

CEMEX LATAM HOLDINGS, S.A.
Directors' Report

2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

1.- Nature and activities of the Company

Cemex Latam Holdings, S.A. (hereinafter the “**Company**” or “**Cemex Latam**”, interchangeably) was incorporated on April 17, 2012 as a public limited liability company (“*sociedad anónima*”), for an unlimited period. Its registered office is located at Calle Hernández de Tejada, 1, in Madrid.

The Company was incorporated to head a group of companies engaged in the cement business, the parent of which is Cemex S.A.B. de C.V. (hereinafter “**Cemex**” or the “**Cemex Group**”), in certain South and Central American countries, including Colombia, Panama, Costa Rica, Nicaragua, Guatemala, El Salvador and Brazil (hereinafter the “**Group**” or the “**Cemex Latam Group**”, interchangeably) for the purpose of carrying out an Initial Public Offering on the Colombian Stock Exchange (hereinafter interchangeably referred to as “the **Initial Public Offering**” or the “**IPO**”), which was completed on November 15, 2012. The Company’s shares, all of the same class, have been traded on the Colombian Stock Exchange (“**BVC**”) since November 16, 2012.

The statutory and principal activities of the Company consist of the management and administration of equity securities of entities not resident in Spain through the organization of material and human resources, as well as the subscription, buy-back, holding, use, management or disposal of securities and stakes in companies, except those subject to specific legislation.

Without prejudice to the foregoing, the Company’s statutory activity also includes the following activities:

- Rendering technical assistance, business management and support services to other companies in its group;
- Research and development in the field of construction materials;
- The manufacture, production, purchase, sale, distribution, transportation, marketing, export and import of cement, aggregates, concrete, mortar and any other construction materials, as well as any other product or activity directly or indirectly related to the cement industry and construction materials, and the exploration and operation of mines; and
- Management of all types of by-products and/or waste, in the broadest sense, including the collection, transportation by road, sorting, recovery, marketing, treatment, conversion into fuel or raw materials, and disposal.

At December 31, 2017 the first two activities listed above are carried out directly by the Company, while the activities described in the last two points are conducted through its subsidiaries.

The Company has investments in subsidiaries and associates, and is the parent of a group of companies (the “*Cemex Latam Group*”) engaged mainly in the manufacture of cement, concrete and mortar, the extraction of aggregates, and the sale and distribution of the products extracted and manufactured. For the purposes of clarification, (i) the definition provided in this document for the terms “*Group*” and “*Cemex Latam Group*” is not contained in the provisions of Title VII, Chapter VI of Income Tax Law 27/2014 of November 27, 2014 on consolidated tax groups, and (ii) although the Company is the parent of a group of companies as defined under legislation in force, and therefore obliged to file consolidated annual accounts, it does not prepare consolidated annual accounts in Spain because the group of which it is the parent forms part of a higher level

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Spanish group headed by Cemex España, S.A. (hereinafter “**the Cemex España Group**” or “**Cemex España**”), which presents individual and consolidated annual accounts pursuant to article 43.2 of the Spanish Code of Commerce.

Cemex España's registered office is located at Calle Hernández de Tejada, 1, in Madrid. The consolidated annual accounts of Cemex España will be filed at the Madrid Mercantile Registry once they have been approved by the shareholders at the annual general meeting.

The Company is part of the Cemex Group, the ultimate parent of which is Cemex, S.A.B. de C.V., which is domiciled in Monterrey (Mexico) and listed on the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE).

In the period from January 1, 2017 to December 31, 2017 the Company's revenues mainly consisted of royalties paid by its direct and indirect subsidiaries for use of intangible assets, trademarks and Cemex management services under licensing agreements arranged through the Branch in Switzerland. These revenues form part of the Company's main business operations.

2.- Business performance of the Cemex Latam Group

Key indicators for 2017 include the following:

- Consolidated volumes of domestic gray cement, concrete and aggregates decreased by 0%, 6% and 4%, respectively, in 2017 compared to 2016.
- Consolidated net sales were down 6% on 2016, amounting to US Dollars 1,243 million (Euros 1,096 million), primarily due to the lower volumes of cement and prices in Colombia.
- When adjusted for exchange rate fluctuations, the reduction in unit prices for domestic gray cement, concrete and aggregates was 8%, 1% and 5%, respectively, compared to 2016.
- Consolidated EBITDA for 2017 dropped 27% with respect to the prior year, from US Dollars 424 million (Euros 384 million) to US Dollars 310 million (Euros 273 million), mainly because of the lower volumes of cement and prices in Colombia.

The main performance trends of the Cemex Latam Group's businesses in the South and Central American markets in which it operates are summarized below:

- **Colombia**

Volumes of domestic gray cement, concrete and aggregates decreased by 6%, 13% and 17%, respectively, in 2017 compared to 2016. Domestic gray cement and concrete prices in local currency dropped by 19% and 2%, respectively, while prices of aggregates in local currency rose by 4%, compared to 2016.

Cement consumption during the year was affected by weak demand for industrial and commercial products and for housing development.

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In 2017 EBITDA in Colombia fell by 47% to US Dollars 113 million (Euros 100 million), compared to US Dollars 214 million (Euros 194 million) in 2016, while net sales contracted by 15% to US Dollars 566 million (Euros 499 million) during the same period.

- **Panama**

Our volumes of domestic gray cement, concrete and aggregates grew by 3%, 9% and 13%, respectively, in 2017 compared to the same period of 2016.

Net sales totaled US Dollars 266 million (Euros 235 million) in 2017, up 4% on the same period of the prior year.

EBITDA dropped 7% to US Dollars 108 million (Euros 95 million) in 2017 with respect to 2016, due to lower aggregates prices, and the higher cost of fuel and raw materials.

- **Costa Rica**

Volumes of domestic gray cement, concrete and aggregates rose by 3%, 11% and 36%, respectively, in 2017 compared to 2016.

Daily nationwide cement consumption in 2017 felt the positive effect of wider-scale industrial and commercial construction projects coupled with lower cement imports in the local market.

Net sales were down 2% on the previous year, to US Dollars 149 (Euros 131 million). Despite higher volumes in the three sectors in 2017, prices in local currency declined by 3% (domestic gray cement), 10% (concrete) and 49% (aggregates).

EBITDA totaled US Dollars 53 million (Euros 47 million) during the year, down 12% on the same period of the prior year due to lower net sales and higher fuel costs.

- **Other Cemex Latam Group countries**

In the “Rest of CLH” region, which includes our operations in Nicaragua, Guatemala, El Salvador and Brazil, volumes of domestic gray cement, concrete and aggregates climbed by 9%, 45% and 101%, respectively, compared to 2016.

The robust growth in volumes of cement in Nicaragua and concrete in Guatemala was offset by weaker demand in other markets, most notably by the results of our operations in Brazil.

Net sales in 2017 totaled US Dollars 286 million (Euros 252 million), up 8% on 2016. EBITDA for the year amounted to US Dollars 85 million (Euros 75 million), which is one million more than in the same period of the prior year.

3.- Outlook for the Cemex Latam Group

In 2018, cement volumes are expected to be similar to those reported for 2017. Volumes of concrete and aggregates, meanwhile, are both expected to rise by 2%. Investments in property, plant and equipment for maintenance and strategic purposes are forecast to total US Dollars 50 million and US Dollars 5 million (Euros 42 million and Euros 4 million), respectively.

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4.- Risks and uncertainties

The Company's activities are exposed to various financial risks, primarily liquidity risk, cash flow interest rate risk and capital risk. The Company's global risk management program focuses on uncertainties in its sector of operations and in financial markets, and aims to minimize the potentially adverse effects on the Company's financial performance.

The Company's Finance and Management departments ("Comptroller, Internal Control and Internal Audit") work in coordination to jointly oversee the management of the Company's risks based on the policies, procedures and systems ("the Policies and Systems") in place and/or adopted specifically by the Company and other Cemex Latam Group companies. The strategic planning, tax and legal areas are also involved in the process. These departments identify, measure and manage the operating and financial risks to which the Company is exposed, in close collaboration with other Group areas and always under the supervision of the Company's senior management.

The Audit Committee is responsible for supervising the effectiveness of the Company's internal control and for managing corporate risks directly, in line with the duties expressly conferred on it in the Regulations of the Board of Directors. The Audit Committee is assisted in this task by the Company's Internal Audit area, which reports to the Committee. The Board of Directors is ultimately responsible for the appropriate management of the Company's risks, approving and defining suitable guidelines and policies, subject to a prior report by the Audit Committee.

The key indicators of the effectiveness of the Company's internal control and corporate risk management are detailed in the pertinent sections of the Annual Corporate Governance Report, which is attached as an Appendix to the Directors' Report.

The main risks and uncertainties identified are:

(a) Liquidity risk

The Company applies a prudent policy to cover its liquidity risks based on having sufficient cash, as well as sufficient financing through credit facilities. One of the objectives of the Company's and the Cemex Group's Treasury department is to maintain flexible financing through drawdowns on credit facilities arranged with Cemex Group companies.

(b) Cash flow interest rate risk

The Company is exposed to interest rate risk from borrowings (loans and credit facilities) vis-à-vis Cemex Group companies. Fixed-rate loans are exposed to fair value interest rate risk, and are subject to review by the Cemex Group to confirm whether market interest rates are being used.

(c) Capital risk

At December 31, 2017 and 2016 the Company has no financial instruments or transactions involving treasury shares or shares of Cemex S.A.B. de C.V. or third parties, except the share-based payment plans granted to executives. As such, the Company does not expect any changes in forecast cash flows due to variations in share prices.

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5.- Research and development activities (R&D)

Through its Branch in Switzerland, the Company has developed Cemex Group industrial property aimed at and adapted for Latin American countries.

As a result, the Branch now adapts the Cemex Group's intangible assets to meet the specific needs of the Latin American markets in which the Cemex Latam Group operates.

Cemex Latam Holdings, S.A. (Swiss Branch) has therefore signed agreements to provide services and to manage and develop industrial property, sublicensing the use of this industrial property to the Latin American countries in question. It has also signed licensing agreements with the Cemex Group.

6.- Treasury shares

At December 31, 2017 the Company held 21,457,624 treasury shares. These shares were bought back on December 12, 2012 when the put option granted to the underwriters in the aforementioned Initial Public Offering was exercised.

In 2017 and 2016, a total of 544,714 and 377,412 treasury shares, respectively, were blocked due to the implementation of the long-term incentive scheme approved by the Board of Directors at its meeting held on January 16, 2013, with effect from January 1, 2013, following receipt of a report from the Appointments and Remuneration Committee approving the initiative. This scheme is an annual remuneration program for certain Cemex Latam Group executives based on Company shares, which are delivered fully paid-in in four 25% blocks per year under each of the annual programs.

In 2017, 172,981 shares were delivered to certain executives, corresponding to the portion accrued under the program for the prior year.

7.- Annual Corporate Governance Report

Although the Company has not issued any securities admitted for trading in any member state of the European Union and its shares are only admitted to trading on the Colombian Stock Exchange, it has decided voluntarily to prepare an Annual Corporate Governance Report and to include it in this Directors' Report.

Consequently, the Annual Corporate Governance Report for the year ended December 31, 2017 is attached to and forms an integral part of this report, together with the Code of Best Corporate Practices – Colombia (the “**Country Code Survey**”), based on the template provided in External Circular No. 28 of September 30, 2014 issued by the Financial Superintendency of Colombia (“SFC”).

This report also includes the Annual Report on Directors and Senior Executives and their Compensation for the reported year.

8.- Average supplier payment period

The average supplier payment period is 62 days. In the first quarter of 2018 steps will be taken to comply with legislation on late payment, by improving the procedures and systems for the receipt,

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automation and validation of supplier invoices. Any invoices paid after 60 days are Cemex Group company invoices and therefore do not affect the ratio of late payments to third-party suppliers.

9.- Events after the reporting period

On March 1, 2018, as part of the process to simplify the Cemex Group's corporate structure, New Sunward Holding, B.V. ("NSH") transferred the loans it had extended to the Company, amounting to US Dollars 191,411 thousand (Euros 156,523 thousand), to Lomez International, B.V., a Dutch firm that is also part of the Cemex Group. The terms and conditions of these loans have not been affected by the transfer.