

Cementos Argos

ISIN CODE: COD38PA00053

Overall score 45/100

Sector: Building Materials
Emerging Market

Information rate: 76% (Sector average: 65%)
Company cooperation level: Not responsive *

General information

Cementos Argos SA ('Cementos Argos') engages in the production of cement and concrete products. In the cement business, the Company has nine plants in Colombia, three in the United States and one in Honduras; ten clinker mills located in Colombia, the United States, Haiti, Panama, the Dominican Republic, Honduras, French Guiana and Suriname; and twenty-four ports and terminals for reception and packaging. In the concrete business, Cementos Argos has more than 340 plants located in Colombia, the United States, Haiti and Panama, the Dominican Republic and Suriname. The Company was founded on January 2, 1934 and is headquartered in Medellín, Colombia.

Main Economic Segment**	Turnover 2017
Cement	48.5 %
Concrete	47.1 %
Other Products and Services	4.4 %

CORPORATE GOVERNANCE			
	2014	2016	2018/09
Score	45	45	45
Allegations	No	No	No
Rating	=	=	=
Risk management	Limited	Limited	Limited

Key issues

Corporate governance is critical to ensuring that a well-functioning system of checks and balances protects the interests of all of the company's stakeholders. The effectiveness of the Board of Directors is a key issue to be addressed: this can be gleaned from information on Board composition (independence and competencies) and its way of functioning (regularity of Board meetings, evaluation of performance). Other important governance factors include the effectiveness of the Audit and Internal control system, the protection of Shareholders Rights and the establishment of Executive Remunerations which align executives' and company's interests.

Company performance

-Cementos Argos score in the Corporate Governance Domain is limited in absolute terms and has deteriorated compared to the previous review.
-The deterioration in the Company's score is mainly explained by the decrease in the number of independent board members, which has lowered the number of independent members within the committees. Moreover, Cementos Argos remains silent about executive remuneration and does not enable shareholders to vote on relevant issues, such as changes in bylaws and the capital structure.

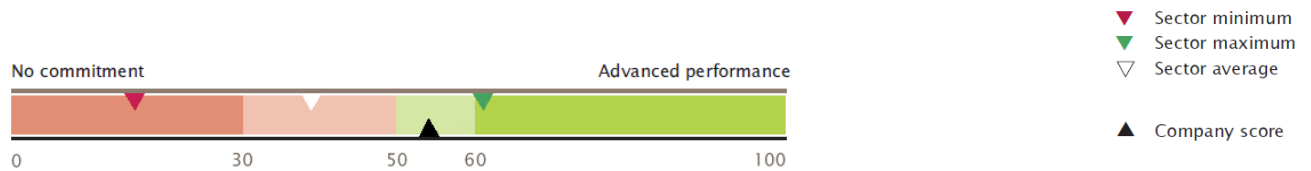
* On a 4-level scale: proactive, responsive, partially responsive, not responsive
** See detailed economic indicators in Selected financial data section
*** Based on the most recent Index at the date of publication

Corporate Governance

Score : 45

CGV1.1 Board of Directors

(score: 54, weight: 3)



[LISTED COMPANIES] Existence and independence of Nomination Committee

No executive is a member of the committee, but half or fewer are independent.
None of the two-member Appointments and Remuneration Committee is considered independent.

Independence of the Board Chairman The roles of Chairman and CEO are separated, but the chairman is not considered independent.
The Chairman is the CEO of Grupo Argos, which owns 55.3% of the company's shares.

Responsibility allocated over CSR issues There is a CSR committee that is part of the Board.
The CSR committee is composed of one executive and two independent members. However, the committee's chair is not identified.

Share of independent shareholder-elected Board members [LISTED COMPANIES] The Board is between 34 and 50% independent, which is less than the recommended level.
Three members of the Seven-member Board are considered independent.

Diversity of the skills and backgrounds of the Board The Board of Directors diversity appears to be partial:

- At least 30% of directors are women
- At least 40% of directors are women
- Employee representative(s) sitting on the Board
- Board members with demonstrated professional experience in the company's sector of activities
- Board members with demonstrated expertise on CSR issues

*Board members with demonstrated professional experience in the company's sector of activities: Except Alejandro Piedrahitat and Carlos Gustavo Arrieta who come respectively from financial markets and diplomatic backgrounds, most board members are familiar with the cement and concrete industries.
-Board members with demonstrated expertise on CSR issues: Cecilia Rodríguez served as a minister of environment in the Colombian government before joining Cementos Argos board.*

Training and expertise provided to board members Training is provided through regular updates, but it does not cover CSR issues.
The company reports that board members receive trainings on an annual basis.

Regular election of Board members [LISTED COMPANIES] Board members are elected at least every three years and these elections are not staggered.
Board members are eligible for re-election following a 3-year term.

Evaluation of Board's functioning and performance Performance is evaluated regularly by a third party.
AT Kearney conducts the external assessment of the board's performance on a yearly basis.

Review of CSR issues at Board meeting The formal CSR reporting has been signed by CEO/Chairman/Board, but there is no evidence that relevant CSR issues are reviewed at Board meetings.

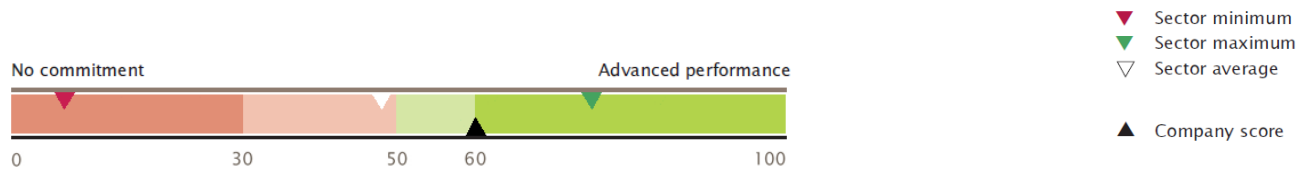
- Business ethics
- Human capital
- Responsible customers relations
- Climate change

Regularity of and attendance at Board meetings Regular meetings are held, and attendance rates are above 90%
17 Board meetings were held in 2017, and the attendance rate was 92%.

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independence
Jorge Mario Velásque	Chairman of the board		X		X		X	X				X	CEO of Grupo Argos, which owns 55.3% of the company's shares.	
Camilo J Abello	Vice President of Corporate Affairs	X										X	Vice President of Corporate Affairs at Grupo Argos, which owns 55.3% of the company's shares.	
Alejandro Piedrahita			X			X						X	Corporate Finance vice-president at Grupo Argos, which owns 55.3% of the company's shares.	
Cecilia Rodríguez			X			X								X
Carlos Arrieta			X			X								X
León Teicher			X											X
Esteban Piedrahita			X		X		X						A member of Amalfi board of directors, which owns 5.4 % of the company's shares.	

CGV2.1 Audit & Internal Controls

(score: 60, weight: 2)



[LISTED COMPANIES] Existence and independence of Audit Committee

No executive is a member of the committee, but half or fewer are independent. *Two members of the three-member Audit Committee are considered independent. However, the committee chair is not identified.*

Skills and backgrounds of Audit Committee members

Members appear to have financial and/or audit experience AND relevant operational experience. In addition, at least a member has CSR skills and experience. *Cecilia Rodríguez was a minister of environment in the Colombian government before joining Cementos Argos.*

Operational and CSR risks covered by the company's internal controls system

The internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations.

- Corruption
- Community Issues
- Employee Safety
- Climate Change
- Environmental and/or social standards in the supply chain

-Corruption: The company reports that it has reinforced the internal control mechanisms in the fight against corruption.

Role of the Audit Committee in overseeing internal and external controls

There is a confidential reporting system in place for accounting issues. In addition, the Audit Committee has a comprehensive role that includes:

- Oversee internal audit and internal controls
- Review accounting policies and be responsible for updates
- Nominate the statutory auditor
- Oversee the work of the external auditor
- Approve the type of audit and non-audit services provided and fees paid to the external auditor

The company has put in place a reporting system to enable the confidential reporting of accounting issues.

Management of the CSR risks

Relevant processes dedicated to management of CSR risks are in place:

- Balanced scorecard*
- Risk-related training
- Monitoring of key risk indicators
- Reporting system to the Board*
- Risk mapping/materiality assessment
- A Board Risk Committee with no executive part of it*

-Risk-related training: Cementos Argos reports conducting trainings on money laundering and terrorism financing risks.

-Monitoring of key risk indicators: The company monitors indicators, such as injuries frequency and severity rates.

-Risk mapping/materiality assessment: The company assesses several risk factors, such as energy emissions and the occupational health and safety, in its materiality matrix.

Independence of the firm's external auditors

Information obtained from company and public sources regarding the independence of the firm's external auditors is insufficient.

Cementos Argos does not report the fees received by Deloitte & Touche Ltda for its auditing and non-auditing services.

Inclusion of CSR issues in the company's reporting

The company publishes significant CSR reporting on key material issues, with an independent third party assessment on the reliability of key performance indicators, with limited/moderate assurance. In addition, the assurance report includes clear recommendations for improvements.

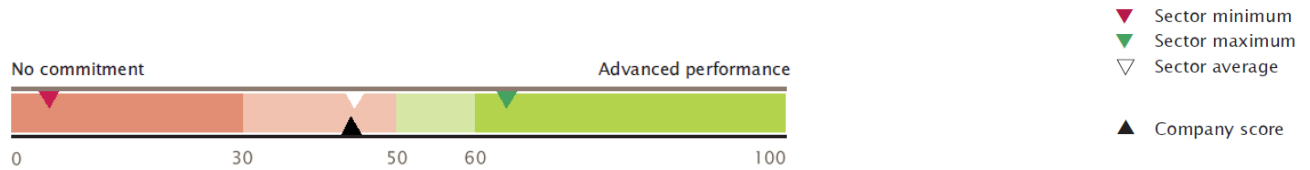
The company's integrated report, which is approved by Deloitte & Touche Ltda, includes information on the social and environmental policies, and quantitative data that display Cementos Argos' achievement in these areas.

Stakeholders' feedback

As of 11/2018, Cementos Argos did not appear to be involved in any controversy related to this sustainability driver

CGV3.1 Shareholders

(score: 44, weight: 2)



Nonexistence of voting rights restrictions

The company respects the "one share - one vote" principle.

Safeguards on transactions with major shareholder(s)

No safeguards appear to be in place, which might raise concerns with regard to the fairness of any such transaction.

Ability to add items to the agenda of the AGM and to convene an EGM

No major restrictions have been identified.

Access to voting at General Meetings

There are no major restrictions on shareholders' ability to vote, however there is no possibility of voting through online services.

Ability to vote on relevant issues in separate resolutions at AGM

Not all major items are put to a shareholder vote.
The following items are not put to a vote at the AGM:
 -Changes in capital
 -Changes to bylaws

Presentation of CSR strategy to shareholders and investors

The company's CSR strategy has not been presented to shareholders and investors.

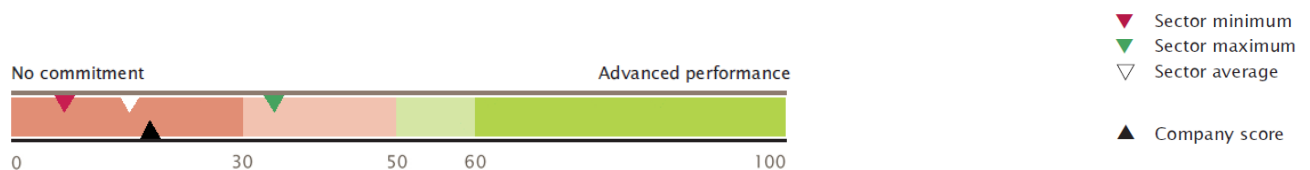
- Climate change
- Human capital

Stakeholders' feedback

As of 11/2018, Cementos Argos did not appear to be involved in any controversy related to this sustainability driver

CGV4.1 Executive Remuneration

(score: 18, weight: 2)



[LISTED COMPANIES] Existence and independence of Remuneration Committee

No executive is a member of the committee, but half or fewer are independent.
None of the two members of the Appointments and Remuneration Committee is considered independent.

Disclosure of senior executives' individual remuneration

Disclosure of individual executive remuneration data for senior executives is insufficient.

Link between Short Term Incentive Plans and the performance of the company

There is no disclosure on what rules guide the company in allocating bonuses and other short-term incentives to senior executives.
Of note, the company states that the variable compensation system is based on the Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). However, it does not specify if these variables are taken into account in the short or long-term incentive plan.

Link between the main Long Term Incentive Plan and the performance of the company

Information on the rules and performance conditions guiding the allocation of long-term incentives to senior executives is insufficient.
Of note, the company states that the variable compensation system is based on the Return on Capital Employed (ROCE) and Total Shareholder Return (TSR). However, it does not specify if these variables are significant to the short or long-term incentive plan.

Link between variable remuneration and CSR performance of the company

CSR performance objectives are considered in the determination of variable remuneration of senior executives, but information on performance targets are not disclosed.

- Human resources development
- Health and safety
- Compliance related to environmental regulations
- Efficient resource utilization

The company reports that The CEO receives monetary rewards regarding the overall environmental performance of the company. The monetary rewards are given if the annual goal for environmental KPI is achieved.

Severance pay for senior executives

Information obtained from company and public sources regarding severance pay for senior executives is insufficient.

Evolution of CEO-to-employee compensation ratio

Information obtained from company and public sources regarding the compensation of CEO and the average employee salary is insufficient.
The company does not disclose the CEO compensation.

Stakeholders' feedback

As of 11/2018, Cementos Argos did not appear to be involved in any controversy related to this sustainability driver

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