Advisory Panel Statement 2016

This is CEMEX’s inaugural Integrated Report. We see this proactive approach to reporting as an important symbol of the company’s commitment to managing the impact its business operations have on society and the environment. The Advisory Panel (henceforth referred to as “the panel”) recognizes this first Integrated Report as an effort to provide all stakeholders with a holistic overview of CEMEX’s strategic vision, drivers of value creation, operating performance, governance, and an understanding of the key financial and non-financial topics that are shaping the business today, and that are likely to shape the business tomorrow.

Scope of our review

Similar to previous years, the Sustainability Reporting Advisory Panel reviewed an advanced draft of CEMEX 2016 Integrated Report: Integrated Strategy for a Better Future. The Advisory Panel members first convened in December 2016 to discuss the evaluation and advisory process, before being submitted the report in late February, having two weeks to review and send back their initial feedback.

The Advisory Panel members shared with management detailed comments and specific suggestions for improvement in reporting and activities in general. The comments of the report concern both current activities and strategic ideas worth exploring in the future.

Reporting framework, style and improvements

The panel recognizes that CEMEX has successfully executed the recommendation of an integrated report along the lines of the proposed framework of the International Integrated Reporting Council. This process promotes integrated thinking and strategy across the organization, and is likely to enhance the positive environmental and social impacts CEMEX has already generated in all of the geographies in which it operates.

The panel appreciates the efforts to present the content in a more integrated, clear fashion, making it easier to read and follow. The Panel is also pleased with the efforts CEMEX has made to prepare the report in accordance to the Global Reporting Initiative G4 Guidelines, which helps focus the analysis on the most material aspects in the business.

The panel additionally recognizes the significant improvement CEMEX has made with respect to the degree of transparency and openness with which the company communicates with its stakeholders via this document.

Moreover, the panel commends the growing focus on the role CEMEX can play in terms of helping realize the Sustainable Development Goals, with a particular focus
on the CEMEX contribution to ending poverty, achieving gender equality, providing decent work and economic growth opportunities, and developing sustainable cities and communities. The panel also acknowledges the continued efforts to explicitly recognize the challenges of using cement as a building material, which include significant carbon and toxic air emissions.

And finally, the panel encourages management to present time series data in the form of charts to illustrate the evolution of certain metrics (e.g. carbon footprint), such that readers can easily get an overview of past performance relative to current performance.

**Sustainable Governance**

With respect to Ethics and Corruption, the panel is pleased to notice the continuous efforts being made to raise awareness on these issues and the fact that so many ethics and internal human rights cases are brought to the fore (i.e. including disciplinary action on about one quarter of the cases). And although the number of cases is included in the report (453), an analysis and reporting of the major causes and trends in the disciplinary actions taken for violation of the code of ethics would be helpful to the readers to assess the severity of the issues and progress made in its avoidance. The panel is also encouraged by the strong internal processes that CEMEX has established to collect information.

12% of the global work force is female, which is low relative to peers, who come in at about 20%. As such, the panel remains concerned with respect to the slow progress being made in the recruitment of women and especially in the appointment of women to leadership positions. The panel encourages CEMEX to explore the direct and indirect obstacles that may be preventing progress in this area.

Furthermore, we encourage CEMEX to consider the appointment of properly qualified women to the Board of Directors, where currently there are none. And finally, the panel recognizes that CEMEX does not have an independent majority in its board, and also lacks an explicit responsibility for risk management. This shortfall in the governance structure could potentially undermine the ability of the board to effectively oversee company management.

**Material aspects**

The panel recognizes the continued progress CEMEX has made with respect to building a Sustainability Matrix in efforts to identify the issues most important to CEMEX and its stakeholders. The Sustainability Matrix enables a more seamless identification of issues most relevant to stakeholders, including both risks and opportunities. It is in this context that the panel suggests to keep the frame of material issues limited to social, environmental and governance issues.
The materiality survey is a clear demonstration of good progress with respect to defining the materiality issues, not least because invitations were sent to over 19,000 stakeholders across a large variety of geographies. This is 62% more than with the previous survey, although only 1,558 responses were received (less than 10%). Going forward, we suggest that CEMEX do a smaller but statistically representative survey. This will give the company meaningful results on materiality issues.

Safety
The panel is encouraged by the reduction in the time lost due to injuries in 2016 by 16% on a year-on-year basis. We also recognize that CEMEX has set aggressive targets to improve safety across all of its operations by 2020, and that CEMEX today already has a lower exposure to health and safety risks than the majority of its peers. Still, the panel is concerned about the number of fatalities, mostly on contractors and third parties. Last year, 20 fatalities occurred, of which 3 were direct employees and the rest were either contractors or other third parties. Getting this number lower in the coming years is rightly a key priority for management.

Human Rights
The Panel is pleased to learn that CEMEX has developed a Human Rights Policy, which integrates basic sustainability requirements. The company’s suppliers are mandated to comply with this policy. In this way, CEMEX is able to exert more influence over its entire value chain. An essential part of this process is the ability to define a monitoring plan and a set of mitigating and remedial actions to prevent and address adverse impacts on human rights. The panel encourages management to implement the Ruggie Principles, in particular the assessment of the current situation and a plan of action to ensure their application.

Emissions and other environmental issues
The panel is encouraged to learn of a significant reduction of environmentally hazardous emissions. For instance, the 20% reduction in CO2 emissions compared with CEMEX’s 1990 baseline figure represents real progress, driven largely by an alternative fuel substitution rate of over 23%. The panel also invites management to encourage lower general energy use. It should also be noted that previous reports provided graphs to offer readers more insight into the evolution of carbon emissions over time. This was a clear way to show numbers and present data in an informative, useful manner.

Also, the panel recognizes that carbon pricing schemes in the geographies in which CEMEX operates can introduce additional liabilities. At the same time, they could also provide opportunities and incentives for innovation and product development or process improvement. This is shown by higher levels of alternative fuel use and lower clinker factors in firms with exposure
to regions with carbon pricing schemes as is the case with CEMEX.

**Energy and water consumption**
We were pleased to learn of the successful efforts to continue the reduction of energy consumption by the increased use of alternative sources of energy, particularly from recycled waste, alternative fuel, and renewables. With respect to water consumption, the company has implemented several initiatives, which have allowed it to reduce its water use over the last three years by 3%. Nonetheless, the firm’s water intensity of operations (i.e. 6 thousand m3 per USD million) is still high, and thus offers potential to fall substantially from current levels.

**Biodiversity**
The panel recognizes that CEMEX has a diverse array of practices to protect biodiversity like Biodiversity Action Plans, which represent the principal tool for CEMEX to achieve a net positive impact on biodiversity. Still, the panel also notes that CEMEX could improve in terms of its response to community concerns due to land use and land use change prior selling in new areas. And since the firm’s primary business is in cement and ready mixed-concrete, a careful attention to the disturbance to land or habitat due to quarry exploitation is important point to bare in mind.

**Supply chain monitoring and development**
The panel is pleased to learn of the new supply chain process globally, which allows the company to run its network of supplier as one efficient global enterprise. In fact, the panel was particularly pleased to learn that in 2016 almost 1,300 suppliers were assessed using sustainability criteria. Moreover, it is good to see that Human Rights, Labor, Antitrust, and Sustainability clauses were all added to contracts and purchase orders with suppliers on a global basis. Indeed, procurement and the value chain offer new and effective ways to expand the reach of good sustainability policies on a global scale, all in efforts to advance local economic development. Finally, the panel encourages the management to identify the most critical suppliers, not in terms of volume, but in terms of potential risks for CEMEX’s reputation.

**Working conditions**
The panel is pleased to see the progress achieved by CEMEX in working conditions for their employees. Recognizing the complexity of working in so many countries with very different cultures and standards, the panel would like to see more efforts in enhancing the number of countries where programs for child, dependent and elderly care are available.

**Social impact**
The Panel recognizes CEMEX’s commitment to contributing to the sustainable development of the communities and
geographies in which it operates, either by virtue of its ongoing business operations generating social value or via social investment programs. Nevertheless, the Panel invites CEMEX to include in future reports results that reflect the transformations that have occurred in these communities and examples that illustrate the interventions carried out in specific places. Also, the panel would encourage the integration of a record of conflicts reported in the relationships between the company and the communities which it serves, including information about how conflicts may have been resolved.

**Building solutions**
The panel recognizes that global building materials companies are taking advantage of the continually growing green building market, which has grown by about 50% on average per year over the last ten years. This growth has been possible mainly by releasing products with higher recycled content and environmental certifications. Specifically for CEMEX, the panel notes that CEMEX develops products with environmental advantages like concretes that enhance thermal efficiency and energy conservation materials that reduce water consumption and that decrease storm water and runoff drainage. Going forward, the panel recommends including in the report some examples of how CEMEX implements innovative materials and solutions into its day-to-day operations, including the necessary adjustments to the value chain.

And finally, in efforts to further support the development of sustainable, resilient communities, the panel recognizes that CEMEX makes available affordable building materials and housing solutions to market segments that lack access to formal credit. This example serves as a good symbol of how CEMEX aligns its operations with its purpose: “To build a better future for our employees, our customers, our shareholders, and the communities where we live and work.”