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, taking into account each operating unit's environment and objectives.

Based on probability, impact and trend, four alternatives are considered to respond to the risk: mitigate, accept, transfer or avoid. Risks for which the response is "mitigate" and which are connected with internal operational risks, are applied CLH's internal control system, which aims to establish and formalise the different process activities required to deal with and reduce the associated risk.

- **Main Risks CLH 2019**

Competitive dynamics and market changes

CLH operates a diversified portfolio. However, worldwide trade uncertainty and a slow economic recovery during 2019 impacted the demand for building materials in several countries and very significantly operations in Costa Rica and Panama. Accordingly, various mitigation measures have been implemented focussing on strengthening the value offer and continuously improving customer experience.

Tax authority scrutiny

Tax authority scrutiny persisted in several countries. Tax returns for the years 2009, 2011 and 2012 are being checked for tax compliance in Colombia by the National Tax and Customs Directorate (DIAN). The Management is currently seeing to the respective processes before the tax authority.

Economic, political and social risks

Operating in several countries has various direct and indirect economic, political and social implications for the Company. During 2019, there were elections, trend changes and social unrest issues in some countries, with demand implications which adversely impacted Nicaragua. In turn, conditions were favourable for other business units driven by infrastructure projects and residential building activity, with positive effects for instance in Colombia. Although it has no control in this field, the Company promotes building solutions and services with a social impact. The Company is involved in the development of infrastructure works promoting mobility and contributing to the economic performance of countries.

Operational continuity

The failure to ensure the productive efficiency of equipment, lower cost of supplies, long-term reserves, licences and permissions could adversely impact operating costs and financial performance. Faced with this risk, the Company mitigates the impacts through different negotiation strategies, use of alternate fuels, securing reserves and changes in raw materials and spare parts supplies from low-cost vendors. Additionally, research and

development for innovatory solutions is encouraged to decrease the carbon footprint and risk.

New policies and changes in environmental regulations

The inability to achieve and sustain environmental standards exposes the Company to regulatory sanctions, conflicts with communities where it operates and reduced access to resources. This is mitigated by strictly controlling regulatory compliance, investing in emission reduction technology and constantly monitoring the same.

Corporate governance and control

The Company is exposed to a broad range of regulatory frameworks including topics related to the ethical conduct of officers and employees. Accordingly, being a publicly listed company, CLH has a comprehensive list of compliance tests in place aligned with the requirements of each country and applicable international laws. This heading covers the investigation which the U.S. Securities and Exchange Commission (“SEC”) began in December 2016 and in which it subpoenaed CLH’s parent company, CEMEX, S.A.B. de C.V., seeking information to determine whether violations of the Foreign Corrupt Practices Act had occurred concerning the Maceo Project in Colombia. The subpoena does not mean that the SEC has concluded that CEMEX, S.A.B. de C.V. or any of its subsidiaries violated the law; the U.S. Department of Justice (“DOJ”) also opened an investigation into this matter in March 2018. The Company monitors those investigations and promotes ongoing training for all employees to adhere to the Code of Ethics.

Cyber attacks

A cyber-attack event may result in critical technological infrastructure being brought down, data loss or manipulation and reputational damages. Continuously investing in state-of-the-art technology and continuously improving the establishment of policies, procedures and compliance with standard internal control protocols are part of the actions the Company has implemented to reduce the impact.

Liquidity and credit rating

The absence of liquidity due to different trade factors, sanctions or increased costs of supplies may affect the Company’s ability to meet its operating and financial obligations.

The Management of CLH mitigates potential effects by implementing internal controls, communication plans, monitoring to ensure that suitable cash levels are in place in each operating unit and continuously looking for bank or exchange credit options.

Unmanageable exogenous effects

Conversion to the reporting currency and movement of interest rates affect the financial results and the market valuation of financial instruments. Exposures are mitigated by handling fixed and floating rates, and constantly assessing the potential use of financial derivatives, foreign-currency insurance and other instruments.

- **Other risks – Coronavirus Pandemic**

In addition to the above risks, CLH considers that the new coronavirus (COVID-19) has already adversely affected the industry in which it operates as a result of business being interrupted in certain countries and the impact on global economic activity.

Due to the above and recognising the importance of transparency, accuracy and precision in maintaining adequate internal controls, especially those related to financial reporting processes, CLH has taken actions including, inter alia, the implementation of new controls for emergency procedures, continuously monitoring institutional platform access controls and controls to mitigate a potential increase in the cyber security risk. It should importantly be noted that CLH has security controls for remote access to digital platforms compliant with the highest cyber security protocols, making use of certificates and a private virtual network, where we have 24x7 monitoring and visibility over traffic towards our network. Controls related to financial reporting processes executed from home through devices connected to the Company's networks are continuously monitored, also ensuring that access and segregation of duties controls remain effective. As of the date of this report, no disruptive changes have been identified in the Company's internal control structure and activities, and the financial reporting and audit processes therefore remain robust and timely. However, communication channels have been established between operations and the Internal Control area to identify cases which might require exceptions or alternate controls, in order for business continuity not to be affected.

Additionally, since the health and safety of our employees, contractors and providers is our main priority and also bearing in mind the rules issued by the various governments of the countries in which we operate, the Company has implemented an alternate audit plan to assess the effectiveness of controls remotely.

3. CONTROL ACTIVITIES

3.1 Financial reporting review and authorisation procedures and ICFR description

CLH's internal control system based on the COSO 2013 framework is broadly defined as a process undertaken by the Board of Directors, the Management and other entity staff, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Financial reporting reliability
3. Compliance with applicable laws and regulations

The Internal Control department carries out a suitable assessment of internal operational risks, ensuring the existence of appropriate control activities based on criticality.

The Company develops narratives describing in detail each step in the process, which narratives are available at the CLH Policy Centre.

An important set of controls are those classified as IT controls. These are classified as *general* controls and *application* controls, and are observed for all systems supporting the operational processes, including those that are used for generating financial reports.

CEMEX Latam carries out an annual exercise to ensure internal control over the financial reporting processes because, although the Company is not subject to the Sarbanes-Oxley Act (SOX), the Board of Directors decided in the year 2018 to implement and review the methodology for compliance therewith. As a result, activities related to financial reporting processes are preventively monitored on a yearly basis by the Internal Control area, with the aim of ensuring their correct design and implementation. In addition, these control activities are also evaluated every year, within the scope of the internal audits carried out, and the Company issues the relevant opinion as to their effectiveness.

- **Internal control system improvements 2019**

The focus on Internal Control best practices resulted in the Company's business units being preventively monitored in order to test control designs for different operational and support processes, including those related to the financial statements.

Additionally, policy and control training campaigns continued during the year 2019 in order to improve process owner self-control. During 2019, 206 operational and support process employees were trained.

Process	Colombia	Panama	Costa Rica	Nicaragua	Guatemala	El Salvador	TOTAL
Cement	15	3	4	12	1	-	35
Concrete	2	3	5	8	1	-	19
Logistics	11	8	6	8	1	-	34
Supplies	-	9	3	5	-	-	17
Aggregates	2	-	-	-	-	-	2
BSO	34	15	17	19	1	6	92
Human Resources	-	3	2	2	-	-	7
TOTAL	64	41	37	54	4	6	206

The Management continued executing and monitoring certain internal controls over the financial reporting processes to remedy the weaknesses reported in previous years, including, but not limited to, the following:

1. In 2019, satisfactory results were obtained in the Accounts and Accounts Payable process audits, the average result achieved being an 87% compliance level.

Process	Colombia	Panama	Costa Rica	Nicaragua	Guatemala	El Salvador
Accounts	92	N/R	98	80	N/R	95
Accounts Payable	96	N/R	93	74	N/R	83

N/R: not rated. The audit carried out was of limited scope.

2. As for the implementation of remediation plans resulting from the audits carried out, 89% and 90% implementation had been achieved by the end of December 2019 for

Operational and BSO processes, respectively. The outstanding remediation plans are in process of execution with set dates which are monitored on a monthly basis.

3. CLH continued with the Code of Ethics training plan, achieving during 2019 a total audience of 1,345 participants from countries in the region, hosting ETHOS line and Code of Ethics sensitisation sessions. Additionally, digital signatures were obtained regarding awareness of the Code of Ethics by 1,650 employees in CLH countries.

3.2 Internal Control policies and procedures on information systems supporting relevant entity processes related to preparation and reporting of financial information

The information is managed on a same platform under the Accounts system (SAP) that each country's Business Service Organisation (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 (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) system generation for all entities requiring the information.

3.3 Internal Control policies and procedures for monitoring management of outsourced activities, and assessment, calculation or valuation aspects entrusted to independent experts, which may materially affect the financial statements

For outsourced processes, agreements are entered into 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 the parties.

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 professionals' standard of technical competence and their support as a supplier meet the required needs.

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, policies and internal controls for the execution of the tasks assigned. They are included in the activities to monitor Internal Control and the internal audits..

4. INFORMATION 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 and the possible need for immediate action. In order to comply with statutory regulations, the deficiencies

uncovered in the financial reporting preparation processes are classified according to their potential economic impact as:

- Control deficiencies: these occur where a control does not work as devised or is not properly performed, but reasonably mitigates the risk.
- Significant deficiencies: these are deficiencies that individually or on aggregate are sufficiently important and must be reported to the Audit Committee.
- Material weakness: this reflects an important likelihood of a material error in the 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.

5. MONITORING SYSTEM OPERATION

5.1 Audit Committee ICFR monitoring activities

During the year 2019, the Board of Directors, the Audit Committee and the Management have discharged the financial reporting duties and responsibilities established in the Company's Internal Regulations:

- 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 9 March 2012, and the Committee has been duly informed by the external Auditor about the relevant aspects of the financial statements.
- The Committee, specifically in regard to the continuous efforts to remedy the internal control weakness revealed with reference to unusually large transactions, reviewed and approved the remedial activities, which have been fully implemented and their effectiveness has been assessed and strengthened during 2019.
- In addition, it has overseen the process to implement and review controls within the scope for compliance with the SOX Act.

- The Management and the Board of Directors are committed to maintaining a strong and sustainable internal control environment over financial reports. Other than for the internal controls implemented to deal with previous year weakness described above, no internal control changes have been identified during 2019 which have materially affected, or could reasonably materially affect, the internal controls over financial reports.
- In addition, during the year 2019 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. Reviewed the progress of and compliance with the Internal Audit area work plan.
 3. Has been informed of and has monitored the results of the internal audits carried out during the year.
 4. Has monitored the risk identification and risk management and control processes.

5.2 Discussion procedure between the external auditor, the Internal Audit function and other experts to communicate the material internal control weaknesses uncovered and action plan

The Company continuously carries out internal audits of all its business units. The Internal Audit department develops its annual plan relying on a risk-based audit methodology. The internal audit procedures are performed by an expert team, who report to the CLH Audit Committee. Those procedures include evaluating the Company's main mission process controls, some of which are related to the preparation and reporting of financial information, and other controls are related to the operations.

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 and information, respectively.

6. EXTERNAL AUDIT REPORT

CLH is a subsidiary company of CEMEX, whose parent CEMEX S.A.B. de C.V. is listed on the Mexican Stock Exchange and on 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 CLH information on risk management and internal control systems in relation to the financial reporting process submitted to the markets has not been audited by the External Auditor. The External Auditor audits the financial information taken from the consolidated financial information in the CLH countries 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.