



**External Evaluation
Report – Cementos
Argos' Board of
Directors
01/03/2021**

KEARNEY

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Executive Summary

Introduction and context

In line with the best practices in Corporate Governance, Cementos Argos commissioned Kearney to carry out a 360° evaluation that is thorough, external, and independent from the performance of its Board of Directors as a collegiate body. This evaluation measures the key aspects of the Board's performance and allows to identify strengths and areas for improvement.

The methodology used in the development of this evaluation, meets the most advanced international standards. Regarding local standards, it is worth mentioning that after the update of the *Country Code* in 2014, local requirements reached much higher levels of demand, raising several aspects evaluated to the level of international best practices¹.

Specialized literature and international best practices propose a series of elements to be considered for the optimal functioning of the Boards of Directors. Kearney's methodology brings these aspects together in four dimensions:

1. Structure / Government
2. Coordination
3. Interaction
4. Strategic focus.

The dimensions break down into ten (10) components that gather specific performance elements, which are evaluated to obtain the Board of Directors' best practices compliance ratings.

In order to assess the performance of the Board of Directors as a governing body regarding local and international best practices in the aforementioned elements, Kearney's consulting team conducted in-depth interviews with three (3) of the seven (7) members of the Board of Directors and with three (3) members of the Management Committee who interact permanently with the Board. (table 1)

Table 1 1. Interviews conducted

	Name	Position
Directors	Jorge Mario Velásquez	Chairman of the Board – Patrimonial member
	Alejandro Piedrahita	Patrimonial member
	Carlos Gustavo Arrieta	Independent member
Executives	Juan Esteban Calle	Executive President
	Carlos Horacio Yusty	VP of Finance
	Maria Isabel Echeverri	Legal and Sustainability VP

Additionally, a detailed review of the Board of Directors' complete documentation and its Support Committees was carried out for the period between January of 2020 and January of 2021. During the interviewing process and the access to the information requested, it was possible to verify the interest of those involved in providing information and upfront opinions to the questions of the consulting team.

¹ The Country Code of 2014 comes up as Colombia's planned adhesion to the OECD, which established the updating of corporate governance standards for issuers as a requirement.

Main findings and recommendations

Main findings

- i. **The evaluation results of the Cementos Argos' Board of Directors are very positive.** Nine (9) of the ten (10) components evaluated obtained a score between 86 and 100, indicating **a performance that exceeds international standards, best practices and requirements, and that the board is reaching the best practices identified in the specialized literature and in leading global case studies.**
- ii. The progress perceived by the members of the Board of Directors and the Management Committee on the five (5) main recommendations made to the Cementos Argos Board, as part of the 2019 self-assessment, is significant. Both collegiate bodies **agree on the fact that a relevant effort has been made on the crucial points mentioned in the last evaluation.** The perception of specific progress on each one of the recommendations is as follows (Minimal/Partial/Significant/Outstanding):
 - a. **Reviewing the composition and training plans** of the Board of Directors to ensure that directors have the knowledge, skills, and the experience necessary to face future challenges of the company: **Partial progress.**
 - b. **Strengthening the functioning of the Board of Directors Committees:** **Significant progress.**
 - c. **Developing a Board's plan of action** more focused on the strategic topics of the company, with clear priorities, concrete goals, and indicators to review: **Significant progress.**
 - d. **Continuing to strengthen the Risk Management System** within the Board of directors: **Significant progress.**
 - e. **Defining the priority behaviors** that must be demonstrated at an individual and collegiate body level to improve the dynamics of Board meetings: **Significant progress.**
- iii. In general terms, relationships between members of the Board of Directors, its Chairman, members of the Management Committee, and the CEO **are distinguished by a high level of trust, transparency, guidance, and mutual support. The constant feedback and encouragement from the Chairman to the members are highlighted.**
- iv. The Board of Directors has an **annual meeting agenda** previously agreed on, that is **aligned with past evaluations and Cementos Argos strategy.** It includes the number of sessions that are sufficient to promote efficiency and the correct development of the Board of Directors. **Directors are flexible in holding extraordinary sessions when strictly necessary,** taking as a close example the health emergency caused by COVID-19 during 2020. Additionally, **the structure of the alternating Boards of Directors is highlighted:** each month the duration of the Board session varies between long and short, without ceasing to include all relevant subjects.
- v. In terms of high-performance Boards of Directors' conducts, self-assessment exercises and peer evaluations showed results that indicate the most important values for this collegiate body:
 - a. Working with **independence and integrity**, specifically highlighting **having an inquiring mind and the search for relevant facts** as the most relevant behaviors.
 - b. **The level of openness** in sessions in which **respect for common sense and intuition are emphasized along with a frank exchange of views.**
 - c. **Accountability**, specifically **peer management**, is involved in shaping the behavior of other board members to ensure better dynamics.
- vi. **The following are strategic topics of future interest, identified by those who were interviewed:**
 - a. Cementos Argos long-term strategy and its monitoring (5 -10 years).
 - b. Talent attraction and retention: Management Committee (Senior management).

Other additional aspects of great relevance are Cementos Argos commercial Strategy by geography, the analysis of industry trends in different geographies, decarbonization, the alignment of the organizational culture in the different geographies of operation, and the monitoring of regulatory compliance, **all processes that gain importance thanks to the magnitude of Cementos Argos' operations at an international Level.**

- vii. Regarding the **critical questions asked by the Board of Directors and the Management Committee**, it is noted that these are questions **that fall within the scope of the functions of the Board of Directors**. The questions can be grouped into **4 sections: i Corporate Strategy, ii Competitive Strategy, iii Organizations, iv Finance**.

Main recommendations and opportunities for improvement

- i. An opportunity for improvement for the future composition of the Board of Directors is **the formalization of the Succession Plan of Directors aligned with Cementos Argos long-term strategy**. These actions include:
- a. **Specifying diversity goals within the Board of Directors** in the Corporate Governance documents, from the point of view of gender diversity, professions, geographies, among others. This dimension is essential to encourage debate and constructive criticism in a high-performing Board of Directors.
 - b. Developing a continued **training plan with a higher level of detail** than that found in the current Annual Thematic Program.
- ii. It is recommended to **include in the Annual Thematic Program the discussion (not just the presentation) of the Board's annual performance evaluations as well as the external evaluation**, even if the latter is carried out less frequently (ideally every 3 years).
- iii. Regarding the **Support Committees** of the Board of Directors, it is recommended:
- a. To review the Committees' number of sessions and time spent in the year, based on a work schedule derived from the Board's Annual Thematic Program.
 - b. **To systematize and standardize the Committees' reports for the Board of Directors.**
- iv. We recommend **reviewing the time management of the Boards sessions** and the compliance with the agenda so that no item is left without deliberation.