Cemex, S.A.B. de C.V.

Mexico, Construction Materials

Accounting		Climate Assumptions		Audit		Date of analysis: Mar. 19, 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: Dec. 31, 2020 Financial Report date: Feb. 3, 2021 Annual Report: TBD – post AGM AGM: Mar. 25, 2021
Some concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Climate Action 100+ company, so seen by investors as key to driving global net zero emissions.

Summary view:

- The company describes its strategy and commitments on climate-related targets for emissions and energy consumption within its financial statements, and notes that detailed plans have been developed in order to meet its goals for 2030.
- While accounting policy disclosure indicates that certain assumptions are regularly updated, costs of implementing the strategy are not separately identified and the extent to which assumptions relating to useful lives and impairments might have taken account of the company's commitments is not clear. Nor are assumptions related to climate made visible.
- The disclosure of plans contrasts with the limited visibility of impact in the financial statements.

Background

The Business.

- Cemex produces, markets, sells and distributes cement, ready-mix concrete, aggregates and other construction materials and services. As with all cement producers, its processes are energy intensive and produce substantial CO2 emissions. This is particularly true of the production of clinker, an intermediate stage material that is produced through a chemical process that breaks down limestone in a kiln, splitting off CO2. Emissions from cement production are often assessed by the clinker factor[1]; a lower factor giving lower emissions.

Approach to climate change.

- CEMEX has begun implementing currently available technologies in the cement production process, including replacement of fossil fuels with alternatives, and renewable energy. These efforts have already reduced net specific CO2 emissions per ton by over 22% versus a 1990 baseline, with a corresponding clinker factor of 77.8% percent in 2019, down from 84.3%.
- The company previously announced a 2030 goal to reduce CO2 net specific emissions by 30% (vs 1990). In 2020 this was increased to 35%, to align with the Science-Based Targets Methodology. It equates to 520kg CO2/ton of cementitious product. This objective has been included in the variable compensation scheme for senior management, and detailed CO2 roadmaps have been developed at each cement plant for a roll out of proven reduction technologies. Feasibility has been validated by the Carbon Trust.
- CEMEX has an ambition to deliver net-zero CO2 concrete by 2050. While the technology to reach this goal is still in early stages of development, the company intends to work with the industry, governments and multilateral agencies to develop the means to achieve this goal.
- To this end, it has also introduced a low-carbon product range with reduced carbon intensity in the mix, but this relies on offsetting for the majority of the reduction. The part of CO2 emissions from decarbonization of limestone – well over half of overall emissions for traditional cement production – cannot be avoided. Cemex is exploring innovations for Carbon Capture, Utilisation and Storage to minimise this aspect at scale.
- Legal contingencies include a lawsuit related to a 2018 landslide that caused damages and fatalities at a 40% indirectly owned company in the Philippines. The landslide was triggered by heavy rainfall, as such potentially related to climate change.

Accounting: judgements and consistency with other reporting

[1] Reflects the extent to which clinker is substituted with materials having lower CO2 emissions profiles.

Accounting judgements		Some concerns

- The company's IFRS financials make several references to climate and emissions, including its strategy on climate change, accounting for emission rights and caps, and borrowing terms.
- Plans to meet the 2030 goal appear to be advanced. It is not clear, however, whether or how these have been integrated into financial statement estimates. Capital investment and R&D to develop and/or adopt new technologies have not been separately identified. Assets subject to estimates of depreciation and/or impairment include property, plant and equipment ($10.2bn), and goodwill and other intangibles ($10.3bn including extraction rights of $1.4bn).
- Accounting policy descriptions confirm that depreciation/depletion assumptions are reviewed at each reporting date and adjusted if appropriate. Post-impairment average lives do show a reduction in 2020, with industrial buildings reduced from an average of 31 to 26 years, and machinery and equipment (M&E) reduced by 1-2 yrs. It is not made clear what has driven these reductions. Amounts for extraction rights imply a considerable 65-year remaining life.[2]
- In 2020, the company recognised impairment losses of $1.5bn, attributed to uncertainty and lack of visibility associated with the Covid 19 pandemic. The period of cash flow projections was reduced from 7 to 5 years, and the growth rate reduced from 2.5% to 2%. US segment goodwill and other intangible assets (mainly extraction rights) were impaired by $1,020m and $194m, respectively. Fixed assets were also impaired by $306m (mainly US, Spain and UK). It is not clear how any climate assumptions have been considered in assessing impairment.
- Such impairments could bring into question the useful life estimates used.
  - Useful lives of fixed assets depreciated on a straight-line basis include M&E (82% of the value) at 6-15 years, and buildings at 26-31 years. 2020 depreciation roughly implies average lives of 23 years, and 9 remaining even after the 2020 impairments.
  - 'Land and mineral reserves' is depleted using the units of production method. 2020 depletion roughly implies (at constant production levels) 34 years and 27 remaining.
- The company provides accounting policy disclosure for CO2 emission reduction mechanisms in place. Expenses for any levies would be included in cost of sales, but none is separately disclosed, and there were no sales of emission rights to third parties.
- That certain power consumption and emissions targets are included in a borrowing facilities agreement is disclosed, but it is not made clear how these will serve to calibrate interest costs.

Consistency with other reporting		Significant concerns

- As noted above, plans to meet the 2030 emissions goal appear to be advanced. However, it is not clear whether or how these have been integrated into financial statement estimates.

Climate assumptions: visibility and Paris alignment

Visibility of climate assumptions		Significant concerns

- There are no disclosed climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment of assumptions with the goals of Paris.

Audit: visibility in KAMs and consistency check

Audit firm: KPMG Cárdenas Dosal,S.C.	Responsible partner: Joaquín Alejandro Aguilera Dávila	
Audit standards: International Standards on Auditing (ISAs) / (PCAOB for US Form 20-F)		
Visibility in Key Audit Matters		Significant concerns

[2] In the absence of better information, implied lives are roughly estimated using the current year's charge for depreciation/depletion/amortisation, and for average lives - beginning of year productive asset values before accumulated charges, and for remaining lives - end of year values net of accumulated charges.

- There is no explicit reference to climate change in the auditor's report.
- KAMs include the evaluation of goodwill impairment, and of certain tax and legal proceedings. Only goodwill has a dependency on estimated future cash flows.
- Goodwill impairment was reviewed with assistance of valuation specialists. Climate expertise is not mentioned - concerning as investors have identified CEMEX as a CA100+ company.

Consistency check		Significant concerns

- Other information for the consistency check comprises information included in the annual report, that was expected to be made available after the date of the auditors' report. The auditor notes that when they read the annual report, if any material misstatement is identified therein, they are required to communicate this to those charged with governance of CEMEX.
- There is no update provided in the 2020 Integrated Report. Given the significant concerns over consistency noted above, consistency within the Integrated Report that is the subject of the auditor's check also remains of significant concern.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.

	Key
	Good practice
	Few concerns
	Some concerns
	Significant concerns

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