

CEMEX LATAM HOLDINGS, S.A.

December 31, 2016

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

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Directors' Report

2016

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1.- Nature and activities of the Company

Cemex Latam Holdings, S.A. (hereinafter interchangeably referred to as the “**Company**” or “**Cemex Latam**”) 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, 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. (“**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 non-resident entities 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:

- the provision of technical assistance, business management services and support to Group companies;
- research and development in the field of building materials.
- manufacture, production, purchase, sale, distribution, transport, marketing, import and export of cement, aggregates, concrete, mortar and other building materials, any other product or activity related, directly or indirectly, to the cement and building materials industry, and the exploration and operation of mines;
- management of all manner of sub-products and/or waste, in the broadest meaning, including the collection, transport by road, selection, recovery, marketing, treatment, transformation into fuel or raw materials, and elimination; and

At December 31, 2016 the first two activities detailed above are performed directly by the Company, while the activities detailed in the latter two points are performed 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 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 42.2 of the Spanish Code of Commerce.

Cemex España has its registered office at Calle Hernández de Tejada, 1, 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).

The Company’s revenue in the period from January 1, 2016 to December 31, 2016 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. This revenue is part of the Company’s main business operations.

2.- Business performance of the Cemex Latam Group

Key indicators for 2016 include the following:

- The volumes of domestic gray cement, concrete and aggregates increased by 1%, 9% and 14%, respectively, in 2016 compared to 2015.
- Consolidated net sales fell by 8% vis-à-vis 2015, primarily due to exchange rate fluctuations and lower sales by our operations in Colombia, Panama and Costa Rica. Adjusting for exchange rate fluctuations, consolidated net sales diminished by 2% in a full-year comparison against the previous year.
- In 2016 the Group has achieved record EBITDA and EBITDA margins in Nicaragua and Guatemala, in addition to a record EBITDA margin in Panama. Adjusting for exchange rate fluctuations, the volumes of domestic gray cement, concrete and aggregates increased by 1%, 2% and 8%, respectively, in 2016 compared to 2015.
- Adjusting for exchange rate fluctuations, consolidated EBITDA remained at the same level as in 2015, i.e. US Dollars 449 million (Euros 427 million).

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

- **Colombia**

The volumes of domestic gray cement, concrete and aggregates diminished by 0%, 8% and 13%, respectively, in 2016 compared to 2015. Prices in local currency of domestic gray cement, concrete and aggregates rose by 1%, 4% and 11%, respectively, compared to 2015.

In 2016, EBITDA in Colombia fell by 14% to US Dollars 214 million (Euros 203 million) compared to US Dollars 248 million (Euros 236 million) in 2015, while net sales shrank by 8% to US Dollars 665 million (Euros 632 million) during the same period.

- **Panama**

Our volumes of domestic gray cement, concrete and aggregates diminished by 14%, 3% and 5%, respectively, in 2016 compared to the same period in 2015.

EBITDA declined by 1% to US Dollars 116 million (Euros 110 million) in 2016 compared to 2015. Net sales totaled US Dollars 256 million (Euros 243 million) in 2016, a decrease of 10% on the prior year.

- **Costa Rica**

The volumes of domestic gray cement and concrete diminished by 12% and 9%, respectively, in 2016 compared to 2015. These volumes were negatively affected by the lack of new infrastructure works executed. The volume of aggregates increased by 9% in 2016 compared to 2015.

EBITDA amounted to US Dollars 61 million (Euros 58 million) during the year, having decreased by 12% with respect to the same period in 2015. In 2016 net sales fell by 9% on 2015, to US Dollars 151 million (Euros 144 million).

- **Other Cemex Latam Group countries**

In the region called "Rest of CLH", which includes operations in Nicaragua, Guatemala, El Salvador and Brazil, domestic gray cement sales volumes increased by 10% whereas volumes of both concrete and aggregates fell by 37% and 66%, respectively, compared to 2015.

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

Net sales in 2016 totaled US Dollars 263 million (Euros 250 million), down 2% on 2015. In 2016, EBITDA grew by 16% on 2015, reaching US Dollars 84 million (Euros 80 million).

3.- Outlook for the Cemex Latam Group

For 2017, volumes of cement and aggregates are expected to be similar to 2016. Concrete volumes are estimated to grow by between 1% and 3%. Investments in property, plant and equipment for maintenance and strategic purposes are forecast to total US Dollars 56 million and US Dollars 40 million (Euros 53 million and Euros 38 million), respectively.

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 markets 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 together and 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 departments 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 conferred on it expressly in the Regulations of the Board of Directors. In this respect, the Audit Committee is assisted by the Company's Internal Audit Area, which reports functionally to it.

The board of directors is ultimately responsible for the appropriate management of the Company's risks, approving and establishing suitable guidelines and policies, subject to a prior report by the Audit Committee.

The key indicators of the efficiency of the Company's internal control and corporate risk management are detailed in the pertinent sections of the *Annual Corporate Governance Report* which, pursuant to article 43 of the Regulations of the Board of Directors, is attached hereto as an Appendix.

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) with Cemex Group companies. Fixed-rate loans expose the Company to fair value interest rate risks and are reviewed by the Cemex Group to confirm that they are entered into on an arm's length basis at market rates of interest.

(c) Capital risk

At December 31, 2016 and 2015 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.

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

Through its Branch in Switzerland, the Company has developed Cemex Latam 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, 2016 the Company held 21,630,605 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 2016 and 2015, 377,412 and 356,976 treasury shares, respectively, were blocked due to the implementation of the long-term incentive scheme approved by the board of directors at its session 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 2016, 271,461 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.

Therefore, both the Annual Corporate Governance Report for the year ended December 31, 2016 and the Survey on Best Colombian Business Practices (“**Country Code Survey**”) have been attached to this Directors’ Report and become an integral part hereof. The Country Code Survey has been drawn up based on the model provided in the Colombian securities market regulator’s External Circular No. 028 of 2014, dated September 30, 2014.

Also attached to this report is the Annual Report on the *Remuneration of Board Members and Senior Executives* for 2016, approved by the board of directors.

8.- Average supplier payment period

The average supplier payment period is 17 days, which lies within the legal payment period.

9.- Events After the Reporting Period

On February 24, 2017 the Company refinanced its debt with New Sunward Holding, B.V. by an amount of US Dollars 229,507 thousand, extending its maturity until 2023. The interest rate under the new loan contract is 5.65%.

At their meeting on March 28, 2017 the board of directors approved an amendment to the Framework Agreement (note 16) to establish a principle of mutual interest between Cemex, S.A.B. de C.V., Cemex España and the Company with regard to legal proceedings, administrative matters and government regulations.

CEMEX LATAM HOLDINGS, S.A.

Notes to the Annual Accounts