

Performance Self-Assessment of the Board of Directors of Cementos Argos

November 2019

Executive Summary

Cementos Argos is a growing multinational company that operates in 15 countries and reaches 34 destinations. It is consolidated in high-potential markets and it is focused on creating value from innovative solutions and products, logistic synergies and a balance of businesses between emerging and developed economies. The main shareholder is Grupo Argos, with a 57.98% of the ordinary shares, 19.87% is held in local pension and severance funds, 11,32% in foreign investment funds and 10.83% is held by other shareholders¹. It is the leading cement and concrete company in Colombia, second concrete company and forth cement company in the U.S, and one of the leaders in the sector in the Caribbean region and Central America.

¹ Oficial information from Cementos Argos. September 30, 2019, obtained from the web page: <https://ir.argos.co/Perfil-corporativo/Composici3n-Accionaria>.

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The Board of Directors of Cementos Argos has been a pioneer in following high standards of compliance of the best practices in Corporate Governance, nationally and internationally, with high concern in integrating tools and best practices that impact the management from the Board. The Board of Directors is currently conformed mostly by independent members, showing their commitment with independency and an open exchange of opinions, from multiple points of view.

During the self-assessed period, Cementos Argos complies with the current Colombian stock market regulations and shows a high compliance of the parameters established by the *Código País* (code for best practices in CG). Regarding Corporate Governance, during this period it earned the recognition of “Investor Relations” of the Colombian Stock Exchange, for the fourth consecutive year. It received the certificate as “known and recurrent issuer” of the Financial Superintendence of Colombia, for the fifth year and was recognized for its Corporate Governance practices by Merco, Vigeo Eiris and by the Dow Jones Sustainability Index.

In this context, Cementos Argos was interested in conducting a **Performance self-assessment of the Board of Directors** to continue with the follow up and development of the assessment work that has been doing with Kearney, identifying advances, strengths and areas of improvement.

Our best methodological framework is built around four stages of excellence and four thematic dimensions of the Board of Directors. This Kearney methodology was developed after a thorough study of specialized literature and the best international practices of Corporate Governance, allowing to:

- Assess the dynamics of the Board as a collegiate group in a holistic way
- Identify the strengths and opportunities of improvement of the Board
- Determine the current maturity state of the Board, according to the evolution between stages, towards excellence
- Evaluate with the four thematic dimensions used in the framework: (1) Structure/Governance, (2) Coordination, (3) Interaction, and (4) focus on the strategic.

Figure 1- Dimensions of the Corporate Governance model of Kearney



For the development of this Self-Assessment, a personalized tool of evaluation was built and applied online. In the process of building the tool, Kearney took into account the results and recommendations of the previous performance assessments of the Board of Directors of Cementos Argos, the information gathered from personal interviews (Chairman of the Board, CEO, and General Secretary of the Board) and the documentary review that was carried out at the company’s facilities.

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This tool was divided in four thematic parts:

1. Self-assessment of the Board performance by the directors in the different categories of the stages of excellence
2. Self-assessment of the functioning of the committees of the Board
3. Thematic prioritization for the creation of the Action Plan of the Board for 2019
4. Self-assessment on topics related to organization, coordination and logistics

Figure 2. Most relevant topics to self-assess in the Board of Directors of Cementos Argos

Dimension	Evaluated component
Focus on the strategic	<ol style="list-style-type: none"> 1. Annual agenda of the Board 2. Order of the day and leadership during the sessions 3. Distribution and depth in the topics addressed in the Annual Plan of the Board 4. Participation of all the members at the Board discussions 5. Risk management at the Board 6. Design and definition of the strategic plan of the company 7. Sustainability
Structure of Governance	<ol style="list-style-type: none"> 8. Combination and skill set of the members of the Board 9. Complementary knowledge of the members of the Board 10. Senior management succession plan 11. Periodicity, length, and structure of the sessions 12. Functioning of the committees
Coordination	<ol style="list-style-type: none"> 13. Quality and type of pre-board session information

This document contains a summary of the main advances, topics to highlight and opportunities for improvement that Kearney found in this introspective exercise of the Board of Directors of Cementos Argos.

After completing the third tool of the performance assessment of the Board of Directors of Cementos Argos, the Board can still be cataloged as a mature mandate body, that fully fulfills its functions and reaches a high level of focus towards the strategic issues. This group has managed to build an excellent Annual Board Action Plan used as the thematic roadmap. As a Board, they reach a high participation level and a culture open to debate. In general terms, the Board of Directors of Cementos Argos **was located in an advanced stadium of performance in most of the evaluated components.**

The strongest traits of this Board are its high independence level, the active participation of the directors, and the content and commitment with the Annual Board Plan. The high level of independence and the empowerment of the members of the Board make the debate within the group rich in opinion, critiques and perspectives, achieving an open exchange of opinions and an active involvement in decision making. The Annual Plan is a tool that has been refining over time, and the directors take an active participation in its making. The

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Chairman of the board makes a thorough follow-up to the plan and if there are thematic changes to be made, they are made in a consensual and responsible way. Currently the Board shows a high level of maturity as a high-performance group, they know the cement business in depth as well as the DNA of their shareholders and they recognize the importance of the tools of Corporate Governance in the performance of their mandate.

We found important advances related to the recommendations made in the External Performance Assessment of the Board of Cementos Argos in 2013, in the Self-Assessment of 2017. It is important to highlight that they have assumed a more strategic role from the Board, taking an active involvement in the construction of the company's strategy. It is relevant to highlight the role of the Chairman of the Board as a leader of the group and there has also been a considerable improvement in the management of information and the quality of the pre-board information. During the past assessments, the challenges mentioned above had important opportunities for improvement, and they currently meet high levels of performance in each of the assessed aspects, showing the commitment of the Board with continuous improvement and with reaching a high-performance level.

In this Self-Assessment we can highlight the perfect score in punctuality, the length of the meetings and the structure of the Board of Directors sessions. There is also an outstanding score in the Annual Board Plan, in the participation of the directors during the sessions and in the quality and type of pre-board information.

As a relevant opportunity for improvement, Kearney recommends the review of the configuration and training programs for directors to reach a higher level of complementary knowledge in the group. Regarding the committees, we advise to review the number of sessions and their length, and the composition in some groups of work. Furthermore, it is convenient to review the content of the annual plans of the Board and committees to increase the focus on strategic topics. Finally, we recommend a structured discussion inside the Board of the senior management succession plan and a continued work at addressing and supervising the risk management system from the Board of Directors.