Basis of Presentation (continued)

The annual accounts of the Company for the years ended December 31, 2021 and 2020 reflect the estimates approved by the Board of Directors to measure certain assets, liabilities and commitments disclosed therein. Estimates affecting the most significant items relate to impairment of investments in Group companies and associates, and the projections supporting recognition of tax credits for tax loss carryforwards.

(i) *Impairment of investments in Group companies and associates*

The Company tests investments in Group companies and associates for impairment on an annual basis when there are indications of impairment. Calculating the recoverable amount of these investments requires the Cemex Latam Group to use estimates. The recoverable amount is the higher of fair value less costs to sell and value in use. The Cemex Latam Group uses cash flow discounting methods to calculate these values, generally based on five-year projections in the budgets approved by the Cemex Latam Group.

The flows take into consideration past experience and represent management's best estimate of future market performance. From the final year cash flows are extrapolated using perpetual growth rates and, in certain cases, to calculate the residual value, cash flows are normalized. The key assumptions employed when determining fair value less costs to sell and value in use include growth rates, the weighted average cost of capital and a reasonably possible independent reduction of 10% in EBITDA (results from operating activities plus depreciation and amortization). The estimates, including the methodology used, could have a significant impact on values and impairment.

(ii) *Recognition of tax credits for tax loss carryforwards*

Tax projections are determined based on the budgets approved by the Board of Directors and other estimates prepared by the Company's different departments. These projections, which encompass a maximum period of 10 years, take into consideration past experience and represent management's best estimate of future market performance.

Although the estimates made by the Company's Board of Directors were based on the best information available at December 31, 2021, future events may require changes to these estimates in future reporting periods. Any effect on the annual accounts of adjustments to be made in subsequent years would be recognized prospectively.

(e) Going concern basis

The Company had negative working capital amounting to Euros 1,004 thousand at December 31, 2021 (Euros 1,278 thousand in 2020), including net current receivables from Cemex Group companies of Euros 1,159 thousand (payables of Euros 779 thousand in 2020). In addition, at December 31, 2021, its losses amount to Euros 21,632 thousand (Euros 18,334 thousand in 2020). Nevertheless, the Board of Directors has prepared these annual accounts on a going concern basis inasmuch as the Group to which the Company belongs has expressed in writing its commitment to provide any necessary financial support in the short term to enable the Company to honor all of its commitments and maintain the financial equilibrium required for it to continue operating as a going concern.

(3) Application of Loss

At their annual general meeting held on June 28, 2021, the shareholders approved the proposal made by the Board of Directors that the loss of Euros 18,334,268.74 for the year ended December 31, 2020 be carried forward as prior years' losses and subsequently offset with a charge to voluntary reserves.

The application of loss for the year ended December 31, 2021 proposed by the Board of Directors and pending approval by the shareholders is to carry forward the Euros 21,631,946.17 loss as prior years' losses and subsequently offset this amount with a charge to voluntary reserves.

The Company's freely distributable reserves are nonetheless subject to the legal limits. Dividends may not be distributed if equity would be less than share capital as a result. Moreover, the distribution of dividends by the Company with a charge to reserves is subject to the limits set out in the Framework Agreement, as explained in note 16.