Environmental, Social, And Governance (ESG) Evaluation

Building Futures Inc.

Executive Summary

Building Futures Inc. (BFI)’s operations are based in the U.S. and operate throughout North America. Moreover, about a quarter of the company’s operations come from Europe. BFI is part of the building materials industry: primarily cement products but also complementary offerings such as aggregates.

The company’s ESG Evaluation of 70 reflects an ESG Profile of 70 and Adequate Preparedness. BFI is transitioning to alternative fuels, with fewer greenhouse gas (GHG) emissions and pollutants, and away from fossil fuels. It is highly proactive regarding its limited raw materials and the effects of its extraction, which results in an Environmental Profile in line with that of other large peers. BFI’s safety record is comparable with that of peers; however, management’s actions have resulted in fewer accidents. BFI’s workforce is largely male, with no minority representation, which compares unfavourably with larger peers. Finally, the Governance Profile (78) reflects the strong structure and oversight from its management and board over the business and the transparency and disclosure to stakeholders. The company’s operations have been relatively free from controversies for several years. S&P Global Ratings made no material score adjustments.

Profile Score

70/100

Preparedness Opinion

Adequate

ESG Evaluation

70/100

A higher score indicates better sustainability

Company-specific attainable and actual scores
## Component Scores

<table>
<thead>
<tr>
<th>Environmental Performance</th>
<th>Social Performance</th>
<th>Governance Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector/Region Risk Level</strong></td>
<td><strong>32/50</strong></td>
<td><strong>Sector/Region Risk Level</strong></td>
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<tr>
<td><strong>Greenhouse Gases</strong></td>
<td><strong>Good</strong></td>
<td><strong>Workforce &amp; Diversity</strong></td>
</tr>
<tr>
<td><strong>Waste</strong></td>
<td><strong>Good</strong></td>
<td><strong>Safety Management</strong></td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td><strong>Lagging</strong></td>
<td><strong>Customer Engagement</strong></td>
</tr>
<tr>
<td><strong>Land Use</strong></td>
<td><strong>Good</strong></td>
<td><strong>Communities</strong></td>
</tr>
<tr>
<td><strong>General Factors (optional)</strong></td>
<td><strong>None</strong></td>
<td><strong>General Factors (optional)</strong></td>
</tr>
</tbody>
</table>

**E Profile (30%)** 60

**S Profile (30%)** 69

**G Profile (40%)** 78

**ESG Profile** (incl. any adjustments) **70/100**

## Preparedness Summary

We believe the company has advanced systems to monitor long-term risks, resulting in an Adequate opinion. Its strongest indicators are Awareness, given that BFI has an effective framework for identifying long-term risks and opportunities that might affect its business. However, the company is less advanced in its assessment of risks compared with peers and hasn’t committed to significant scenario planning. In addition, its Culture indicator is Excellent as long-term thinking and sustainability is highly embedded throughout the company.

## Preparedness Opinion

**Adequate**

## ESG Evaluation

**ESG Profile**

70/100

**Preparedness Opinion**

Adequate (No Impact)

**Further Adjustment (if any)**

0
ESG Profile

Overview

To derive the Environmental Profile, we account for the inherent environmental risks of the building materials industry, which has a reputation for and history of high emissions. BFI continues to reduce GHG emissions to its target. As of 2018, the company had achieved an 18% decline mainly by replacing fossil fuels with biomass and municipal solid waste for heating. Land use is relevant for the industry because the industry sources its raw materials from quarries, of which the majority are in high-risk areas, including wetlands. In our analysis, we consider certain related events: BFI has faced a couple of reported incidents related to water pollution resulting from discharges of hazardous wastes in South America. We believe it is not a chronic risk because the company promptly reacted and significantly improved its water discharge policies in all of its facilities after the incident.

Propelling the Social Profile, BFI has a solid commitment to communities where its facilities are located because it has negotiated and operated without disruption. The company has built employee engagement through several practices, including recognizing minorities in its policies and above-average compensation for employees. However, we believe BFI lacks workforce diversity, and it has no targets or policies regarding gender equality. The company publishes its social programs and health and safety measures and targets year-over-year, including contractors and internal workforce. In 2018, it recorded seven fatalities, although this annual figure has declined during the past 10 years. In our view, the content of its social policies is not as effective as it could be at mitigating ESG exposure, given a lack of specific metrics or managerial method of achieving targets.

BFI’s enterprise risk management (ERM) framework, which has improved considerably since the 2008 crisis, backs the Governance profile. In fourth-quarter 2018, the company was accused of bribery from its subsidiary, which stated that the company paid $120 million in bribes to secure contracts in projects in 2007. The case is ongoing. In our opinion, BFI has acted swiftly to investigate the matter, including setting up an independent committee of executives not involved with the contract that will report to the board of directors. We consider this a one-time event.
Environmental Factor Analysis

**Greenhouse Gas Emissions**
- BFI has developed clear GHG reduction targets for the near and medium terms. It has committed, both internally and externally, to achieving those targets as well as implementing measuring processes in its facilities worldwide.
- Energy consumption is down, while consumption from renewable sources has increased. The company’s main source of energy are fossil fuels such as coal and petroleum coke.
- International third parties have recognized the company’s transparency and disclosure on carbon emissions.
- The company continuously invests in research and development to find alternative fuels, such as trash, biomass, and tires to power its plants.

**Waste**
- For more than a decade, BFI has kept track of its air pollution and implemented policies to reduce it.
- Its targets and achievements of reductions are in line with those of its peers, particularly on its Africa, Middle East, and Asia production facilities.
- Although about one-quarter of total waste is hazardous, the company has high recycling rates in almost all its factories. Its engagement with recycling has increased throughout the years significantly improving from its 1990 baseline.
- Waste disposal overall shrank because of strict internal policies. In addition, BFI recycles more than its peers.

**Water**
- BFI has no in-depth water management policy and does not account for regional water stress in its investment decisions.
- Fifteen percent of the company’s operations are in water stress regions, but its water use for production has steadily decreased over the years.
- BFI had an incident at one of its facilities in South America that resulted in the pollution of a water mass near its facility. The company cleaned up the hazardous materials and implemented preventive measures for discharged water.
- Its water management strategy seeks to decrease its freshwater withdrawals through reduction and recycling water.

**Land Use**
- BFI has land use and biodiversity policies that aim to track and disclose data. There are more than 30 identified vulnerable species in the territories the company operates in or owns, so its wildlife protection program has biologists that track and protect those species.
- Land use and biodiversity risk exposure is generally high for the U.S, Mexico, and Brazil.
- BFI sources some raw materials from wet lands, so it has active policies to reduce the impact.
- In line with the large multinational peers, the company has programs dedicated to quarry rehabilitation that have proven successful.

**General Factors Score <None>**
- We have not made any adjustments to the Environmental Profile.
### Social Factor Analysis

#### Workforce & Diversity

- **Lagging**
  - BFI has no women on its board or in its C-Suite. It has a 23% gender pay gap, which compares unfavorably with peers. There is no minority representation in the board or management.
  - Almost all the company’s employees are full time and range from 19-65 years old.
  - Employee turnover and benefits are comparable with that of sector peers. Benefits include maternity leave, fitness benefits, and work-from-home opportunities.

#### Safety Management

- **Good**
  - As with sector peers, BFI has had fatalities, both with direct employees and contractors. In 2018, it reported seven fatalities, down one from the year before. The company is committed to eliminate its fatalities through programs focused on road and machine operation safety.
  - BFI had zero product recalls for the past 12 years.
  - Contractors also get health and safety training, especially in road safety, with the goal of eliminating fatalities.

#### Customer Engagement

- **Lagging**
  - The anonymous customer complaint center operates 365 days per year, but the number of complaints has increased compared with industry peers, whose numbers have fallen.
  - BFI has reported no data breaches, given its investments in a network security program. The company complies with data privacy regulations in the countries where it operates.
  - By providing building solutions for customers and serving different segments, from industrial to self-building, the company focuses on client satisfaction.

#### Communities

- **Strong**
  - The engagement with communities comes from different active programs that cover everything from education to financing. One of the most successful initiatives has been a mentoring program for young engineering students.
  - BFI has allocated funds and workforce to rapidly mitigate natural disasters where it operates.
  - Expecting population growth to more than 9 billion by 2050, mainly in urban areas, the company is looking for alternatives to fulfill future cement demand.

#### General Factors Score

- **None**
  - We have not made any adjustments to the Social Profile.
Governance Factor Analysis

**Structure & Oversight**

- **Strong**
  - We believe BFI's board includes experienced and highly skilled individuals. However, we believe there are few independent members and little diversity (for instance, there are no women).
  - Three committees help management carry out efficient results with expertise in the sustainability, internal audit, and corporate practices.
  - The committees meet every quarter and report directly to the board; both have incentives to achieve published targets.

**Code & Values**

- **Good**
  - BFI discloses its values and codes extensively. Its Business Code and Effects program has received 35% more inquiries year over year and resolved 98% of them in the timeframe it had committed to in its policy.
  - The company’s culture and overall remuneration is comparable with its large peers.

**Transparency & Reporting**

- **Strong**
  - Reporting practices are in line with peers and generally sounder than the transparency and reporting of some building material companies in emerging markets.
  - BFI has published an annual sustainability report for the past decade, and its disclosures are in line with global practices. These reports are consistent in the information and metrics it publishes.
  - The company has not had any restatements in the past decade and its external audit has solid reputation.

**Cyber Risks & Systems**

- **Good**
  - BFI has not reported an incident regarding data privacy and cybersecurity in the past 10 years.
  - The company has invested in software to avoid attacks and protect its information. The cybersecurity team has had low turnover and are very knowledgeable of the company’s systems.
  - BFI has also implemented cybersecurity training in the risky business units that handle sensitive data.

**General Factors Score <None>**

- We have not made any adjustments to the Governance Profile.
Preparedness

Preparedness Opinion

<table>
<thead>
<tr>
<th>Preparedness</th>
<th>Low</th>
<th>Emerging</th>
<th>Adequate</th>
<th>Strong</th>
<th>Best-in-class</th>
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</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>Developing</td>
<td>Good</td>
<td>Excellent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment</td>
<td>Developing</td>
<td>Good</td>
<td>Excellent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Action</td>
<td>Developing</td>
<td>Good</td>
<td>Excellent</td>
<td></td>
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<tr>
<td>Culture</td>
<td>Developing</td>
<td>Good</td>
<td>Excellent</td>
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<tr>
<td>Decision-Making</td>
<td>Developing</td>
<td>Good</td>
<td>Excellent</td>
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</table>

Summary Opinion

Overall, we believe the company has advanced systems to monitor its long-term risks. It has frequent meetings throughout the year to fine-tune and follow up on strategies with board members. BFI has accurately identified long-term risks and opportunities that might affect its business, in line with its sector. The company maintains a clear and consistent communication with its stakeholders and is perceived as transparent. Its ERM committee identifies, defines, prioritizes, and tracks long-term risks. Its results are published in its annual reports. Key decision-making factors are integrated into the company’s overall long-term risk management process and its board is closely involved. We believe ESG factors are fully embedded in BFI’s culture, because its objectives are understood and acted upon at all levels of the organization. Board oversight and accountability on ESG matters are clear to all stakeholders (internal and external); we believe the company’s incentive system also supports long-term accountability.

Awareness

BFI is aware of the emerging and disruptive risks and opportunities, and we believe its awareness is above the average of the peers operating in similar regions. BF identifies its long-term risks, and focuses on the ones related to use of fossil fuels, resource scarcity, relentless population growth and urbanization. The company publicly discloses key risk management highlights, including environmental, energy, and sustainability challenges it has faced for the past 10 years. We believe that BFI’s structure supports the company as it tackles and mitigates risks at the global, regional, and local level. Board members and the sustainability committee review the improvement and implementation of strategies twice a year.

Assessment

We believe BFI uses sophisticated tools to set targets and has done an in-depth assessment on the possible implications of the identified risks. The sustainability committee meets quarterly to maintain sustainability strategic planning, identify the issues of highest importance to the company and its stakeholders, and set goals and targets and flag urgent issues. BFI is at an early stage in using scenario analysis, with plans to do more in the medium term.
Preparedness

The company has set key thresholds of risk that are intended to trigger a strategic review or other actions. The company is still developing contingency plans for optimizing operations. Management expects to focus more on exploiting potential opportunities identified through their assessment process and incorporating them into their action plan later this year.

Culture

The company is committed to its stated strategic objectives. Emerging risks, including ESG- and non-ESG related, are discussed from the top to the bottom, along with integrating initiatives from the bottom to the top. Responsibilities are clearly defined for each part of the enterprise risk management and BFI has incentives to achieve global goals. The company has started training employees to understand the long-term risks of and BFI's role in the building materials industry. The culture is increasingly embedded at all levels and the workforce rapidly adopts new revenue streams. Individuals at all levels understand the importance of the company’s strategy, including the disruptive risks it faces.

Decision-making

The sustainability committee and the board share members, resulting in a clear commitment to adhering to new international standards for climate change mitigation and adaptation. Targets address key long-term risks identified along with a capital expenditure plan to transform fully operations in the following decade. BFI has adopted technologies, both self-developed and available in the market, to continue transforming, and has implemented these changes quickly because of the alignment of the sustainability committee and the board. However, given the costs and expected return on capital, BFI has not yet devoted a significant amount of capital expenditures to transformation and research and development; this might reflect some apprehension about investing to respond to long-term, less-certain risks and opportunities.
Appendix

Hypothetical Building Materials Company Case Study

S&P Global Ratings
Environmental, Social, and Governance (ESG) Evaluation

This product is not a credit rating

April 11, 2019

Sector/Region Risk

<table>
<thead>
<tr>
<th>Primary Sector(s)</th>
<th>Building Materials: Cement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Operating Region(s)</td>
<td>North America, Latin America, EMEA</td>
</tr>
</tbody>
</table>

Sector Risk Summary

Environmental exposure

Building material companies are very exposed to GHG emissions and waste risks. Cement and other heavy-side building materials companies typically need to crush and move raw materials to produce their products, which might require a lot of fuel and create waste and pollution. The cement industry, together with steel, ammonia, and ethylene, produce about half of total CO2 emissions in the industrial sector. Most large cement players, particularly in Europe, the Middle East, and Asia, are committed to reducing carbon emissions in line with the Paris Climate Agreement, mainly through greater use of alternative fuels and raw materials to reduce the clinker ratio. We believe more of a cement company’s capital expenditures will be for energy efficiency and compliance with environmental regulations. Building materials companies may also be exposed to climate-related risks (such as storms and harsh winters), which can interrupt local operations and damage equipment. Climate change also shape needs for building materials and consumer behaviours, and can make companies adapt their product offerings.

Social exposure

Social risks in the building material industry are less relevant than environmental risk. Companies typically track and manage incidents and have specific programs to educate their work forces, resulting into a low safety management risk, particularly in developed countries. Consumer behavior is becoming a key factor due to greater demand for green products and accelerating innovation rates. In addition, population growth, urbanization, and rising living standards provide opportunities for medium- to long-term growth, but building materials will need to adapt their product offerings to evolving population needs.
Sector/Region Risk

Regional Risk Summary

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries, but has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance, focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. Exchanges requirements mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, establishment of formal requirements on ESG reporting are behind those of European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular, which can create issues regarding management oversight. Remuneration continues to be a contentious point, because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism.
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