

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

**-Financial year ended 31 December 2021-**



**May 2022**

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## 1. ENTITY CONTROL ENVIRONMENT

### 1.1 Corporate Governance

The Board of Directors and management of CEMEX Latam Holdings, S.A. and its group companies (“we”, the “Company” or “CEMEX Latam”) are committed to the highest standards of corporate governance. As a public company, it is imperative that we keep investors informed of all activities and our financial disclosures are expected to meet high-quality standards.

We are committed to abiding by the laws and regulations of every jurisdiction in which CEMEX Latam operates. The Company shares are listed on the Colombian Stock Exchange and therefore all applicable regulations and the requirements of the Financial Superintendency of Colombia are complied with.

However, CEMEX Latam recognises that adherence to the regulatory framework is not enough to manage an organisation. Beyond mere compliance, the commitment—to the Company, investors and all stakeholders—is to manage the Company with integrity.

The financial culture and management style are open and transparent. CEMEX Latam works to comply with the rules and guidelines established by the Company and related to significant investor protection and relations activity. The financial reporting meets high ethical standards.

### 1.2 Bodies responsible

The following are the main features of the bodies and/or functions responsible within the Company for: (i) the existence and maintenance; (ii) implementation; and (iii) oversight of a proper and effective internal control over financial reporting (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 condition 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, and monitoring the implementation of improvement opportunities established in the processes.
- **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.
- **Global Enterprise Services (GES):** 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.

### 1.3 Financial reporting process elements

CEMEX Latam carries out different activities to support the financial reporting process.

The following are the most relevant elements:

- On a monthly basis the GES area carries out the month-end close activities based on the timeline established and communicated to all areas involved in financial reporting.
- The GES area in each business unit sends the financial information for CEMEX Latam consolidation purposes.
- The GES area carries out several control activities such as reviews, authorizations and trend analyses in order to ensure reasonability in financial reporting presentation and disclosure.
- The Company has controls for the review, analysis and justification of manual accounting adjustments, provisions and estimates.
- CEMEX Latam has processes in place to revise controls over unusual events, authorisation and reporting of relevant transactions, as well as technological infrastructure and information system configuration controls.
- The GES area in each country holds meetings with the different areas in order to identify and analyse business changes or special transactions to establish their appropriate accounting treatment.
- The processing of financial information at CEMEX Latam is carried out through the institutional systems available at the Company (SAP and Hyperion Financial Management – HFM).

In addition, CEMEX Latam has entity-level controls established to ensure that guidelines are consistently and generally applied in all the business units. The following are the most relevant:

- **Code of Ethics and Conduct**

Compliance with the CEMEX Latam 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 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 CEMEX Latam ultimately help to ensure compliance therewith.

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

- **Ethos Line whistleblowing helpline**

CEMEX Latam 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.

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

- **Training to properly apply accounting policies and regulations**

The business units at CEMEX Latam, through the Human Resources area, have formal recruitment practices in place 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 Company's Policy Centre.

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

## **2. RISK MANAGEMENT**

### **2.1 Risk Management Process**

CEMEX Latam operates in a constantly evolving business environment which exposes the Company to various types of risks that could impact the achievement of strategic and operational objectives.

In order to maximise the creation of sustainable value for shareholders, the Company has an Enterprise Risk Management (ERM) framework in place establishing a proactive and structured approach to manage risks and capitalise on opportunities.

The risk management process is institutionalised in all operations and allows the Company's main risks to be identified, assessed, mitigated and monitored. This process lays emphasis on risk discussion by decision makers and risk oversight by the Company's Board of Directors.

Country-level operational unit risk agendas are developed at least four times a year and are submitted to the Senior Management and the Board of Directors for discussion and approval. These agendas include all types of risks, trends, emerging concerns and opportunities that could impact the Company in the short- (zero to two years), medium- (two to five years) and long-term (five to ten years).

Other risk management areas and processes within the Company supplement the risk management and oversight function, including: Process Assessment, Internal Control,

Legal and Compliance, Financial Risk Management, Insurance, ETHOS Compliance and Sustainability.

The risk management process is a systematic and continuous approach based on international best practices from the Risk Management Society (RIMS) and the Business Continuity Institute (BCI), and in turn with ISO 31000:2018-Risk Management standards and ISO 22300:2018-Business continuity management systems. In addition, the process is conducted in compliance with the Company's values, the laws of the countries where we operate and the Code of Ethics and Business Conduct.

Risk and opportunity developments are continuously monitored through a number of mechanisms and a broad range of reports. Any relevant change in the status of risks and opportunities is promptly communicated to decision makers.

## **2.2 Main risks and mitigation strategies**

The following is a brief description of some of the main short-, medium-, and long-term risks faced by the Company and their corresponding mitigation strategy:

### **Complex competitive dynamics**

The markets in which CEMEX Latam operates are highly competitive and are served by numerous industry players. Additionally, new entrants, increasing capacities and imports have caused and may continue to cause a supply-demand imbalance, affecting prices and sales. Some of these industry players could compete relying on a range of aspects, frequently using aggressive pricing strategies to increase their market share; the inability to compete effectively may result in the loss of a substantial market share and net sales could decline or grow at a slower rate, which could affect the business, financial condition and results of operations.

#### ***Mitigation actions:***

- Deliver superior customer experience enabled by digital technologies.
- Enhance business revenue streams.
- Foster growth of operating cash flows through margin enhancement.
- Optimise portfolio growth.



- Pursue operational excellence.

### **Energy price volatility, including alternative fuels**

Electric energy and fuel costs represent an important part of the overall cost structure of the countries where CEMEX Latam operates. The price and availability of electric power and fuels are generally subject to market conditions and may therefore impact costs and the results of operations. Furthermore, if third-party suppliers fail to provide the required amounts of energy or fuel under existing agreements, it might be necessary to acquire energy or fuel at an increased cost from other suppliers. In addition, if efforts to use alternative fuels are unsuccessful due to their limited availability, absence of co-processing laws and/or regulations, price volatility or otherwise, CEMEX Latam would be required to use traditional fuels, which could increase energy and fuel costs.

#### ***Mitigation actions:***

- Increase use of alternative fuels.
- Secure long-term renewable energy and fuel contracts that not only provide clean energy but also certainty as to future costs.
- Develop processes and products to reduce heat consumption in kilns.
- Execute hedging for coal and diesel in the financial markets in order to reduce price volatility.
- Monitor new regulations, subsidies, obligations and taxes and participate as an industry in the improvement of regulations and/or applicable laws.

### **Lower availability or increased cost of raw materials**

Most business units increasingly use certain by-products of industrial processes produced by third parties, such as pet coke, fly ash, slag and synthetic gypsum, as well as natural resources such as aggregates and water. While the Company is not dependent on suppliers and actively seeks to secure the supply of the required materials, products and resources through long-term renewable contracts and framework agreements, short-term contracts are entered into in certain countries where

the Company operates. Should existing suppliers cease operations, reduce or eliminate the production of these by-products, should any suppliers for any reason not be able to deliver the contractual quantities of the by-products, or should the laws and/or regulations in any region or country limit access to these products, the costs of sourcing these materials could increase significantly or make it necessary to find alternative sources for these materials. In particular, scarcity and quality of natural resources (such as water and aggregates reserves) in some countries could also have an adverse effect.

***Mitigation actions:***

- Secure the supply of the required materials through long-term renewable contracts and framework agreements.
- Monitor global aggregates, limestone and natural resources reserves, identify critical levels and secure reserves in attractive markets.
- Monitor permitting processes and regulatory changes.
- Properly select appropriate suppliers and contractors with a proven track record and market credibility.

**Regulatory and compliance risks**

CEMEX Latam adheres to the laws and regulations of countries where it operates. Any change in such laws and regulations and/or their interpretation by the government and/or any delay in assessing the impact and/or adapting to such changes may result in costs, fines and penalties. Some of these laws and regulations include, but are not limited to, areas such as anti-corruption, anti-bribery and anti-money laundering, information security, mining, transportation, taxes and employment, among others. In addition, CEMEX Latam considers that the potential breach of rules and guidelines established by the Company and related to significant investor protection and relations activity is a risk.

***Mitigation actions:***

- Comply with laws and regulations.

- Continuously enhance CEMEX Latam's Compliance program: New and updated policies and continued training.
- Ensure compliance with regulations and financial reporting, the quarterly report on changes in risks and comply with the shareholder communication policy and market publications of quarterly reports.
- Comply with the Code of Ethics and Business Conduct which addresses areas such as anti-bribery, related-party transactions, health and safety, environmental liability, information confidentiality, conflicts of interest, financial controls and preservation of assets.
- Continue campaigns to promote strict compliance with the Code of Ethics and Business Conduct, including electronic platform training.
- Increase internal controls through continuous audits and controls to prevent employee and third-party misconduct.
- Incorporate compliance-related initiatives in the management of third parties.
- Monitor potential new regulations.

### **Political uncertainty and social instability**

CEMEX Latam is subject to the political and social environment of the countries where it operates. Any political, geopolitical or social event that affects a country's economic development, business environment or triggering significant changes in its public policies, laws, or regulations, has the potential to affect the business, financial condition and results of operations.

New governments and elections in the countries where we operate, in addition to other political and geopolitical events, trade conflicts, social unrest and political instability in CEMEX Latam countries, have had and may continue to have a negative impact on the economy, financial markets, social stability and business environment, which could affect the Company's results and prospects.

#### ***Mitigation actions:***

- Build long-term relationships with stakeholders.
- Implement strategies tailor-made for each country.

- Continue operating business continuity plans to minimise operational disruption.
- Continue implementing security protocols to protect employees.
- Monitor and plan scenarios to anticipate risks and opportunities, including the implementation of taskforces to address risks.

### **Operational disruption due to ESG and external stakeholders**

In the countries where we operate we are subject to environment, social- and governance-related (ESG) laws, regulations, practices and stakeholders' demands, which have become and may continue to become increasingly strict as public attention and expectations are heightened. Sustainability areas include, but are not limited to, the following: climate change, air emissions, waste management, community engagement, human rights, biodiversity, water management, health and safety, talent retention, diversity and inclusion, information disclosure, management performance and board composition. Non-compliance with or adherence to and changes in such laws, regulations, practices and stakeholders' expectations and/or their interpretation by any relevant stakeholder and/or any significant delay in assessing their impact and/or adopting such changes may result in potential cost increase, fines, penalties, restrictions on production facilities, reputational damage, loss of customers, difficulty to retain or attract talent, investor activism, among other consequences, which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Although significant efforts are made to maintain good long-term relationships with the communities and governments in the places where operations are carried out, there can be no assurance that those stakeholders will not have different, or at times conflicting, interests or objectives from those of the Company. This could result in delays in legal or administrative proceedings, unrest or negative media coverage, as well as in requests for the government to revoke or deny concessions, licences or permits. Any such events could affect the business, reputation, liquidity and results of operations.

***Mitigation actions:***

- Comply with local and ESG laws and regulations.
- Engage with communities and key stakeholders for increased communication and risk mitigation.
- Have a social impact strategy in place and adhere to high social responsibility standards.
- Implement sustainable engagement plans to build mutually beneficial long-term relationships with key stakeholders.
- Ensure business continuity plans to minimise potential disruption.
- Have safety and protection plans in place with respect to employees, facilities and logistics routes.
- Actively cooperate with the United Nations through agencies such as Global Compact and the Office for Disaster Risk Reduction.
- Offer the anonymous ETHOSline service to report alleged ethics, compliance or governance violations.
- Have Sustainability Committees in place at regional level.
- CEMEX ESG Initiatives: Future in Action, Social Impact Strategy, Environmental Strategy, Climate Action Strategy, position papers, policies, information disclosure, communication campaigns.

**Uncertain economic conditions**

The business, financial condition, liquidity and results of operations are highly dependent on the economic conditions of countries where CEMEX Latam operates. Risks are faced associated to each country and region, as well as global economic risks. The main sources of risk include: rising inflation and the impact on policies to contain inflation, high energy and commodity prices, supply chain disruptions; global economic slowdown, sooner-than-anticipated economic downturn in some markets, stagflation, volatility in financial markets, increase in interest rates, foreign exchange volatility and depreciation of our market currencies against the US dollar; the cyclical activity of the construction

sector; changes in current trade policies; impact of Western financial and economic sanctions against Russia, political uncertainty and geopolitical risks, and the impact of epidemics or outbreaks of infectious diseases. The realisation of one or several of these risks could materially and adversely affect our business, financial condition, liquidity and results of operations.

***Mitigation actions:***

- Enhance margin through operating cash flow growth.
- Optimise our portfolio for growth.
- Execute financial strategy.
- Deliver superior customer experience enabled by digital technologies and CEMEX Go.
- Enhance revenue streams (core businesses, CEMEX Ventures).
- Maintain a strict cost discipline.
- Establish long-term contract to secure favourable logistics and energy costs.

**COVID-19 pandemic and other outbreaks of disease or similar public threat**

The COVID-19 pandemic and the measures implemented by some governmental authorities to contain and mitigate the effects of the virus have caused and may continue causing effects which include, but are not limited to, the following: employee health effects, temporary restrictions on production facilities, labour shortages, production decrease or shutdowns and customer dispatch system disruptions; supply chain disruptions or delays; reduced availability of overland and sea transportation; increased costs of materials, products and services on which businesses are dependent; widespread slowdown in economic activity, and financial markets volatility, among others. As a result of this, the activity in construction and the demand for the Company's products have been affected, and may continue being affected, and this means that there could be a material impact on the business, financial condition and results of operations. The degree to which COVID-19 or any other outbreak of disease or similar

public threat will affect results and operations will depend on the duration and spread of the outbreak, its severity, the actions taken to contain the virus or treat its impact, the deployment and effectiveness of vaccines, and how quickly and to what extent economic conditions may be improved, among other uncertain events.

Recognising the importance of transparency, accuracy and precision in maintaining adequate internal controls, especially those related to financial reporting processes, CEMEX Latam has identified financial reporting risks as a result of the pandemic. Those risks are identified as risks due to changes in current controls, cyber security, and processing of information in remote work. It should importantly be noted that, as of the date of this report, no disruptive changes have been identified in the Company's internal control structure and activities, and the financing reporting and audit processes therefore remain robust and on-time.

***Mitigation actions:***

- Adhere to the 52 protocols defined to safeguard the health and safety of employees and their families, customers, suppliers and communities.
- Continue operating under government guidelines of 'Safe and Essential Industry'.
- Enhance customer experience through proven e-commerce platforms and distribution network.
- Activate Rapid Response Teams and implement Business Continuity Plans to minimise operational disruption.
- Continue implementing the Social Impact Strategy.
- Execute a financial strategy to ensure liquidity and financial flexibility.
- Implement cost-saving initiatives and defer capital investments.
- Enhance controls for emergency procedures.
- Continuously monitor institutional platform access controls and controls to mitigate a potential increase in the cybersecurity risk.
- Monitor controls related to financial reporting processes executed from home through devices connected to the Company's networks, also ensuring that access and segregation of duties controls remain effective.

- Establish communication channels 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.

### **Financial risks**

The Company is exposed to different financial risks, including debt level, access to favourable refinancing terms, financial covenants and restrictions, exchange rates and interest rates, among others.

The failure to generate sufficient cash to comply with obligations or obtain refinancing on favourable terms —or on no terms— could result the inability to comply with payment commitments.

Devaluation or depreciation of any of the currencies of the countries where the Company operates, compared to the US dollar, could adversely affect the capacity to service the indebtedness or honour other financial obligations. In addition, the consolidated results reported and debt levels are significantly affected by fluctuations in the exchange rate of the CEMEX Latam countries and other international currencies.

#### ***Mitigation actions:***

- Adjust or refinance debt commitments to ensure financial flexibility and liquidity.
- Manage financing by issuing debt or raising capital.
- Manage liabilities.
- Execute foreign exchange rate and interest rate hedging strategies.

### **Talent retention and attraction**

Retaining and attracting the right talent is key to ensure growth objectives are met. The capacity to attract and retain talent could be impacted because the technical skills needed are highly sought-after in the market and the construction industry could be perceived as being less attractive than other industries, in particular by the new



generations. This has the potential to impact our ability to execute the business plan and strategy efficiently. In addition, labour shortages in the construction industry have the potential to impact the overall construction activity, which could affect the business and results of operations.

***Mitigation actions:***

- Evolve the Company's culture, policies and procedures to adjust to the new work environment.
- Implement engagement and development programs to improve talent retention and attraction.
- Increase efforts to broaden the talent pools for key positions.
- Follow up on surveys on engagement and action plans.

**Business disruption by emerging technologies or innovation**

In recent years, technology has begun to transform the construction industry. It is likely that innovation—including but not limited to digitisation, automation, new materials, new construction methods and any other innovation in the construction value chain— will accelerate in the coming years to tackle the main challenges facing the construction industry. These trends could cause disruption in the construction ecosystem value chain and affect the capacity to compete.

Transformation of the construction industry will bring with it both risks and opportunities. Digitisation is improving industry productivity and data analysis and transforming our interaction con customers, suppliers and other stakeholders. The introduction of new technologies opens access to new industry participants to the markets, which could impact sales. The use of new materials or construction methods and technologies could reduce the demand for products and services.

***Mitigation actions:***

- Deliver a superior customer experience enabled by digital technologies (e.g. CEMEX Go).

- Early detection, development and marketing of disruptive and revolutionary construction projects through CEMEX Ventures.
- Promote innovation.
- Partner with innovative and sustainable companies.
- Continuously enhance research and development efforts on products, materials and technologies.
- Enhance the Company's digital strategy.

### **Risks related to CO2 emissions and climate change**

Carbon regulation transition risk. CEMEX Latam is subject to a strict carbon pricing approach in the form of cap-and-trade systems in those geographies with a carbon regulation in place, as well as to the risk of transition to stricter carbon pricing in other geographies with potential to be regulated in the short- and medium-term, which may have a financial impact on our businesses. While CEMEX Latam has taken steps which make it likely that it will be able to comply with the limits of such cap-and-trade systems, any transition to a stricter carbon pricing in the countries where we operate may cause non-compliance with the relevant cap-and-trade systems, which may lead to substantial penalties and, in turn, have a material adverse effect on our business, financial condition, liquidity and results of operations.

The main focus areas of this risk are:

- **Technology**

Development of technologies is key to reduce our emissions in the long run to meet our 2050 net-zero CO2 emissions concrete goal, certain sustainability-related key performance indicators, and the limits of any cap-and-trade systems to which CEMEX Latam is subject. The failure to effectively develop and roll out any technologies required as well as the lack or late implementation of any such technologies could lead to the failure to achieve its 2050 CO2 neutral concrete goal and non-compliance with the limits of any cap-and-trade systems to which it is subject, as well as cause CEMEX Latam to

fail to comply with the sustainability-related key performance indicators, which may lead to substantial penalties; and, in turn, have a material adverse effect on our business, financial condition, liquidity and results of operations. In addition, our commitment to achieve certain climate action-related targets may require us to incur substantial expenses related to the acquisition and/or implementation of certain technologies. Any failure to acquire or implement these technologies in a cost-effective manner could have a material adverse effect on our business, financial condition, liquidity and results of operations.

- **Markets**

Market development is a key topic in the long term. More stringent building and energy efficiency standards are likely to foster the development of new low-carbon products and effective constructive solutions. Therefore, not meeting the market expectations in the form of new low-carbon products and effective constructive solutions could lead to reduced demand for our products and solutions, which may, in turn, have a material adverse effect on our business, financial condition, liquidity and results of operations.

- **Reputation**

Cement could be perceived as a relevant contributor to CO<sub>2</sub> global emissions, which could affect our future sales and, in turn, have a material adverse effect on our business.

- **Physical risks**

Climate change patterns and acute physical climate risks, mainly extreme weather events such as tropical cyclones and blizzards, and chronic physical risks such as rising sea level or water stress could cause damage in the most exposed operations, as well as the disruption of business continuity. A decrease in sales volumes is usually counterbalanced by an increase in the demand for our products during the reconstruction phase, unless any of our operating units or facilities is also impacted by the natural disaster. This could have a material adverse effect on our business.

**Mitigation actions:**

- CEMEX Latam received the public announcement made by Cemex Global with reference to achieving its 2030 target, for which it developed a CO2 Roadmap including specific reduction initiatives for each cement site, identifying the resources and calendar for their implementation. This target was validated by the SBTi and is aligned with its well below 2°C scenario. The roadmap was verified by Carbon Trust, ensuring the technical feasibility of the considered technologies, adequate governance and a robust strategy to reduce emissions. Each operating unit monitors monthly its site-by-site plan to ensure an adequate implementation and resources allocation.
- The solutions portfolio is being continuously enhanced based on the increasing demand for more sustainable products. A recent example is Vertua®, a family of products that started with a range of concrete with a low or neutral CO2 footprint launched in several markets in 2020 and extended to all countries where CEMEX Latam operates and other geographies in 2021.
- Early detection, development and marketing and/or partnership with disruptive and revolutionary construction projects or companies through CEMEX Ventures.
- As the development of emerging technologies is key to meet the 2050 carbon neutrality ambition for concrete, the role the Company plays in different research consortiums and partnerships, together with the outcomes of new-technologies mapping, are being monitored on a monthly basis by the CO2 Taskforce, which is a multidisciplinary group with the participation of Sustainability, Operations and Technology, R&D, Energy, Supply Chain and CEMEX Ventures.
- The fourth core business of CEMEX Latam, Urban Solutions, also plays a key role in climate-related risks mitigation by generating sustainable alternatives for metropolis growth, providing the market with highly efficient building solutions and promoting circular economy through waste management schemes.
- To mitigate reputational risk, CEMEX Latam is actively involved in industry associations, in which concrete is promoted as a suitable building material to cope with climate change. Concrete plays a critical role in making cities

sustainable and resilient, as it is the most durable and disaster-resistant among all construction materials.

- To mitigate physical risks, the Company implemented a Business Continuity Program (BCP) to minimise the potential risk of a disruptive event in our operations. This program integrates guidelines for rapid response teams, emergency support, crisis management and business recovery. The definition of BCPs aids business resilience and operation recovery in the case of force-majeure events, to ensure the fulfilment of our commitments with customers and a quick return to business as usual. In addition, some of our main operations and assets are insured against such events. However, in most cases, the insurance policy does not cover the total impact that an adverse event could have, which limits its effect.
- To mitigate the impact of water stress risk, a detailed assessment was executed at all sites to identify potential water scarcity. Based on the resulting map, a 2020 target has been set to implement a Water Action Plan (WAP) at all those priority sites where high-risk water stress was identified. Additionally, a water stress scenarios mapping was developed for 2030 and 2040.

### **Cyberthreats and information technology risks**

CEMEX Latam increasingly relies on a variety of information technology and cloud services, on a fully digital customer integration platform, such as CEMEX Go, and on automated operating systems to manage and support operations, as well as to offer products to customers. Both the systems and technologies and the services offered by third-party service providers may be vulnerable to damage, disruption or intrusion caused by circumstances beyond the Company's control, such as physical or electronic break-ins, catastrophic events, power outages, natural disasters, computer system or network failures, security breaches, computer viruses and cyberattacks. Any significant disruption to the systems, information leakages or theft and unlawful processing of

personal data could affect compliance with data privacy laws and trigger regulatory action or damage relationships with employees, customers and suppliers.

***Mitigation actions:***

- Enforce the Information Security Policy and a risk prevention culture
- Maintain and continue improving cyber-security controls and monitoring services.
- Continue operating disaster recovery plans and rapid response teams.
- Enhance insurance coverage.
- Continue ISO 27001 certification on production plants for information security management to preserve confidentiality, integrity and availability of data.
- Renew, modify or upgrade required systems and technologies.
- Continue campaigns to enhance information security culture.
- Regularly train employees and enforce the Code of Ethics.

### **3. CONTROL ACTIVITIES**

#### **3.1 Financial reporting review and authorisation procedures and ICFR description**

CEMEX Latam's internal control system based on the COSO 2013 framework and best practices adhered to such as the Sarbanes-Oxley Act (SOX) 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 Company's 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 observed for all systems supporting the operational processes, including those 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 2019, for the implementation of best practices, to revise the methodology, scope and execution of SOX control testing in order to validate their compliance level. As a result, activities related to financial reporting processes and within the yearly scope determined are subject to entity-level control testing, information technology controls, and relevant transaction controls by the Internal Control area and Internal Audit. In addition, the financial and operational process control activities are evaluated every year, within the scope of the internal audits conducted, and the Company issues the relevant opinion as to their effectiveness. For the year 2021, testing shall be carried out for Colombia, bearing in mind its materiality level and importance to CEMEX Latam and Cemex Global.

- **Internal control system improvements 2021**

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 2021 in order to improve process owner self-control. During 2021, 278 operational and support process employees were trained. The following is the training per area:

<b>AREA</b>	<b>TOTAL</b>
CORPORATE AREAS	19
GES	16
COMMERCIAL	37
COMMUNICATIONS AND INSTITUTIONAL RELATIONS	11
CONCRETE	112
URBAN SOLUTIONS & CONSTRUCTION CUSTOMERS	5
INDUSTRIAL SAFETY	8
LEGAL	4
LOGISTICS	24
OPERATIONS – TECHNICAL	3
HUMAN RESOURCES	39
<b>TOTAL</b>	<b>278</b>

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 2021, satisfactory results were obtained in the Comptrollership, Consolidation, Treasury and Commercial process audits, the average result achieved being a 97%, 100%, 97% and 97% compliance level, respectively. The following are the individual and per process outcomes for each of the CEMEX Latam countries:



Process	Colombia	Panama	Costa Rica	Nicaragua	Guatemala	Salvador
Comptrollership	99	98	99	N/R	98	89
Consolidation*	100	-	-	-	-	-
Treasury	98	94	96	N/R	100	96
Commercial	97	98	100	N/R	98	92

*N/R: not rated. The audit conducted was of limited scope.*

*\* Consolidation Process applies only for Colombia.*

It should importantly be noted that, during the last quarter of 2021, CEMEX Latam announced the sale of operations in Costa Rica and El Salvador. This transaction is subject to compliance with closing terms, including competition authority approvals, and CEMEX currently expects this transaction to be closed during the first six months of 2022. However, during 2022 the implementation of opportunities for improvements originating from the audits conducted to these business units in 2021 will carry on being monitored.

2. As for the implementation of remediation plans resulting from the audits carried out, and bearing in mind that they are being monitored on a monthly basis, 98% and 100% implementation had been achieved by the end of December 2021 for Operational and GES processes, respectively. The outstanding remediation plans are in process of execution with set dates which are monitored on a monthly basis.
3. The plan to disseminate the Code of Ethics continued through communications on ethical essentials and virtual meetings (webcast) of the Ethics Committee at which committee conduct was presented through its indicators, operational information was provided and real cases were set out as a collective learning process. Additionally, during 2021, digital signatures continued to be obtained regarding awareness of the Code of Ethics by 2,454 employees.

### **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 Global Enterprise Services (GES) 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 GES 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 CEMEX Latam 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, including compliance with requirements with respect to anti-money laundering, counter-terrorist financing, anti-fraud and anti-corruption policies.

CEMEX Latam 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.

During 2021, negotiations were carried out with other service providers for distribution of outsourcing services (finance and management transactional activities, IT services, digital platforms, networks, security and human resources), which shall materialise during 2022.

#### **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 CEMEX Latam 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 2021, 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 international financial reporting standards ("IFRS") which, upon being approved by the Board of Directors, were submitted by the Company to the Financial Superintendency of Colombia ("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.
- In addition, the Committee has overseen the process to review SOX controls in order to validate their compliance level.
- The Management and the Board of Directors are committed to maintaining a strong and sustainable internal control environment over financial reports. No internal control changes have been identified during 2021 which have materially affected, or could reasonably materially affect, the internal controls over financial reports.
- In addition, during the year 2021 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. Monitored the implementation of the action plans introduced for the purposes of remediating the faults uncovered by the internal audits.
5. Validated compliance with the working plan of Internal Control, GES and Compliance.
6. Has monitored the risk identification and risk management and control processes by validating the risk agenda and quarterly updates thereof.

## **5.2 Internal Audit function activities to communicate the material internal control weaknesses uncovered and its 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 CEMEX Latam 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**

CEMEX Latam 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 CEMEX Latam have internal control processes and mechanisms to disclose and certify the truthfulness of financial information.

The CEMEX Latam 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 CEMEX Latam countries to be able to issue an opinion as to whether CEMEX Latam's consolidated and individual financial statements fairly present its financial condition. The audit opinion is attached to the consolidated financial statements of CEMEX Latam and was satisfactory.