1997 Annual Report

Consistent growth and returns

A highly creative **management culture** and philosophy. An openness and willingness to embrace new ideas, diverse cultures and different ways of doing business ...

a passion for change

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"The CEMEX Approach has allowed the company to quintuple its size while maintaining margins at twice the industry average."

Daniel Dombey,
IndustryWeek 5/5/97

Our cover
A highly-adaptive management culture is the driving force behind our ability to generate consistent growth and returns.

The CEMEX difference

At CEMEX, our mission is to meet the global building needs of our customers and create value for our shareholders, employees and other important stakeholders by becoming the world's most efficient and profitable multinational cement company.

The fundamentals that drive the business are our:

- Management expertise;
- Core cement, ready-mix concrete and aggregates base;
- Low operating costs;
- State-of-the-art management information systems and production technology;
- Aggressive yet prudent financial management and capital structure; and
- Emerging-market focus.

CEMEX Today

Founded in 1906, CEMEX is the largest cement company in the Americas and one of the three largest cement companies in the world, with close to 51 million metric tons of production capacity. Through its operating subsidiaries, CEMEX is engaged in the production, distribution, marketing and sale of cement, ready-mix concrete, aggregates and clinker. CEMEX has operations in 22 countries and, through its extensive network of distribution centers and marine terminals, trade relations with more than 60 countries around the globe.

CEMEX has market-leading operations in Mexico, Spain, Venezuela, Panama and the Dominican Republic, and a significant presence in Colombia, the Caribbean, the Philippines and the southwest United States. It is also the world's leading producer of white cement and the world's largest trader of cement and clinker, marketing more than 10 million metric tons in 1997.

Consistent growth and returns

If there is one thing that distinguishes us from our competitors, it is our highly adaptive management culture and philosophy. This is the driving force behind our ability to provide consistent growth and returns to you, our employees, partners and customers.

This learning culture stems from our emerging-market focus. Coming from an emerging economy presents its own set of distinct challenges. We constantly have to look for new ways to capitalize on these countries' seemingly limitless range of problems and opportunities.

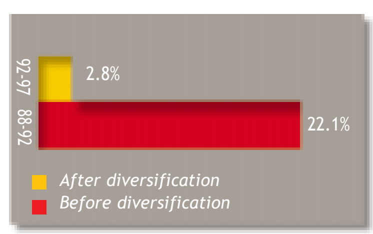
Our passion for change is, perhaps, best exemplified by our ability to rapidly realize the benefits of integration and efficiency. This is where our management approach and our investment in information technology and skills have reaped significant returns. Most recently, our multinational Post-Merger-Integration (PMI) team expanded Colombia's cash flow to US$135 million in 1997, achieving over US$30 million in recurring cost savings.

Quite simply, the creation of long-term shareholder value is a must. With this in mind, our goal is to achieve higher returns through a mix of organic growth, efficiency and selective external investments.

"International diversification has diversified cash flows. … As a result of this broad diversification, CEMEX has succeeded in reducing the volatility of its earnings. Reaching such levels of diversification affords CEMEX the financial flexibility to withstand individual market fluctuations while continuing to capitalize on other expansion opportunities … ."

Scott McKee, J.P. Morgan,
1/9/98 Credit Research Report

Margin volatility*



Consolidated stability
CEMEX' geographic diversification has reduced the volatility of cash flow margins.

**Annual standard deviation of cash flow margins. Expressed as a percentage of the underlying average cash flow margins.*

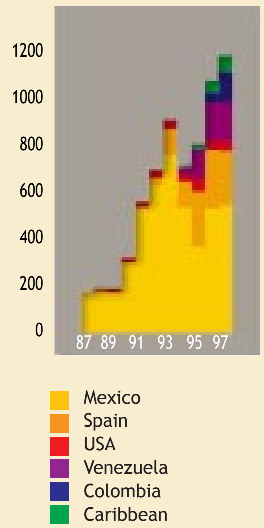
Our consistent long-term strategy has provided us with a more stable, diversified growth portfolio. For the past eleven years, our compound annual growth rate for operating cash flow has averaged 21% (in dollar terms). International diversification has afforded us the financial flexibility to not only withstand individual market fluctuations, but also to capitalize on arising investment opportunities, such as our Share Repurchase Program.

Our portfolio is mostly concentrated in high-growth, highly profitable and, in the aggregate, more stable emerging markets. Indeed, on a consolidated basis, CEMEX' operating margin is significantly more stable than each of its individual units.

It is critical for us to have a strong financial foundation upon which to grow. During the year, we aggressively worked to achieve our conservative financial targets. By year-end 1997, we increased CEMEX' interest coverage to 2.4 times, a five-year high. We further lowered CEMEX' refinancing risk by putting in place a US$600 million revolving credit facility.

We cannot, and will not, place the company's financial structure at risk for the sake of growth. Any investment, past or future, must satisfy three main criteria: 1) Value creation must be principally driven by factors that the company can influence, particularly the application of CEMEX' management and turnaround expertise; 2) The acquisition must not compromise our ability to meet our financial leverage and interest coverage targets; and 3) The investment must offer superior long-term financial returns that significantly exceed our cost of capital.

Operating cash flow
(millions of dollars)



Double-digit growth

For the past eleven years, CEMEX' compound annual growth rate for operating cash flow has averaged 21 percent (in dollar terms).

Lorenzo H. Zambrano
Chairman of the Board and CEO

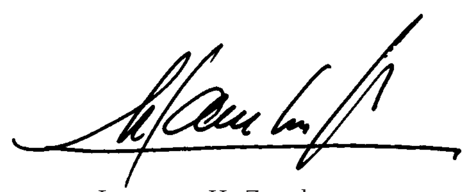
Based on these criteria, we analyzed several transactions in South America, Eastern Europe and Southeast Asia over the past year. Of these, we selected a less capital-intensive, strategic investment in the Philippine cement market. Specifically, we acquired a 30% equity stake in Rizal Cement, the Philippines' second-largest cement maker.

The Rizal Cement deal is a good example of how we can make selective acquisitions at much higher returns than in the past. This transaction is not just a prudent long-term investment, but our technical assistance and consulting fees also provide a natural hedge against regional risk. In return, Rizal Cement enjoys the benefits of the CEMEX system, including increased purchasing power, logistical savings and multiple other ways to generate greater value for its stakeholders.

In 1997, we took important steps to align management's interests with your own. Through our stock-based compensation program, all of CEMEX' senior management have a stake in the company's financial success. Through these and other initiatives, we have worked hard to recognize and reward our most important asset, our human capital.

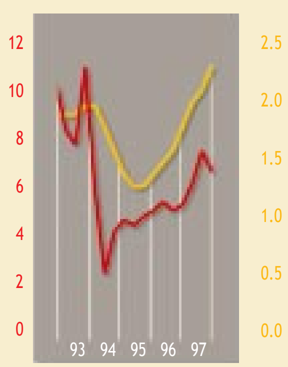
We have also worked hard to build on our core business fundamentals: Low operating costs; Core cement, ready-mix concrete and aggregates base; State-of-the-art information systems and production technology; Aggressive yet prudent financial management and capital structure; Emerging-market focus; and Management expertise, culture and philosophy. We manage our business with you in mind, and we are doing our best to make our performance more predictable to you.

Finally, I thank you, my fellow shareholders, for the trust you have placed in our ability to create consistent growth and returns. For, with your support, we can achieve our mission of becoming the world's most efficient and profitable multinational cement company.



Lorenzo H. Zambrano
Chairman of the Board and
Chief Executive Officer

Interest coverage vs. market capitalization



Interest coverage
(times)
Capitalization
(millions of dollars)

Stronger financial position
CEMEX' interest coverage is 2.4 times, a five-year high.

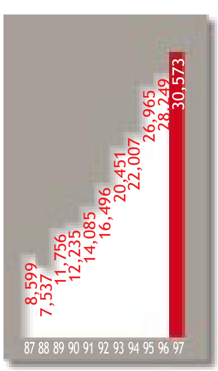
CEMEX' net sales surge 8.2%

CEMEX, S.A. DE C.V. AND SUBSIDIARIES
THOUSANDS OF CONSTANT PESOS
AS OF DECEMBER 31, 1997

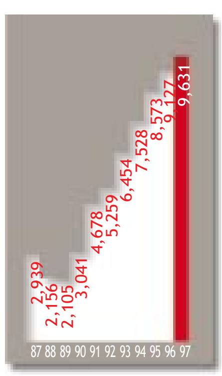
	1997	1996	% change
Consolidated Net Sales	**30,573,187**	28,249,204	8.2
Gross Profit	**11,838,187**	11,119,823	6.5
Operating Profit	**7,224,402**	6,733,976	7.3
Consolidated Net Income	**7,000,551**	9,199,720	(23.9)
Net Income, Majority Interest	**6,139,959**	8,201,755	(25.1)
Total Assets	**82,567,726**	83,457,280	(1.1)
Total Liabilities	**44,668,852**	47,052,048	(5.1)
Stockholders' Equity	**37,898,874**	36,405,232	4.1
Current Assets/Current Liabilities	**1.21**	1.11	N.A.
Total Liabilities/Stockholders' Equity	**1.18**	1.29	N.A.
Operating Cash Flow per Share*	**7.500**	7.000	7.1
Net Income per Ordinary Share*	**4.780**	6.320	(24.4)
Book Value per Ordinary Share**	**22.360**	21.490	4.0

**Pesos based on: 1,284 million shares for 1997 and 1,298 million shares for 1996.*
(See footnote Nº 18 to Financial Statements).
***Pesos based on: 1,268 million shares for 1997 and 1,303 million shares for 1996.*

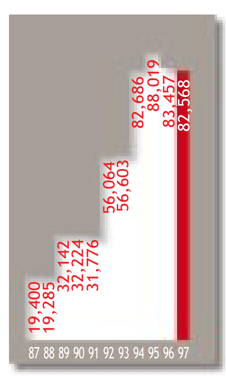
Consolidated net sales*



Consolidated operating cash flow*



Total assets*



*Millions of constant pesos (DEC97)

CEMEX' top-line results demonstrate the success of its geographic diversification strategy. The sales gain resulting from strong performance in the company's core businesses allowed CEMEX to continue its growth strategy while leaving excess cash to strengthen its capital structure.

“One is left with the strong impression of a team committed to being the best in cement: whether this is in Mexico, Central America, Spain or … wherever.”

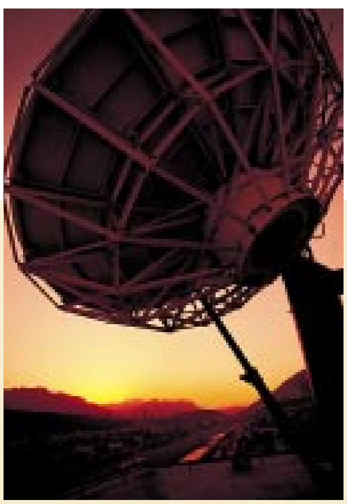
International Cement Review, 1/97

Spain and Venezuela
Operating cash flow
millions of dollars

CEMEX’ PMI teams
If there is a secret to our success, it is our PMI teams. These multinational teams of executives are responsible for the rapid integration of new plants and facilities into CEMEX’ seamless worldwide network.

A passion

CEMEXNet
IMS central at Monterrey headquarters, Mexico.



CEMEXNet

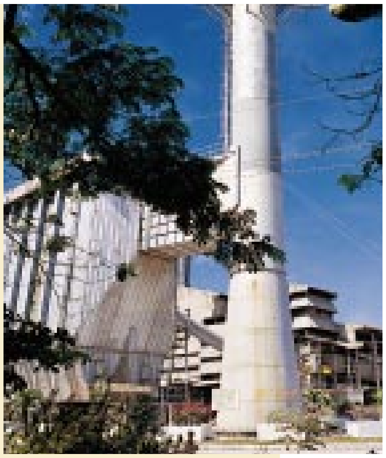
If the flow of information is the lifeblood of a company, then CEMEX global communications network, CEMEXNet, is the heart: pumping data nonstop, never missing a beat, supporting executives in their ongoing learning and decision-making process.

CEMEX’ management philosophy and operational structure are designed to further international growth. Management’s thinking is not limited by geographical barriers. To the contrary, it continuously tries to identify and apply the best management techniques, technology and experience that the world has to offer.

The company couples its highly adaptive culture with a genuine passion for change. CEMEX’ executives receive a trial by fire, managing its international operations through currency fluctuations, inflation and other challenging economic conditions. Through each change, CEMEX becomes a stronger, more profitable company.

for change

CEMEX' **highly adaptive** management culture and philosophy stem primarily from its emerging-market focus. Mexico is a large and profitable emerging market. The company's ability to **operate efficiently** and profitably in this kind of environment is a key competitive advantage.



Rizal Cement
Plant in Philippines

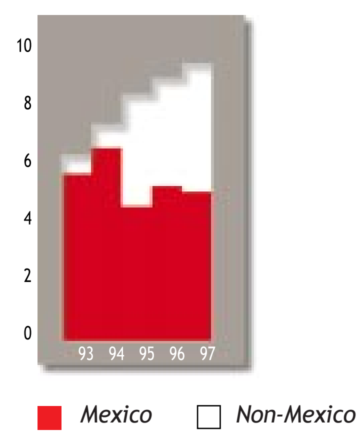
Any investment (past or future) must satisfy three criteria: Value creation must be principally driven by factors that the company can influence, particularly the application of CEMEX' management and turnaround expertise; It must not compromise our ability to meet our financial leverage and interest coverage targets; and It must offer superior long-term financial returns that significantly exceed our cost of capital.

A diversified

"CEMEX has tranformed itself into a multinational powerhouse and taken on competitors in Mexico and in markets around the world."

Joel Millman, The Wall Street Journal, 9/29/97

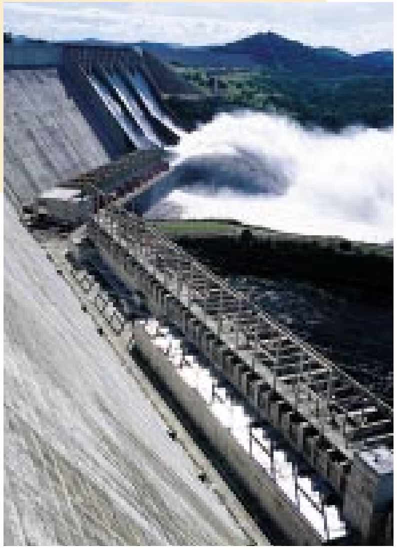
Operating cash flow
billions of constant



CEMEX' diversified operating cash flow stream allows it to stabilize consolidated results.

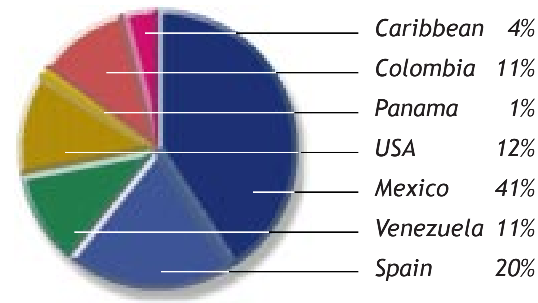
portfolio

Our portfolio is mostly concentrated in **highly profitable** and, in the aggregate, relatively **stable emerging markets.** CEMEX' future growth will come from increasing demand within these markets and from carefully selected investments outside of this portfolio.



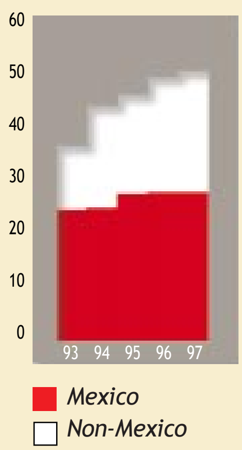
Emerging-market focus
Presa Guri, Venezuela.

Sales distribution
percentage by country



Its multinational position enables CEMEX to spread revenue sources. International sales accounted for 59% of the company's 1997 consolidated net sales.

Production capacity
million metric tons



General data

Headquarters: Monterrey, Mexico.

Plants and terminals: 47 cement plants (8 of them joint-owned), 5 cement mills (2 of them joint-owned), 40 marine terminals (5 of them joint-owned), 200 land distribution centers, 11 mortar plants and more than 420 ready-mix and aggregates plants.

Production capacity: 50.9 million metric tons/year.

Net sales: $30.573 billion pesos.

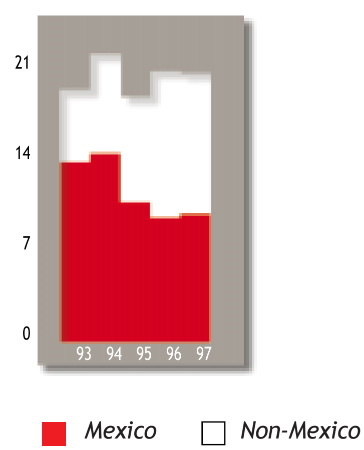
Trading relations: With more than 60 countries.

Volume traded: More than 10 million metric tons/year.

Personnel: 19,174.

Markets: CEMEX participates in markets with high infrastructure needs and promising growth potential. It is the market leader in most of them and the biggest cement trader in the world.

Personnel
thousands



Approximately half of the company's employees come from its international markets.

CEMEX USA

Plants and terminals: 1 cement plant, 14 land distribution centers, 5 marine terminals, 48 ready-mix, asphalt and aggregates plants.

Production capacity: 1.1 million metric tons/year.

Sales: US$435 million.

Market: The primary end users of cement in CEMEX USA's operating region are small ready-mix companies. Other important consumers are manufacturers of ready-mix products. Other sales are to construction materials distributors and contractors.

Participation in CEMEX' results: 12% of total sales and 5% of CEMEX' total assets.

CEMEX Mexico

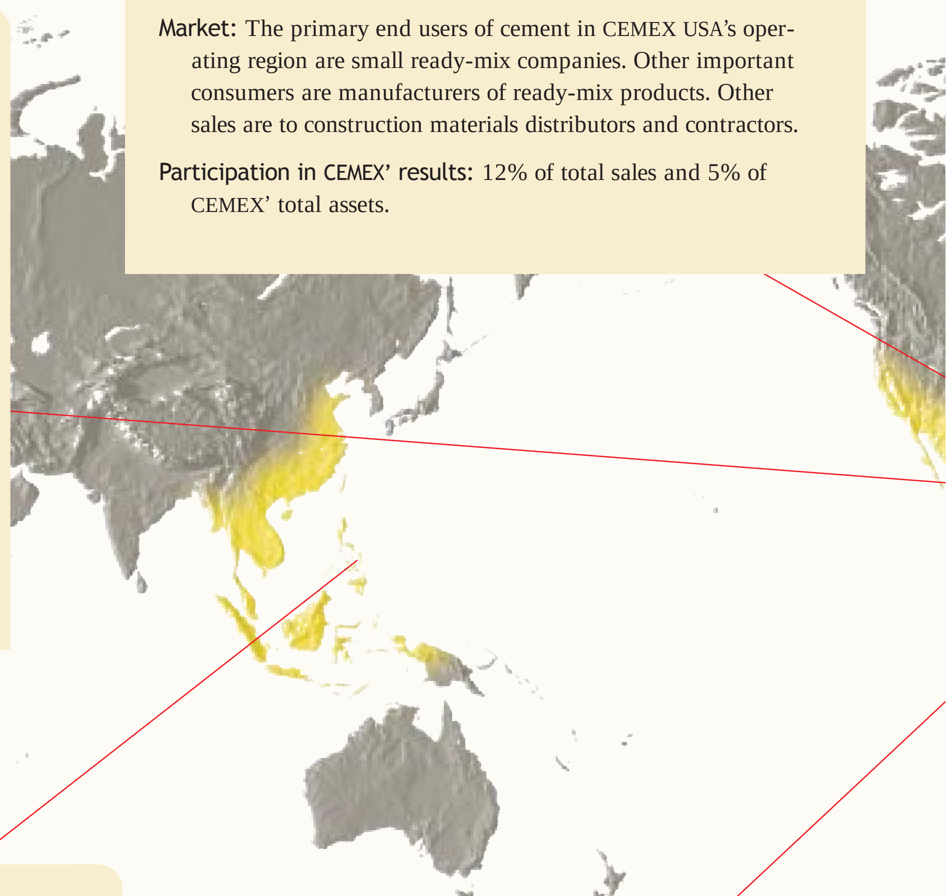
Plants and terminals: 21 cement plants (3 of them joint-owned), 79 land distribution centers, 5 marine terminals and 207 ready-mix and aggregates plants.

Production capacity: 28.5 million metric tons/year.

Sales: US$1,718 million.

Market: Cement is Mexico's most commonly used building material with a strong consumer demand. Most of the cement is sold by exclusive distributors, the remainder to concrete producers, manufacturers of cement products and to contractors in the construction industry.

Participation in CEMEX' results: 41% of total sales and 45% of CEMEX' total assets.



CEMEX Philippines

Plants and terminals: 2 joint-owned cement plants and 6 land distribution centers.

Production capacity: 0.8 million metric tons/year.

Market: About 70% of cement is sold in bags through non-exclusive distributors. We are planning on selling cement directly to contractors with distribution points in strategic locations.

Participation in CEMEX' results: 1% of CEMEX' total assets.

CEMEX Panama

Plants and terminals: 1 cement plant, 1 land distribution center and 4 ready-mix and aggregates plants.

Production capacity: 0.4 million metric tons/year.

Sales: US$52 million.

Market: Highway and low-cost housing construction will be primarily responsible for cement industry growth. The government's infrastructure development, coupled with increased spending on tourism and low-cost housing, should increase cement consumption.

Participation in CEMEX' results: 1% of total sales and 1% of CEMEX' total assets.

CEMEX Caribbean

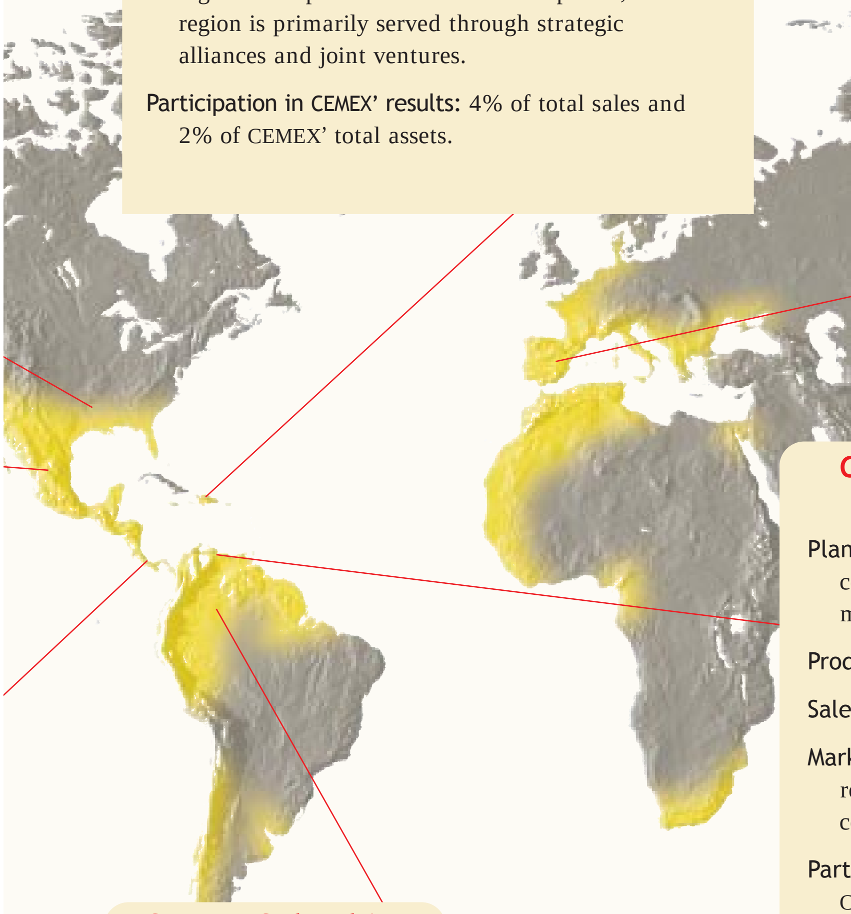
Plants and terminals: 4 cement plants (three of them joint-owned), 13 land distribution centers, 7 marine terminals (5 of them joint-owned), 1 joint-owned cement mill and 1 ready-mix and aggregates plant.

Production capacity: 0.9 million metric tons/year.

Sales: US$155 million.

Market: With more than 28 countries and 37 million people, the Caribbean is a diverse and dynamic region. Except for the Dominican Republic, the region is primarily served through strategic alliances and joint ventures.

Participation in CEMEX' results: 4% of total sales and 2% of CEMEX' total assets.



CEMEX Spain

Plants and terminals: 9 cement plants, 7 land distribution centers, 18 marine terminals, 3 cement mills (1 of them joint-owned), 10 mortar plants and more than 100 ready-mix and aggregates plants.

Production capacity: 11.5 million metric tons/year.

Sales: US$724 million.

Market: About 40% of cement is sold in bags through non-exclusive distributors; 13% through ready-mix operations and the balance sold directly to contractors or ready-mix product manufacturers.

Participation in CEMEX' results: 20% of total sales and 24% of CEMEX' total assets.

CEMEX Venezuela

Plants and terminals: 3 cement plants, 17 land distribution centers, 5 marine terminals, 1 cement mill and 37 ready-mix and aggregates plants.

Production capacity: 4.3 million metric tons/year.

Sales: US$462 million.

Market: Approximately 70% of cement is sold in bags, the remainder through ready-mix operations or directly to contractors in bulk.

Participation in CEMEX' results: 11% of total sales and 11% of CEMEX' total assets.

CEMEX Colombia

Plants and terminals: 6 cement plants, 9 land distribution centers, 1 mortar plant and 23 asphalt, ready-mix and aggregates plants.

Production capacity: 3.5 million metric tons/year.

Sales: US$370 million.

Market: Cement is generally required for most construction, even if it is only used as an adhesive in the form of mortar.

Participation in CEMEX' results: 11% of total sales and 11% of CEMEX' total assets.

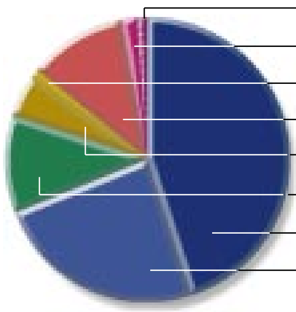
CEMEX Trading

Fleet and terminals: 15 ships (3 of them in time charter) and 40 marine terminals operated by CEMEX.

Trading volume: More than 10 million metric tons/year.

Market: CEMEX has trading relations with more than 60 countries. The U.S., Peru, Indonesia, Malaysia, Nigeria and Chile are its main trading partners.

Assets distribution
percentage by country



CEMEX' diversified asset base offsets regional cyclicality. International operations comprised 55% of CEMEX' assets at year-end 1997.

"[CEMEX] has made its mark by focusing on the powerful growth prospects in developing countries, where the population is young and infrastructure needs are great."

Glenn Hask, "THE BEST OF THE BEST," *IndustryWeek, 8/18/97*

Strategic role
Gloria Elena, part of CEMEX' fleet.
Our trading activity plays a key role in our diversification strategy.

CEMEX is evolving from a capital-intensive operator into a cement management company. This evolution is guided by a consistent business strategy that will continue to drive our growth into the next millennium. Succinctly, our strategy is to:

1. Leverage our core cement and ready-mix concrete franchise;
2. Reduce financial risk (through reduced interest expense and increased cash flows);
3. Concentrate on high-growth, yet stable markets;
4. Achieve high organic growth with lower capital expenditures; and
5. Engage in prudent geographic diversification.

Exploring new markets

CEMEX' trading activity not only allows it to maximize its worldwide production by identifying markets for its excess capacity, but is an excellent way for exploring new markets, without the necessity of making immediate investments in new production facilities or related capital expenditures.

A positive year for North American markets

1997 was a positive year for CEMEX' North American markets. Mexico's economy continued to improve at a healthy pace, recording 7% GDP growth for the year. The main drivers of this growth were significant foreign investment, increased consumer confidence and strong macroeconomic fundamentals. These fundamentals included a current account surplus, lower inflation and real wage growth.

This year, we expect Mexico's GDP to rise around 5.0%. We do not anticipate significant downward pressure on the country's continuing recovery as a result of Southeast Asia's economic downturn. The nation's economic performance is linked to that of the U.S., which buys approximately 80% of Mexico's annual exports.

1997 marked the United States economy's sixth consecutive year of GDP growth. Historically low inflation, low unemployment and interest rates, coupled with increased productivity, led to a 3.7% rise in GDP for the year.

This year, we expect GDP growth of about 2.6%. The U.S. economic fundamentals remain strong. Inflation remains under control, while interest rates and unemployment continues at historic lows. However, the expanding U.S. trade deficit due to depressed prices in Asian markets may slow overall economic growth.

"It's the most global company in Latin America. It's made successful investments outside of its primary market, has a good man-agement team and can compete with major competitors around the world."

Jean-Dominique Virchaux, *Heidruck & Struggles (Latin Trade, 1/98)*

Quality role model

Tepeaca plant in Puebla.

A role model for Mexican industry, the Tepeaca plant was selected out of a pool of 85 contestants to receive the National Quality Award. CEMEX also received the National Exports Award for excellence in export practices, customer service, procurement and logistics.

CEMEX MEXICO

Mexican Construction Exceeds Expectations

Mexico's 1997 construction sector activity significantly exceeded our original projections, growing 10.2% over the preceding year. This increase was driven by reduced unemployment and increased purchasing power that, along with enhanced public infrastructure spending, fueled across-the-board construction activity, including new hotels, resorts, shopping centers and housing.

For 1998, we estimate that Mexico's cement and ready-mix consumption will continue to increase at a rate of 8% and 25%, respectively.

Sales Soar 15%

In 1997, the Mexican market showed strong improvement versus the last two years. CEMEX Mexico's sales rose 15% (in dollar terms) due to higher and more stable prices, increased domestic sales volumes and new product development.

Because of increasing local demand and declining cement and clinker prices in Southeast Asian markets, CEMEX Mexico's exports decreased 25% versus 1996. Forty-eight percent of these exports went to Central, South America and the Caribbean, with the remainder going to Southeast Asia, the United States and Africa. Growing domestic consumption should further reduce our exports by 35% this year.

To provide more value to our customers, we introduced three new ready-mix products to the market during 1997. By the same token, we opened a state-of-the-art laboratory in Mexico City. This facility is designed to develop new cement and concrete products, as well as new ways of pouring ready-mix. Our objective is to introduce at least one new product each year and use this laboratory as a technical support center for our customers.

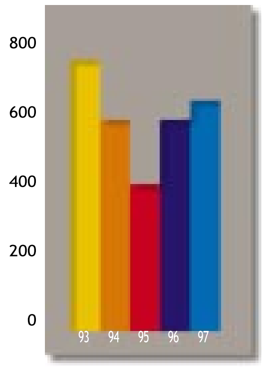
Mixing complexity with chaos

SDO terminal in ready-mix truck in Mexico City.

Delivering cement is not an easy business anywhere, especially in Guadalajara, Mexico. In 1995, CEMEX Mexico could promise delivery no more precisely than within three hours. Wild weather, traffic gridlock and labor disruptions at the construction site caused contractors to reschedule, cancel or otherwise change half the orders that were received (compared with a 5% change rate at CEMEX USA).

Today, profitability and market share are surging. If a load fails to arrive within 20 minutes of schedule, the buyer receives a discount. The difference is CEMEX' Dynamic Synchronization of Operations (SDO) program, which the company recently expanded to Mexico City, Monterrey, Mexico and Caracas, Venezuela. The foundation for this program is an adaptive system of proprietary business-process software and expert programs which gets smarter the longer it receives data (i.e., orders, traffic problems, changing weather systems, etc.).

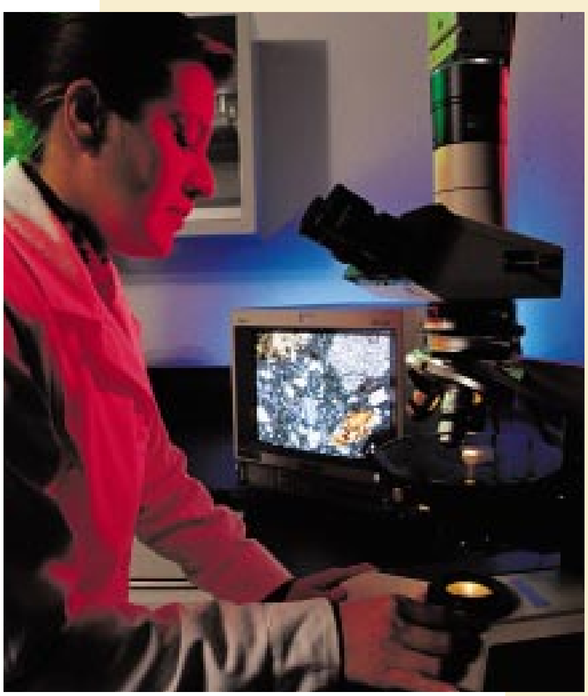
Mexico operating cash flow
millions of dollars



Growing Mexico Cash Flow
CEMEX Mexico's rising cash flow was fueled by a robust economy.

New customer solutions
New products laboratory in Mexico City.

We opened a new state-of-the-art laboratory in Mexico City. This facility is designed to introduce at least one new product each year and to act as a technical support center for our customers.



In 1997, we also introduced a 25-kilogram bag of our white cement, which ultimately accounted for over 15% of CEMEX Mexico's white cement sales volume. Because white cement is primarily used for small repairs and projects, this new bag entails less burden and waste to our customers.

In the ready-mix division, we implemented CEMEX' Dynamic Synchronization of Operations (SDO) system in Mexico City. This system has already improved CEMEX' trucks' efficiency by 35% in Mexico City and Guadalajara, where it was originally launched in 1996. With the knowledge gained to date, we expect to expand the benefits of the SDO system to the remainder of our ready-mix operations.

Our Continuous Improvement Program contributed additional cost savings in 1997. We performed a thorough due diligence to determine additional areas of opportunity within CEMEX Mexico. The resulting initiatives included: improved efficiencies in the logistical area, redesign of marketing/sales practices and information systems, increased focus on service to distributors and end-users, centralization of purchasing through regional offices, as well as efficiency improvements across our operations. Upon completion, the program's expected annual savings should amount to US$85 million.

Recognizing that our people are our most important strategic resource, we signed a contract with the Secretary of Education to ensure that our blue-collar workers are educated on at least a high-school level. Through a satellite education system, we are able to give classes and provide our workers with a high-school equivalent that is certified by the Mexican government. No other company offers a similar government-certified program.

A concrete opportunity
New ready-mix facility in Dallas.

To capitalize on the city's enhanced freeway construction, we opened a new ready-mix facility in Dallas, Texas. Now, we have 48 ready-mix facilities across the southwest United States.

Barrientos Receives ISO 14001 Certification

The Barrientos plant became the first cement plant in the Americas to receive ISO 14001 certification. The Torreón, Barrientos, Mérida, Guadalajara, Huichapan and Ensenada plants further received national certification for completing the Mexican government's voluntary environmental audits program. The Torreón plant also implemented CEMEX' calcination technology to enhance energy efficiency and minimize emissions.

As part of a company-wide prevention and risk reduction program, CEMEX Mexico launched its industrial safety plan. This plan includes plant-by-plant audits that are designed to raise employees' awareness and reduce the probability of workplace accidents.

CEMEX USA

California's Cement Demand Jumps 12%

The United States GDP growth led to increased construction sector activity across the U.S., including CEMEX' three core markets, California, Arizona and Texas.

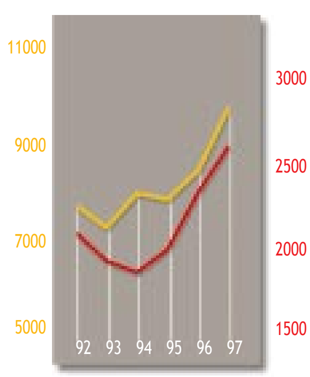
California's 1997 cement and ready-mix demand increased 12% and 9%, respectively, versus 1996. Los Angeles, San Francisco and San Diego all began major public infrastructure projects and improvements. In contrast with last year's record growth, Arizona recorded a more moderate 2% increase in cement and ready-mix demand. After poor construction weather during the first quarter of the year, Texas cement consumption improved 6% compared to 1996.

Looking forward, we expect that increased public sector spending in CEMEX' core states should more than offset a slight decline in commercial and industrial activity. Overall, we expect total cement and ready-mix demand to increase 3% across our three primary markets.

Paving America
"White paving" for the Red Mountain freeway in Arizona, USA.

To bolster our market presence, we began supplying "white paving" and expanded our product offerings to include asphalt chips.

California market growth



California Rebound
CEMEX California's 1997 cement and ready-mix demand surged 12% and 9%, respectively.

1997: A Year Of Consolidation

With no new acquisitions or major organizational changes, 1997 was a year of consolidation for CEMEX USA. Cement sales volumes declined 3%, while ready-mix sales volumes were up 2% compared to 1996. The Balcones plant produced nearly 1 million metric tons of cement, close to its effective capacity.

In 1997, imports to our Texas, California and Arizona markets reached 1.7 million metric tons of cement. Over 72% of these imports came from Spain. This year, we expect that more than 50% of our California imports will come from more inexpensive Southeast Asian sources.

To bolster our Arizona market presence, we began supplying "white paving" for the Red Mountain and Squaw Peak freeways and expanded our product offerings to include asphalt chips. We are also working with our Arizona customers to improve the quality, consistency and timeliness of our products — increasing our on-time deliveries by 5% in 1997, well above the regional average.

We opened a new ready-mix facility in Dallas, Texas, to capitalize on the city's enhanced freeway construction. This new plant brings our total to 48 ready-mix facilities across the southwest United States.

To continue to attract and retain the top people, we are developing a human resources database of our executives' skills, expertise and areas of interest. CEMEX USA is also part of a company wide training program, where new hires receive multi-functional, cross-border experience at different CEMEX units.

Balcones Implements Advanced Emissions Technology

The Balcones cement plant began using new environmental technology for the advanced prediction and control of emissions. CEMEX USA also performed industrial safety audits at the plant and other facilities.

Improving Europe buoys markets

The North European bridge — linking Denmark and Sweden — is a testament to CEMEX' expertise, state-of-the-art technology and openness to exploring new ways to solve challenging problems. CEMEX Spain's Buñol laboratory designed a special cement that can withstand the extreme weather of the Baltic Sea. The lab also offers the technical assistance required to complete this important undertaking.

The Spanish economy showed strong improvement during 1997. GDP increased 3.4% for the year, spurred by low inflation, higher employment and lower interest rates.

During the year, the Spanish government took major steps to quell any questions about its ability to join the European Union. It reduced inflation to 2% and cut the deficit to 2.6%. Moreover, interest rates declined dramatically.

Tourism, the country's fastest-growing sector, benefited from the peseta's lower exchange rate and northern Europeans' improving standard of living.

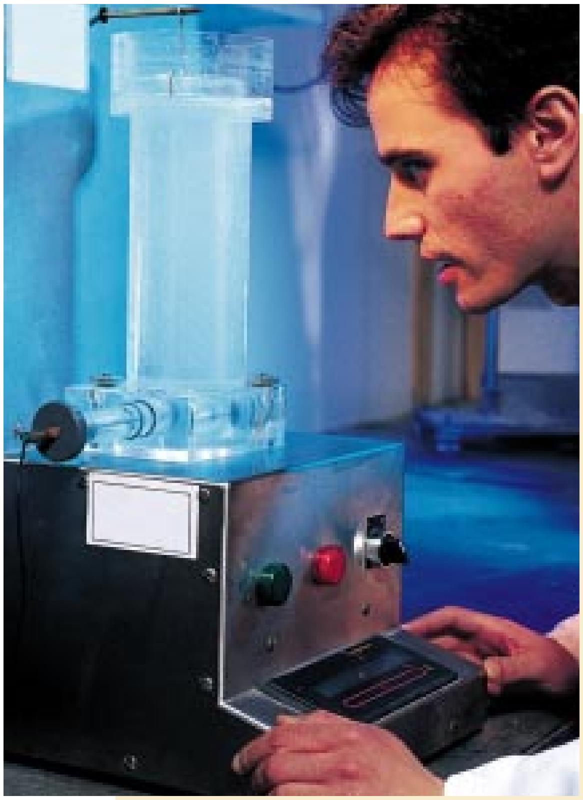
In 1998, the nation's GDP is projected to rise around 3.3%. Greater confidence in the country's economy, combined with increasing public sector investment, should help spur continued growth.

CEMEX SPAIN

Spain Bridges Denmark And Sweden

Spain's strong economic growth, coupled with lower interest rates, led to increased construction sector activity. For the year, domestic cement demand rose 8.2% versus 1996.

In 1998, we anticipate that domestic cement consumption will increase around 5% over 1997. Our major new construction projects include the North European bridge between Denmark and Sweden and Bilbao's new international airport.



Bridging Europe

CEMEX Spain's state-of-the-art customer laboratory.

Spain's "Most Admired" Company

Our Spanish operations reported substantial 1997 sales growth across all product lines. Total cement production increased 9% versus a year ago, because of rising domestic demand and a significant reduction in cement imports. Productivity per worker improved 12% compared to 1996.

Ready-mix concrete sales volume grew 17%, with aggregates and mortar rising 18% and 25%, respectively. Half of the company's aggregates volume came from direct sales to the customer, with the remainder sold through our ready-mix operations.

In October, Valenciana was named Spain's most admired company by *Actualidad Económica*, a leading national business publication. CEMEX Spain received this award because of its strong brand, top-quality products, improved customer service and healthy financial position.

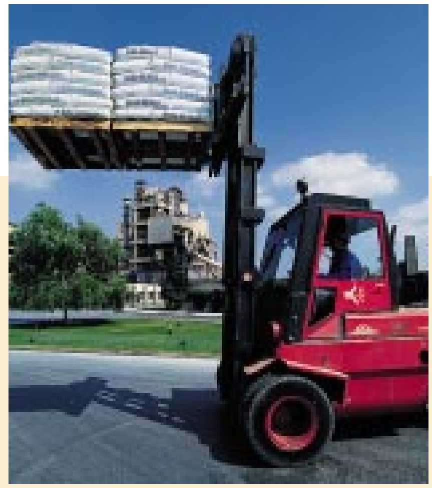
During the year, Cementos Morata, the last of CEMEX' 1992 acquisitions, was merged into the company. Now, all acquired plants and subsidiaries are fully integrated into the CEMEX system.

In 1997, we continued to leverage our position as the world's largest producer of white cement. Two years ago, we began to expand our sales to different countries, exporting 100,000 metric tons of white cement. By year-end 1997, white cement exports increased to more than 200,000 metric tons, a 68% increase over 1996. We exported white cement to Israel, North Africa, the United States, Europe and the Arab states.

In 1998, we expect to increase white cement exports by 10% and enter new markets, such as Turkey and some European countries.

The North European bridge contract is a testament to the success of our new customer service laboratory. Located in Buñol, Spain, this facility designed a special cement that can withstand the extreme weather conditions of the Baltic Sea. This lab's technical assistance offers an additional competitive advantage that will

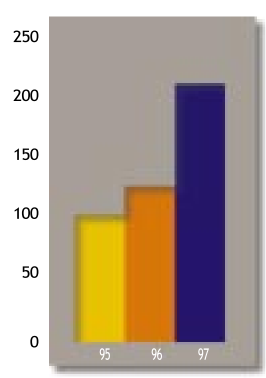
White cement leaders
CEMEX Spain's white cement exports increased more than 68% over 1996.



"… one of CEMEX' strengths in growing from a medium-size company to a large company has been that its EBITDA margins have been 10 percentage points higher than those of its international competitors."

Ben Uglow, Robert Flemings, Inc.
(Institutional Investor, 12/97)

White cement exports
thousands of metric tons



Expanding White Cement Exports
Leveraging our leading position, we have expanded our white cement exports to Israel, North Africa, the U.S., Europe and the Arab states.

help to ensure the success of this important undertaking. Also, the "whiteness" and technical characteristics of our white cement is one of the primary reasons that we landed Bilbao's airport construction project.

Zero Tolerance

CEMEX Spain's ultimate safety goal is to reduce the number of workplace accidents to zero. As part of CEMEX' company-wide accident prevention and risk reduction program, Valenciana conducted industrial safety audits at all of its cement plants. In 1997, projects were also launched to meet new EEC regulations that apply to Spain's cement industry.

All of our Spanish cement plants received ISO 9002 certification in 1997. We also expanded the equipment for our mobile environmental laboratory.

Building into the next millennium
European bridge construction

The European bridge is the most ambitious project in which CEMEX Spain has ever participated.

Central and South America log solid growth

Overall, CEMEX' Central and South American markets performed quite well during 1997. The Venezuelan economy recorded a strong and solid performance during 1997. GDP growth was 5.1%, driven primarily by the petroleum sector. By year-end, inflation dropped to more than half of its 1996 levels.

We expect about 5% GDP growth for Venezuela this year. Over the next six to seven years, the government plans to double the nation's oil production capacity.

Colombia's 1997 GDP increased 3.2%, fueled by petroleum and coffee exports. During the first half of the year, the economy felt the effects of the government's 1996 fiscal adjustment plan, including higher interest rates. The country's GDP is expected to increase from 4 to 5% this year as the economy continues its recovery.

In 1997, Panama's GDP grew 4.4% and is expected to expand 5.5% this year. We attribute much of this growth to the government's aggressive free trade negotiations, forthcoming privatizations and its ambitious program to modernize and integrate the country's economic activity around the Panama Canal. This program entails improving the nation's infrastructure, simplifying bureaucratic procedures and developing tourist complexes, port facilities and industrial parks in the Canal area.

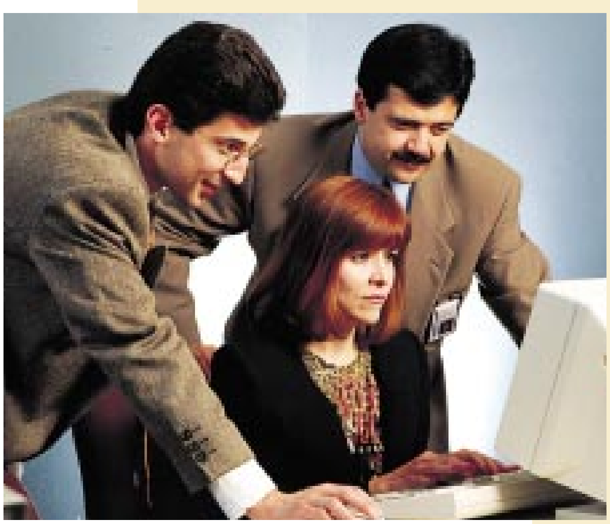
The Dominican Republic had a very good year. GDP grew 8.2% in 1997, and is expected to rise 6% this year. The nation's telecommunications and tourism sectors continue to receive substantial foreign investment. The economy further benefits from a relatively low 8.4% rate of inflation.

CEMEX VENEZUELA

Domestic Demand Leaps 16%

Venezuela enjoyed a very strong year. Construction activity increased 13% in 1997, and domestic cement demand grew 16% during the year. This growth was driven by the private sector, principally the petroleum industry; whereas, year-over-year public sector construction activity remained relatively flat.

A High Performance Organization
Employee training
CEMEX Venezuela, in conjunction with IESA, provides a tailored business management program for its senior executives.



This year, we anticipate increased public and private sector building activity, with increased housing construction. Overall, we project that cement and concrete demand will rise 13% and 17%, respectively, by year-end 1998.

CEMEX Reaps Benefits Of Efficiency

1997 was a year of consolidation. CEMEX Venezuela effectively reaped the benefits of the preceding years' cost rationalization and optimization programs.

The company's 1997 cement sales volume grew 15%, compared to 1996, because of rising domestic demand and increased capacity utilization. Its kilns operated at or over their effective capacity due to greater operational efficiency and technological developments. For example, the Pertigalete plant's six and seven kilns are now producing 3,700 metric tons per day, versus 3,500 metric tons per day a year ago.

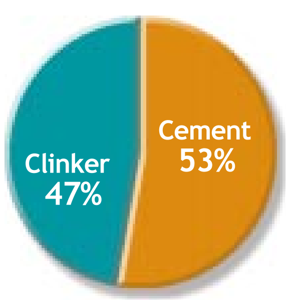
Vencemos' 1997 ready-mix sales volume rose 40%. This growth was due to the company's continuing ability to identify and tap new market niches and its expanding ready-mix network. During the year, the company added seven new concrete facilities, increasing its nationwide total to 37, and expects to build four more ready-mix plants in 1998.

Despite the marked rise in CEMEX Venezuela's domestic sales volume, export sales dipped only 4% in 1997. Its cement-to-clinker sales ratio further improved to 53%, versus 49% a year ago. Because cement is priced from 20 to 30% higher than clinker, this significantly increased the value of 1997 export sales.

For 1997 and the coming years, the company's primary corporate focus is providing quality products and service to its customers. During the last quarter of 1996, CEMEX Venezuela complemented its "Mesa Productiva" computerized customer service centers with the inauguration of its quality and service to the customer program.

In harmony with nature
Quarry reforestation
CEMEX' Flora Development Program in Venezuela recovered a 350,000-square-meter area of our environment during 1997.

CEMEX Venezuela cement/ clinker export sales distribu-



The cement-to-clinker ratio improved to 53%, which significantly increased the value of 1997 exports.

This program not only involves upgrading the company's cement and ready-mix trucks, but developing a more effective distribution system to deliver our products to all parts of the country. After the full implementation of CEMEX' SDO system in Mexico City, we plan to apply this system in Caracas to improve the productivity and timeliness of our cement and ready-mix trucks.

Since the 1994 acquisition, the company has made a concerted effort to not only keep, but also attract the best people in the business. This ongoing strategic objective entails both professional and financial rewards.

To date, Vencemos' employees have received more than 182,000 hours of training through the company's HPO (High Performance Organization) and management programs. Plant-level instruction has addressed areas ranging from operations and information technology to motivational, team-building skills development. CEMEX Venezuela has further teamed with the country's top-rated managerial institute, IESA, to provide a tailored management program for its senior executives.

Lowest Accident Rate

As part of CEMEX' overall risk reduction program, the company conducted industrial safety audits at every cement production facility. CEMEX Venezuela enjoys the lowest industrial accident rate of all of CEMEX production units.

Coming on line
Ibagué plant in Colombia.
The Ibagué plant's second kiln is expected to come on line during the first half of the year, increasing the plant's total capacity to 3.0 million metric tons per year.

CEMEX COLOMBIA

Colombia Sees Signs Of Recovery

Colombia's construction sector did not begin to see signs of the country's economic recovery until the fourth quarter of 1997. For the year, domestic cement and ready-mix demand dropped 7% and 25%, respectively, compared to 1996. This decline resulted from a lack of confidence in the nation's current political situation which, in turn, led to decreased public and private sector construction spending.

In 1998, we expect the country's construction sector to show marked improvement over 1997. Election-year spending, the nation's housing deficit, planned public infrastructure projects and private sector highway construction should spur this growth. Major projects include the Miel hydroelectric dam, the first line of Bogota's metropolitan subway system and Bogota's US$110 million street refurbishment project.

A Technological Turnaround

We installed CEMEX' information management systems in the finance, transportation and sales operations, as well as in the cement, ready-mix and corporate facilities. Now, all of our cement, concrete and sales points are interconnected through a communications network that enables us to respond more efficiently to our clients' needs and changes in production schedules.

On the operations side, we implemented CEMEX' organizational structure with centralized purchasing, human resources, accounting and warehousing. During the integration process, we also dropped the companies' local brand names, highlighting the strong Samper brand in central Colombia (especially Bogotá) and the Diamante name in the rest of the country.

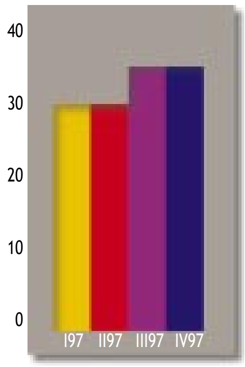
We expect the Ibagué plant's second kiln to come on line by the end of the second quarter of this year. This kiln will have about 1.6 million metric tons of annual installed capacity, increasing the plant's total capacity to 3.0 million metric tons per year.

We have significantly reduced the waiting time for our trucks, which once exceeded 24 hours. The Ibagué plant's increased capacity, coupled with the installation of CEMEX' proven "SDO" computerized tracking system, will significantly minimize the waiting time and maximize the productivity of our trucks.

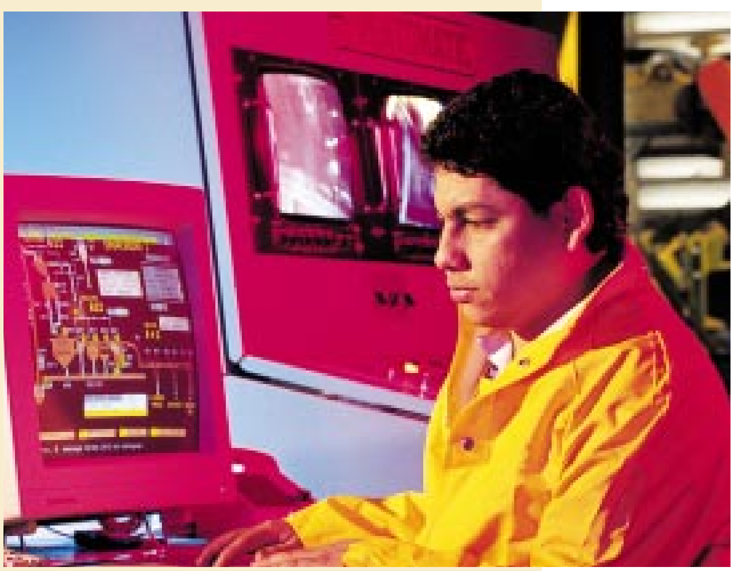
Safety First

The regrettable kiln accident at the Ibagué plant was an important lesson for CEMEX, as a whole, and Colombia, particularly. In light of this incident, we have implemented many of the safety practices that we take for granted in CEMEX' other markets. Our goal is to receive ISO 9002 certification for the Ibagué plant by the end of 1998.

CEMEX Colombia
Operating cash flow
millions of dollars



Rapid Growth
Our comprehensive reorganization program yielded $32 million of our anticipated $50 million in annual cost savings.



Technological turnaround
Buacaramanga plant
Colombia's cement, concrete and sales points are now linked through CEMEX' information management system.

CEMEX PANAMA

Freer Trade Fuels Growth

In 1997, Panama's public sector construction activity increased 45%, while private sector activity declined 11% versus the preceding year. Highway, mining and low-cost housing construction were primarily responsible for public sector growth.

Panama's aggressive infrastructure spending was partly rescheduled to 1998. The government originally planned a number of major public works projects, including the Corredor Norte, the Corredor Sur and the Autopista Panamá-Colón. Of these projects, the Corredor Norte was substantially completed and the Corredor Sur began initial construction. Cement consumption on the latter project should kick in during the first quarter of this year.

The present administration continues to encourage low-cost housing, industry tax incentives and reduced import tariffs on all raw building materials, including cement and steel. These lower tariffs (currently 10%), however, have not impacted domestic cement supply or demand because of Panama's economic and physical barriers to entry and the quality of the local product. The new laws also contain different methods to contest unfair practices, including anti-dumping and suspension provisions.

This year, public sector activity should more than offset the projected decrease in private sector construction. The government's infrastructure development, coupled with increased spending on tourism and low-cost housing, should increase cement consumption by 4.9%.

Cement Sales Rise 29%

Overall, CEMEX Panama enjoyed a very good year. Despite the delay of some expected public works, 1997 cement sales volume grew 29%. This jump resulted from the company's increased share of the country's cement and ready-mix markets and a two-month strike at its local competitor, Cemento Panama. During the strike period, the company managed to supply 100% of domestic demand.

CEMEX Panama's 1997 ready-mix sales volume increased 112%, compared to 1996, due to its increased market penetration and enhanced customer service. Over the year, we continued to transform Bayano from a state-owned and managed operation into a key part of the CEMEX system. We have worked to integrate CEMEX' highly adaptive management culture, operating style and philosophy. By year-end, employees underwent 9,200 hours of training, including industry practices, technological development, management skills, logistics, communications and leadership.

"Whether in regard to a business unit's strategic goals or the efficiency of a specific truck, CEMEX' global technology system gives the company real-time, online information that it can share with employees and customers."

Arthur Andersen,
"BEST PRACTICES", *1997*

In 1997, the company received ISO 9002 certification, which assures that its gray Portland cement meets international quality standards. It further lowered energy costs 25% by replacing 80% of its fuel oil with petroleum coke.

This year, we expect to maintain our commanding share of the local cement market and increase our penetration of the ready-mix market by offering new products and prompter service to our customers. In September, we started selling long-life mortar, which does not require mixing at the work site and lasts 24 hours without hardening. During the first quarter, we plan to market Flexicem, a masonry cement, and, in the second half of 1998, to sell pozzolanic cement, a low-heat-hardening cement for large construction projects.

We have also taken steps to reduce our ready-mix trucks' waiting time at construction sites. During the year, we look forward to installing and implementing CEMEX' proven SDO system to significantly improve our trucks' productivity and on-time delivery.

A Total Transformation

From an environmental and safety standpoint, CEMEX Panama continues to undergo a total transformation. In addition to upgrading its dust collection equipment, it is establishing employee awareness programs and working jointly with local governments and the communities to improve the environment. As part of CEMEX' comprehensive risk reduction program, the company audited industrial safety criteria at its cement plant.

CEMEX Panama is further taking actions to conserve the wildlife, such as crocodiles and ducks, that live around its facilities. Through the donation of ecology books to the National Association for the Conservation of Nature, Bayano is also supporting a project to monitor wildlife and plant species in the Panama Canal.

Lowering energy costs
Petroleum coke for CEMEX' Panama operations.
By replacing 80% of its fuel oil with petroleum coke, the company reduced its energy costs by 25%.

CEMEX CARIBBEAN

Over 25 Countries Served

The scope of our Caribbean operations continued to expand over the course of 1997. Directly and through our local partners, we now serve more than 25 different countries.

The region's countries are increasingly open to globalization and increased foreign investment. In 1998, we expect the Basin's GDP to grow from 2 to 3%, spurred by tourism and housing.

In 1997, the Dominican Republic recorded a 13.5% increase in domestic cement consumption, with a 5% increase projected for 1998. The private sector drove 1997 construction activity. In 1998, we expect public sector spending on tourism and public housing to fuel domestic demand.

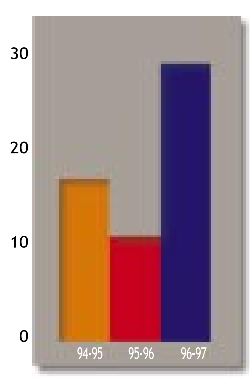
Dominican Economy Spurs Increased Housing

For the year, our Caribbean operations generated a total cement trading volume of 1.9 million metric tons. In the Dominican Republic, the company's net sales increased 24% (in dollar terms) versus a year ago because of higher private sector demand, including residential, hotel and road construction.

At the end of 1996, we entered the local ready-mix market, starting with 10 trucks and two plants. By year-end 1997, these operations grew to 40 trucks and six plants.

We are working to consolidate CEMEX' uniform business culture and standards, such as efficiency and customer service quality, across the region. There is now greater integration within our Venezuelan, Caribbean and Dominican operations in terms of operations, logistics, technology and information flow.

CEMEX Panama
Cement growth
(percentage vs. previous years)



Soaring Sales
CEMEX Panama's 1997 cement volume grew 29%.

In the Dominican Republic, we undertook training programs to promote client services. These programs were geared to personnel from the sales, quality control and logistics areas.

Rescuing The Whales

CEMEX' Dominican Republic unit worked jointly with its surrounding communities and schools to develop farming systems that allow for greater recycling. The company further donated ecology books to the Governing Commission of the Humpback Whale Sanctuary in support of an ongoing project to rescue marine mammals.

As part of CEMEX overall efforts, we received a rigorous industrial safety audit to ensure our employees a healthy workplace environment. Also, with the oversight of a multinational advisory group of experts, we implemented an industrial security program to assure the integrity of our people and facilities.

A whale of a job
Humpback whale
The company donates ecology books to the Governing Commission of the Humpback Whale Sanctuary in support of an ongoing project to rescue marine mammals.

Southeast Asia's growth potential

The Philippines experienced 5.1% GDP growth for 1997. This year-end increase resulted from the marked divergence between the economy's performance during the first and second half of the year. Following a strong first half, the country settled into a "wait and see" mode on the heels of the Thai baht's July devaluation.

This year, the Philippine economy should experience less dynamic GDP growth, from 2 to 3%, because of the recent turbulence in Asia. However, we anticipate that the Philippines will emerge as one of the region's less-affected countries. Its relative resiliency primarily stems from the government's commitment to economic reform and privatization.

CEMEX PHILIPPINES

SE Asian Foothold

The Philippines is the third largest cement market in Southeast Asia, after Thailand and Indonesia. It accounts for approximately 12% of the region's total market.

Historically, Philippine cement consumption has grown at a compound average rate of 15% over the last ten years. With a low per capita consumption of only 182 kg, the Philippine market shows strong long-term growth potential.

CEMEX Makes Strategic Philippine Acquisition

In October, we completed the acquisition of a 30% interest in Rizal Cement Inc. We also signed an agreement to provide technical and

Higher returns

Solid Cement plant in Philippines.

Our October investment in Rizal Cement exemplifies our ability to capitalize on arising opportunities at much higher returns than in the past. In addition to our 30% equity stake, we receive technical assistance and consulting fees for the know-how and expertise that we bring to the company.

The world's largest cement trader

consulting services to Rizal. The two cement plants for which CEMEX will provide technical assistance have an installed production capacity of 2.8 million metric tons per year.

This acquisition is consistent with CEMEX' long-term geographic diversification strategy. It leverages the company's operational expertise, enhances the stability of its consolidated operating cash flow and creates greater financial flexibility.

As the second-largest cement producer in the Philippines, Rizal enjoys a leading market share in Central Luzon, the main consumption region that includes Manila. Rizal is also strategically located just outside of this region, allowing it to benefit from low transportation costs and easy market penetration.

Consistent with CEMEX' practice, we are evaluating Rizal to improve its efficiency and profitability. Soon after the acquisition, we deployed our multinational PMI team of engineers, technicians and managers to analyze the company's operations, human resources and capital expenditures. Based on this analysis, we will recommend ways for the company to reduce costs and increase productivity. For 1998, we expect to achieve almost US$37 million in annual cost savings.

"[T]he company has become the darling on international markets by following a strategy of selectively buying companies, then increasing their efficiency with company-wide computerization and a program to share operating tips. This approach has allowed it to become one of the most profitable enterprises in Latin America."

Cristina Adams,
The Houston Chronicle, 12/26/97

This year our total trading volume exceeded 10 million metric tons of cement and clinker. Because of growing local demand in our Spanish and Venezuelan markets, a larger share of our 1997 trading volume came from external sources. We met our international commitments by purchasing more cement from third parties, including Romanian, Greek, Turkish and U.S. suppliers.

We continue to market cement to over 60 countries worldwide. Our major international trading partners include the U.S., Peru, Indonesia, Chile and Malaysia. Due to Asia's economic downturn, we reduced CEMEX Mexico's exports to the region from 2.5 million to approximately 1.0 million metric tons.

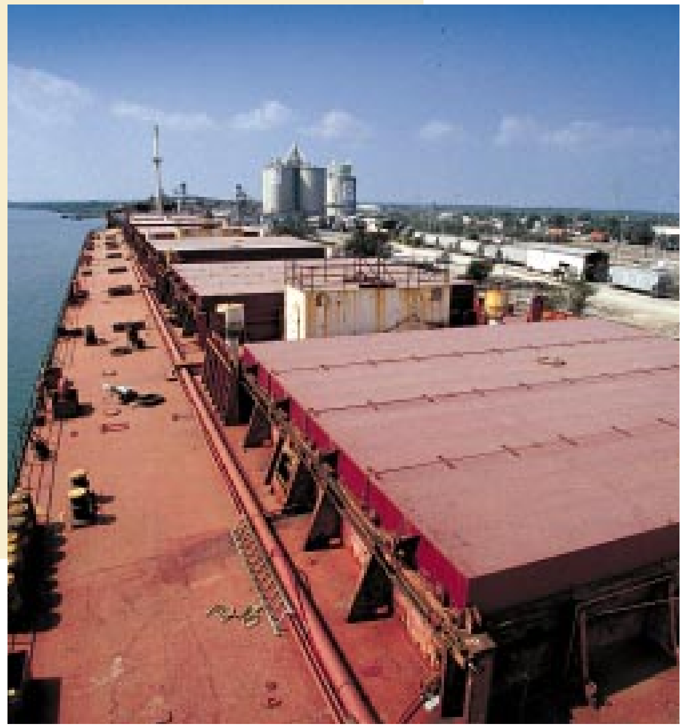
For the year, CEMEX Mexico contributed about 3.5 million metric tons to our total trading volume. In light of Asia's economic environment, we used Mexico's additional capacity to test new markets, like Nigeria and Ghana.

This activity exemplifies the fundamental role that our trading operations play in realizing our strategic objectives. They further our international development through careful, calculated steps, while satisfying worldwide demand where needed. Specifically, they allow us to maximize our worldwide production by identifying markets for our excess capacity. They also allow us to explore new markets, like the Philippines, without the necessity of making immediate investments in new production facilities or related capital expenditures.

This year we took an important step to enhance our trading infrastructure and flexibility. We purchased our first 60,000-metric-ton floating silo to store and supply cement where our customers require it. The vessel's

A floating silo

Our 60,000-metric-ton floating silo can store and supply cement wherever our customers need it.



Export diversity

destination by region in percentage

DESTINATION	MEXICO	EXPORTS FROM SPAIN	VENEZUELA
Asia	33.6	5.5	–
South America	26.0	–	17.3
North America	15.8	65.7	56.6
Central America	7.1	–	6.2
Caribbean	14.9	–	19.3
Europe	–	5.9	–
Africa	2.6	22.9	0.6
TOTAL	100	100	100

Export diversity

CEMEX' Mexican, Spanish and Venezuelan exports go to international trading partners in Asia, North America, Central and South America, the Middle East and Africa.

Our board of directors

CHAIRMAN: Lorenzo H. Zambrano

HONORARY CHAIRMAN: Marcelo Zambrano Hellion

DIRECTORS

Juan F. Muñoz Terrazas

Eduardo Brittingham

Lorenzo Milmo

Armando J. García

Rodolfo García Muriel

Bernardo Quintana Isaac

Rogelio Zambrano

Roberto Zambrano

Dionisio Garza Medina

Alfonso Romo Garza

ALTERNATE DIRECTORS

Mauricio Zambrano Villarreal

Jorge García Segovia

Tomás Brittingham Longoria

EXAMINER:

Luis Santos de la Garza

ALTERNATE EXAMINER:

Fernando Ruiz Arredondo

Selected consolidated financial information

(in millions of constant pesos as of December 31, 1997, except share and per share amounts)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	AVERAGE ANUAL GROWTH 87-97
Income Statement Information												
Net Sales	$ 8,599	7,537	11,756	12,235	14,085	16,496	20,451	22,007	26,965	28,249	30,573	13.5%
Cost of Sales [1]	5,766	5,266	9,193	8,697	8,788	10,310	12,330	12,692	16,445	17,129	18,735	
Gross Profit	2,833	2,271	2,562	3,537	5,297	6,186	8,121	9,314	10,520	11,120	11,838	15.4%
Operating Expenses	784	751	1,434	1,670	1,828	2,150	3,138	3,408	4,081	4,386	4,614	
Operating Income	2,049	1,520	1,128	1,867	3,469	4,036	4,982	5,909	6,439	6,734	7,224	13.4%
Comprehensive Financing (Cost) Income, Net [2]	(32)	24	621	(50)	1,025	1,346	176	(169)	5,960	4,442	1,281	
Other Income (Expenses), Net	1,212	861	52	(397)	(389)	(668)	(711)	(1,394)	(1,702)	(1,432)	(1,110)	
Income Before Taxes & Others	3,293	2,405	1,802	1,420	4,106	4,714	4,449	4,345	10,695	9,744	7,395	8.4%
Minority Interest [3]	380	317	293	279	492	527	684	473	1,145	998	861	
Majority Net Income	2,612	2,053	1,437	1,383	3,649	4,095	3,686	3,935	7,984	8,202	6,140	8.9%
Earnings per Share [4][5][6]	2.34	1.84	1.29	1.25	3.27	3.88	3.49	3.66	6.21	6.32	4.78	7.4%
Dividends per Share [4][7]	0.40	0.16	0.13	0.14	0.48	0.52	0.64	0.66	0.69	– [8]	n.a.	
Number of Shares Outstanding [4][5]	1,114	1,114	1,114	1,114	1,114	1,056	1,056	1,077	1,286	1,303	1,268	
Balance Sheet Information												
Cash and Temporary Investments	3,090	2,130	2,037	1,362	1,670	2,886	2,305	5,075	3,729	3,431	3,069	
Net Working Capital [9]	1,412	1,575	2,471	2,216	2,361	4,226	4,201	5,527	5,960	5,128	4,746	12.9%
Property, Machinery & Equipment, Net	12,923	12,596	22,268	22,096	21,581	31,000	31,114	42,877	51,933	48,205	48,467	14.1%
Total Assets	19,400	19,285	32,142	32,224	31,776	56,064	56,603	82,686	88,019	83,457	82,568	15.6%
Short-term Debt	1,002	775	3,941	2,446	1,187	6,645	4,827	6,783	9,153	6,842	5,305	
Long-term Debt	2,231	1,603	8,659	9,775	10,463	18,315	20,233	32,636	31,901	33,191	31,964	
Minority Interest [3]	2,213	2,049	3,350	4,441	3,372	4,881	5,441	8,074	9,346	8,395	9,532	
Stockholders' Equity, excluding Minority Interest	12,445	13,231	13,989	13,101	15,139	21,887	22,768	29,666	30,267	28,010	28,367	8.6%
Book Value per Share [4][5]	11.17	11.87	12.55	11.76	13.59	20.74	21.56	27.54	23.54	21.49	22.36	
Other Financial Data												
Operating Margin	23.8%	20.2%	9.6%	15.3%	24.7%	24.4%	24.4%	26.8%	23.9%	23.8%	23.6%	
EBITD [10]	2,939	2,156	2,105	3,041	4,678	5,259	6,454	7,528	8,573	9,127	9,631	12.6%
Depreciation and Amortization	891	637	1,039	1,344	1,524	1,681	1,786	2,003	3,319	2,975	3,376	
Net Resources Provided by Operating Activities [11]	6,875	2,319	2,272	2,851	4,298	6,148	5,340	6,662	14,928	12,826	10,216	

Footnotes to selected consolidated financial information on page 41

Management Discussion
and Analysis of Financial Condition and Results of Operations of the Company

1997 CONSOLIDATED RESULTS

Sales

Net Sales grew 8% in real terms during the year, as compared to 1996, and reached $30.573 billion pesos. This increase is due to the subsidiaries' larger volumes, in general, and to the consolidation of the Colombian operations of Samper at the beginning of 1997, which contributed 5 percentage points to this increase. In dollar terms, net sales increased at a greater rate, as they rose to US$3.788 billion and were 13% higher as a result of the stability of the Mexican peso vis-à-vis the US dollar during the last twelve months.

Gross Profit

The sales increase, together with the 9% growth in cost of sales, caused *Gross Profit* to increase 6% from 1996 to 1997 and to reach $11.838 billion pesos. Nevertheless, relative to sales, gross margin decreased from 39.4% in 1996 to 38.7% in 1997.

Operating Income

Operating Income grew 7% in real terms and reached $7.224 billion pesos in 1997, and grew 12% in dollar terms, reaching US$895 million. The operating margin decreased slightly from 23.8% in 1996 to 23.6% in 1997, since the decrease in gross margin was partly offset by a decrease in operating expenses as a percentage of sales during 1997.

Operating Cash Flow

Operating Cash Flow (Operating Income plus Depreciation or EBITD) during the year was $9.631 billion pesos, or US$1.193 billion, showing an increase of 6% in real terms and 10% in dollars over that of 1996. The operating cash flow margin was 31.5% during the year, as compared with 32.3% in 1996.

CEMEX' combination of bottom-up management style, wise strategic investments and cost-efficient facilities make it the best-managed company in Latin America. It's not your typical, completely conformist, top-down culture. When they do something, they do it very well, wherever they do it. They've really delivered results.

Chris Taylor, BT Alex. Brown
(Latin Trade, 1/98)

Operating cash flow
Operating Income plus Depreciation

CEMEX' international operations are 54% of consolidated revenues.

Operating cash flow before lease payments and cost of sales restatement (a non-monetary item), grew 6% during the year and reached the amount of $9.927 billion pesos. In dollar terms, operating cash flow increased by 10% and reached US$1.230 billion.

Cash Earnings

Cash Earnings (Operating Cash Flow minus Net Financial Expense) were $5.815 billion pesos; an increase of 47% as compared to 1996. In dollar terms, cash earnings were US$721 million, which represents a 52% increase for the year.

Financial Expenses

Financial Expenses for 1997 were $4.116 billion pesos (US$510 million). They showed a decrease of 27% as compared to the previous year. This decrease was largely due to the more favorable interest rates on the company's loans, given the change to dollar-denominated debt from other currencies.

Gains in Marketable Securities

Gains in Marketable Securities were $534 million pesos in 1997, as a result of having recorded extraordinary gains and the mark-to-market value of the company's shares portfolio.

Foreign Exchange Loss

Net Foreign Exchange Loss was $95 million pesos in 1997 versus $846 million pesos during the previous year, given the bolivar's 64% depreciation during 1996. During 1997, the Mexican peso depreciated by 2% vis-à-vis the US dollar.

Net Monetary Position Gain

Net Monetary Position Gain during the year was $4.657 billion pesos, 54% less than was recorded for 1996 due to a lower inflation rate in Mexico, and the utilization of the weighted average inflation method by subsidiary in accordance with Mexican GAAP, which was implemented at the beginning of 1997.

Other Expenses, Net

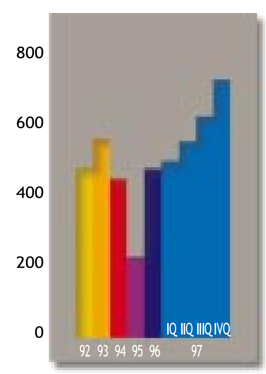
Other Expenses, Net were $1.110 billion pesos, 22% lower than those incurred in 1996, because of the cancellation of the tax provision recorded in 1996. The cash amount of other expenses, net for 1997 was $563 million pesos (US$70 million). The amortization of goodwill and anti-dumping duties are representative of the majority of these expenses.

CEMEX 2000

CEMEX has invested more than US$200 million over the last decade to implement and modernize its information technology infrastructure. In 1997, it launched CEMEX 2000, a company-wide initiative to obtain certification of year 2000 compliance not only for information systems and applications, but also for the entire business network.

Cash earnings
millions of dollars

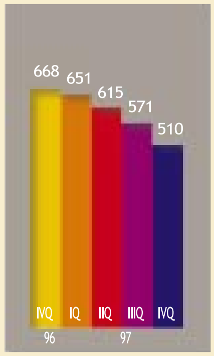
(Operating cash flow minus net financial expenses). Trailing 12 months for each period.



Consistent growth in cash earnings is evidence that 1997 was a year of consolidation for CEMEX.

Financial expenses
millions of dollars

Trailing 12 months for each period.



The substantial decrease in financial expenses has lowered financial risk.

Effective Tax Rate

The *Effective Tax Rate* was 7.24% for 1997 and was comprised as follows: 5.5% of income tax and 1.8% PTU (Personal Employee Income Tax). In anticipation of CEMEX' annual cash tax payments, during 1997 the company paid approximately $242 million pesos against tax provisions accumulated in 1997.

Minority Interest Net Income

The *Minority Interest Net Income* decreased 14% in 1997 due to the change in the criteria for recording the Societé operation and the acquisitions of the remaining minority interest in some subsidiaries. These reductions were larger than the relative increase brought about by the consolidation of Samper and by the greater net income at the subsidiary level.

Majority Interest Net Income

The Majority Interest Net Income during 1997 was $6.140 billion pesos (US$761 million).

MEXICO

Sales

Net Sales in 1997 were $13.865 billion pesos, 2% greater than in 1996, as a result of greater domestic volumes and new product development. In dollar terms, net sales increased by 15% and reached US$1.718 billion. The composition of the total sales from Mexico's operations during the year was as follows: 70% domestic cement, 17% ready-mix, 8% exports and 5% tourism and others.

Prices and Volumes

The volume of domestic gray cement sold by CEMEX Mexico grew 12% during the year, and the volume of ready-mix increased by 33%, exceeding the growth of domestic demand. The volume of exports decreased 25% year-to-year due to the decrease in exports to Southeast Asia.

During 1997, the average domestic price of cement (invoiced) by CEMEX Mexico decreased 8% in constant pesos during 1997, although, in terms of dollars, it did increase 6% compared to 1996. The average price of concrete decreased 3% in constant pesos, but in dollar terms it rose 12% over the price of the preceding year.

Costs

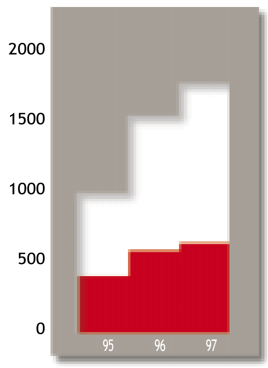
In 1997, the average cost of sales per ton (excluding depreciation) decreased 7% in real terms vis-à-vis 1996, due to a 17% decrease in fixed costs while variable costs remained constant. The cost of fuel oil decreased 5% due to the lower price of petroleum and the greater use of petroleum coke, although the cost of electric power, because of the adjustment to international price levels, rose by 9% during the period. Additionally, the cost of labor decreased 10% thanks to the efforts made to achieve greater efficiency and productivity. The reduction in the cost of sales was, however, adversely affected by a serious increase in market distribution costs.

Gross Margin

The *Gross Margin* decreased from 43.8% in 1996 to 42.0% in 1997, with gross income of $5.819 billion pesos. Nevertheless, in dollar terms, gross profit increased 10% and rose to US$721 million.

Operating expenses accounted for 12.3% of the year's sales, decreasing from 12.8% in 1996, and decreased 2% in absolute terms as a result of the Continuous Improvement Program implemented in the sales and logistics areas.

CEMEX Mexico



Net sales

Operating cash flow

millions of dollars

An improving Mexican economy and greater dedication to sales efforts drove increased net sales.
In dollar terms, Mexico's EBITD continues to improve.

Improved efficiency
Vilanova plant, Spain.
CEMEX Spain's production costs, in dollar terms, dropped 13% versus last year.

Operating Margin

As a consequence of the gross margin decrease, the *Operating Margin* in Mexico went from 30.9% in 1996 to 29.7% in 1997. Operating income reached $4.112 billion pesos, 2% less than in 1996, although, in dollars, it grew 10% to US$510 million.

Operating Cash Flow

Operating Cash Flow at CEMEX Mexico declined 4% in real terms, and reached $5.162 billion pesos, but increased 9% in dollar terms to US$640 million for the year.

SPAIN

Sales

CEMEX Spain's operations reported *Net Sales* of Ptas. 109.795 billion during the year, 20% more than 1996. This increase was principally due to strong volume growth, as well as the incorporation of Cementos Especiales de las Islas, S.A. (excluding Islas, sales grew 13%). Net sales increased less in dollar terms, 3%, because of the peseta's depreciation vis-à-vis the US dollar.

Prices and Volumes

Valenciana's domestic cement sales volume grew 21% in 1997, versus 1996, significantly exceeding the growth in domestic demand. Likewise, ready-mix volume increased 17% during the year. Higher domestic demand caused exports to decrease 4% during the year.

In peseta terms, the average price of domestic cement decreased 3% vis-à-vis the preceding year. Additionally, the average price of ready-mix dropped 1% for the period.

Costs

The average cost of sales per metric ton (excluding depreciation) remained relatively stable when compared to 1996. Despite better labor costs, which resulted in a 6% drop in fixed costs, variable costs increased 6% as a result of greater maintenance and fuel costs. Nevertheless, in dollar terms, production costs decreased 13% year-to-year.

Gross Margin

Gross Margin decreased from 36.4% in 1996 to 33.6% in 1997 because of a substantial increase in depreciation expenses resulting from the restatement of assets. Gross profit grew 11%, reaching Ptas. 36.875 billion (US$243 million).

Operating expenses rose 13% during the year as a result of increased transportation and advertising expenses. Nevertheless, operating expenses decreased year-to-year as a percentage of sales and represent only 12.1% of sales, as opposed to 12.8% in 1996.

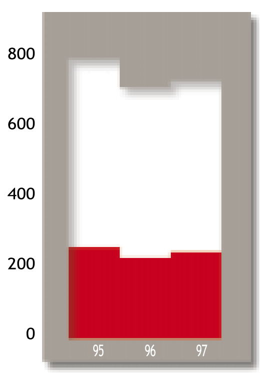
Operating Margin

Operating Margin decreased from 23.6% in 1996 to 21.5% in 1997 on operating income of Ptas. 23.634 billion, 10% more than the operating income for the preceding year.

Operating Cash Flow

Operating Cash Flow increased 25% to Ptas. 37.719 billion (US$249 million).

CEMEX Spain



Net sales

Operating cash flow

millions of dollars

Net sales growth is evidence of the Spanish economy's recovery. Valenciana's operating cash flow recovered in 1997.

VENEZUELA

Sales

In 1997, *Net Sales* reached Bs. 233.412 billion, a 5% increase in real terms over 1996, mostly as a result of volume growth. In dollars, net sales rose 36% to US$462 million as a result of the bolivar's relative stability versus the US dollar.

Prices and Volumes

Vencemos' domestic cement sales volume increased 15%, compared to the preceding year, because of growing domestic demand. Ready-mix sales volume grew 40% due to new regional market expansion. As a result of rising domestic demand, the volume of Venezuelan exports dropped 4% for the year, but still represented 48% of Vencemos' total sales volume.

In 1997, cement prices decreased 3% in real terms, while ready-mix prices increased 1% compared to 1996. In dollars, both cement and ready-mix prices rose 26% and 32%, respectively, because of 38% inflation for the year. The bolivar devalued at a rate of only 6% during the same period.

Costs

The average cost of sales per metric ton of cement (excluding depreciation) increased 15% in constant bolivars during 1997, as compared to 1996. Fixed costs remained stable because increased labor costs were offset by decreased maintenance costs. However, variable costs grew 52% due to increases in the cost of electric power and purchased raw materials.

Gross Margin

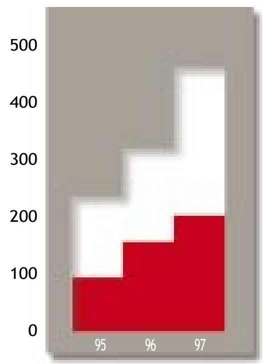
Gross Margin remained at 42.7% throughout the year on gross income of Bs. 99.602 billion, which grew 2% in absolute terms from 1996 to 1997.

Operating expenses decreased 9% during 1997. They now represent 8.9% of sales, versus 9.3% in 1996, as a result of the optimization programs that have been implemented.

Operating Margin

As a result of the above, *Operating Margin* remained constant at 34.6%, during 1996 and 1997, on operating income of Bs. 80.823 billion, 5% more in real terms than 1996.

CEMEX Venezuela



Net sales

Operating cash flow

millions of dollars

Rising domestic cement demand led to Venezuela's 1997 sales growth. The economic recovery and operational efficiencies increased operating cash flow.

Operating Cash Flow

Operating Cash Flow was Bs. 102.180 billion for the year with a margin of 43.8%. In dollar terms, operating cash flow grew 29% to US$202 million. Operating cash flow before the cost of sales restatement (a non-monetary item) grew 6% and reached Bs. 108.725 billion, or US$215 million.

COLOMBIA

Note: The results of CEMEX Colombian operations in 1996 included only Cementos Diamante. For 1997, Colombia includes the results from the operations of Cementos Diamante and Samper. For comparative purposes, the following presents an analysis of the 1997 results compared to pro-forma figures for 1996 (which in both cases include Cementos Diamante and Samper).

Sales

Cementos Diamante's *Net Sales* were $479.217 billion Colombian pesos (US$370 million), 8% higher, in constant terms, than the pro-forma figure of $443.027 billion Colombian pesos recorded for 1996. However, in dollar terms, sales experienced a slight decrease due to the devaluation of the Colombian peso versus the US dollar.

Gross Margin

Gross Margin rose to 37.0% in 1997, versus the pro-forma 32.0% for 1996, thanks to the optimizing process being implemented. Gross income grew 25% in actual terms and reached $177.537 billion Colombian pesos, or US$137 million.

In 1997, operating expenses were 15.0% of sales, a substantial improvement over the pro-forma 18.0% in 1996.

Operating Margin

As a result, *Operating Margin* increased from the pro-forma 14.0% for 1996 to 22.1% in 1997, on operating income of $105.857 billion Colombian pesos (US$82 million).

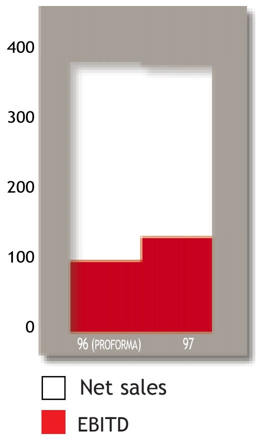
Operating Cash Flow

Operating Cash Flow after charges associated with operating leases, rose to $174.185 billion Colombian pesos in 1997, or US$135 million, as compared to the $119.857 billion pro-forma Colombian pesos for 1996. EBITD margin improved from 27.1% pro-forma, in the preceding year, to 36.3% in 1997. Operating cash flow before these charges was $177.982 billion Colombian pesos, or US$138 million.

Better margins
Ibagué plant, Colombia.

Thanks to the optimizing process being implemented, 1997 operating expenses were substantially improved over 1996.

CEMEX Colombia



millions of dollars

Although net sales for CEMEX' Colombian operations increased in constant terms, they decreased slightly in dollar terms.
The integration program generated a remarkable increase in operating efficiencies.

"CEMEX – with satellite links, expert systems and a computer in every truck - is confounding old ideas about the lines that separate the world's info haves and have-nots"

Peter Katel, Wired Magazine, 7/97.

UNITED STATES

Sales

CEMEX USA's *Net Sales* rose 7% to US$435 million, principally driven by increases in the selling price of cement and ready-mix, as well as improvement in non-cement operations.

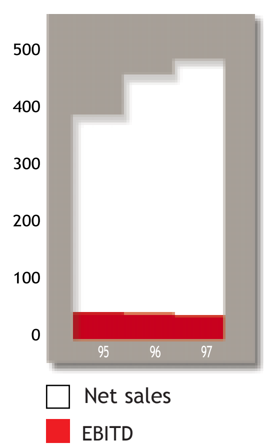
Prices and Volumes

CEMEX USA's cement sales volume decreased by 3% in 1997 versus 1996, mostly because of distribution problems associated with third-party transportation services which negatively affected sales volumes in Texas. Nevertheless, ready-mix sales volume increased 2% during the year, while aggregates volumes remained flat. The average realized cement price grew 4% during the year, while the price of ready-mix increased 1%.

Gross Margin

Gross Margin decreased from 15.3% in 1996 to 13.5% in 1997, on gross income of US$59 million, mainly due to volume decreases, the company's sales and markets mix.

CEMEX USA



millions of dollars

Cement and ready-mix price increases fueled CEMEX USA's net sales growth, while operating cash flow was affected by decreasing cement sales volumes, the sales and markets mix.

Operating Margin

CEMEX USA's operating income decreased 12% to US$28 million. *Operating Margin* consequently declined from 7.7% in 1996 to 6.4% in 1997. Individually, the operating margin of the cement business (including ready-mix and aggregates) was 8%, as compared to 10% for 1996.

Operating Cash Flow

Operating Cash Flow decreased 9% to US$45 million after US$11 million charges related to operating leases. Before these charges, operating cash flow decreased 7% to US$56 million.

CENTRAL AMERICA AND THE CARIBBEAN

Sales

During 1997, the *Net Sales* of CEMEX' operations in Central America and the Caribbean were US$207 million, 19% higher than 1996, thanks to the continued expansion of operations and greater market penetration.

Operating Margin

The region's *Operating Margin* was 20% for the year, with operating income of US$41 million.

Operating Cash Flow

Operating Cash Flow remained stable during 1997, as compared to 1996, at US$57 million and US$56 million, respectively.

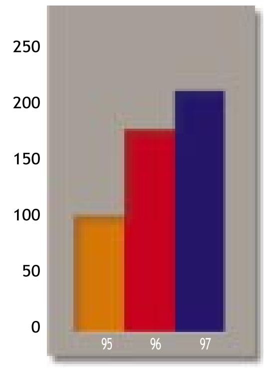
FINANCIAL POSITION

Net Debt

Net Debt, which includes derivative financing, decreased by over US$200 million vis-á-vis 1996, representing a 5% reduction, to US$4.738 billion. This is a significant reduction because it was accomplished despite the US$231 million purchase of CEMEX' shares and the shares of some subsidiaries, including shares that were part of CEMEX' Share Repurchase Program, and the investment of US$93 million in the acquisition of a 30% interest in the capital stock of Rizal Cement in the Philippines.

The cost of the company's debt in 1997 averaged 8.2% for dollar-denominated debt, 5.6% for pesetas, and 18.7% for bolivar-denominated debt.

Central America and the Caribbean net sales
millions of dollars



With greater territorial coverage and increasing trading activity, the sales in Central America and the Caribbean increased substantially.

Derivative Financing

At the close of 1997, *Equity Derivative Financing* amounted to approximately US$500 million. The drop was mainly due to the expiration of the SRUs (Share Repurchase Units) in the amount of US$90 million. The expiration of the SRUs resulted in extraordinary gains of approximately US$36 million.

Hedges

To hedge its financial risk, CEMEX has made use of hedge agreements. At year-end 1997, any transactions currently in force are designed to provide the company with coverage against fluctuations in interest rates, currency exchange rates and share prices. The financial effect of these hedging operations is reflected either as a part of the financial expenses line item or as a part of stockholders' equity, as the case may be.

FINANCIAL RATIOS

Leverage

The *Leverage* ratio of 49.6% (total debt/total capitalization) at the close of 1997 was lower than the 53.0% leverage ratio on December 31, 1996.

The financial leverage ratio, measured by comparing the total debt on the balance sheet to the operating cash flow throughout the last 12 months, decreased from 4.39 times in 1996 to 3.87 times in 1997, which represents a 12% decrease for the year.

Interest Coverage

The *Interest Coverage* ratio improved to 2.41 times in 1997, as compared to 1.67 times for 1996. This coverage is calculated by dividing the operating cash flow before lease payments and cost of sales restatement by financial expenses.

The interest coverage ratio including taxes paid in cash is important because it reflects the company's capacity to meet its obligations to third parties. As of December 31, 1997, the interest coverage ratio including cash tax payments was 2.35 times.

INVESTMENTS AND ACQUISITIONS

In October, CEMEX announced the acquisition of a 30% minority interest in the Philippine company Rizal Cement Inc. for a total of US$93 million, through its Spanish subsidiary, and signed an agreement in which CEMEX will provide technical assistance and consulting services to Rizal.

This investment has been recorded on the balance sheet as an investment in subsidiaries at the end of 1997, while the return on this investment will be reflected at the beginning of 1998.

Through its Spanish subsidiary, CEMEX organized a new subsidiary in Singapore called CEMEX Investment Holdings Asia Pte. Ltd., through which this and other potential acquisitions will be performed. CEMEX shall initially contribute the venture capital for CEMEX Investment Holdings, although other investors are expected to contribute approximately 75% of the capital.

RELEVANT FINANCING AND EVENTS

During 1997, the following relevant financial transactions were realized:

- In May, CEMEX concluded negotiating a three-year Committed Revolving Credit Facility in the amount of US$600 million which effectively eliminates the risk of refinancing this amount in the short-term. This line's availability is committed for one year, and may be renewed at market conditions and at the option of each creditor for another year. As a result of this program, the company has been able to get better spreads in debt issues and re-negotiation.
- In August, CEMEX concluded the syndication of

Strategic investment

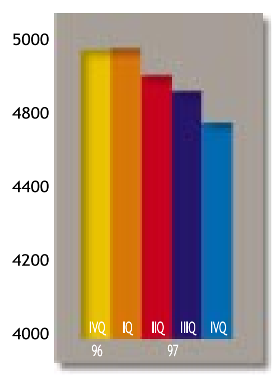
Rizal plant, Philippines.

This acquisition leverages the company's operational expertise, enhances consolidated cash flow and offers higher long-term returns.

Net debt

millions of dollars

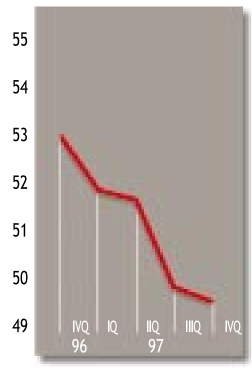
Total debt plus derivative financing minus cash.



The fourth quarter of 1997 marks the third consecutive quarterly reduction of CEMEX' net debt.

Leverage

Total debt/
Total capitalization



During 1997, leverage declined as CEMEX' debt decreased.

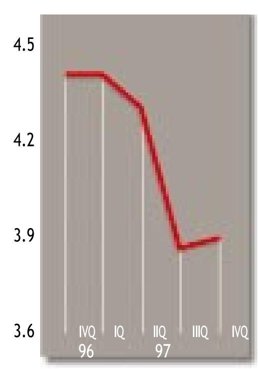
the two-year US Commercial Paper Program for US$300 million.
This is the first time that the program has been renewed for a period of two years, and, therefore, its original maturity was extended for another year. The structure of the program, backed by a letter of credit from CS First Boston, has allowed CEMEX to obtain an investment grade credit rating of A1/P1. The company will use the resources from this program to refinance short-term maturities. Bank of America acted as leader and managing agent for the transaction that was syndicated among 22 international banks.

- In November, CEMEX negotiated a Contingent Line with Bankers Trust and with Santander for US$300 million, which provides contingent financing for a period of 3 years to refinance the Commercial Euro-Paper (CEP). In the event of adverse market conditions for refinancing the CEP, CEMEX has the option of placing the CEP with the participant banks. Additionally, there is also the option of exchanging the CEP for long-term notes.
- In recognition of CEMEX' business strategy and its improved financial structure, Standard & Poors (S&P) rating agency improved its rating of CEMEX' international debt in November 1997. The S&P rating for CEMEX' foreign currency debt is BB+, which is higher than the BB rating given by S&P to Mexican sovereign debt.

Equity Transactions

- At the 1996 General Annual Stockholders Meeting held on April 24, 1997, the stockholders approved the CEMEX Share Repurchase Program. On March 30, the Board of Directors of CEMEX approved the repurchase. As of December 31, 1997, approximately 24 million shares have been repurchased at the approximate average price of $39 nominal pesos per share, completing the minimum stipulated for the Share Repurchase Program. CEMEX has funded this program with its own resources generated by its existing operations.
- In 1995, the company instituted the Options

Debt/Operating cash flow

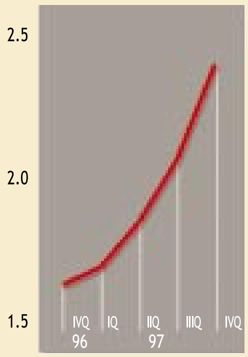


Even with the rise in cash from operations, the debt-to-EBITD ratio decreased gradually.

Trailing 12 months for each period.

Interest coverage

Operating cash flow*/
Financial expense



Increasing operating cash flow and decreases in financial expense resulted in expanded interest coverage capacity.

Trailing 12 months for each period.

*Before lease payments and cost of sales restatement.

Plan for CEMEX Shares, by means of which the company is authorized to give senior managers, executives and other employees, options for the acquisition of up to 72,100,000 CEMEX Series B Shares. As of December 31, 1997, options for acquiring 21,157,885 CEMEX Series B shares had already been granted as follows: 5,345,789 granted in 1995 at a strike price of $20.00 pesos per share; 9,873,710 granted in 1996 at a strike price of $29.60 pesos per share; and 5,933,386 granted in 1997 at a strike price of $33.13 pesos per share. The employee's right to exercise options received is obtained at an annual proportion of 25% of the total number of options during the first four years after they were granted, and they expire on the tenth anniversary of this date or when the person leaves the company. Under this scheme, CEMEX is under no obligation to record a liability for such shares.

Footnotes to Selected Consolidated Financial Information

(1) Cost of sales includes depreciation.

(2) Comprehensive financing income (cost) includes financial expense, financial income, gains (losses) on marketable securities, net foreign exchange variation and net monetary position result.

(3) In July 1995, a CEMEX subsidiary entered into a transaction pursuant to which it transferred a portion of the common stock of Valenciana in exchange for Ptas. 40 billion, which as of December 31, 1997 represented 24.8% of such stock. This original amount was refinanced in August 1997 at US$320 million, and, since that date, the minority interest in the income statement has not been recognized, since CEMEX, through its subsidiary, has retained dividend and voting rights over such shares and has the option to acquire them in 3 tranches, the last of which matures in August 2000. The company includes the cost of retaining its option in the financial expense account. Such shares are being treated as owned by a third party, thereby creating a minority interest over the consolidated stockholders' equity in Valenciana. As of December 31, 1997, such shares account for 43% and 39% of total minority net income and CEMEX' minority stockholders' equity, respectively.

(4) On April 28, 1994, CEMEX declared a stock split of 3 shares per each share held by a shareholder. Additionally, as part of the transformation of CEMEX from a fixed to a variable capital company, and an increase in the variable portion of its capital stock, CEMEX issued a new share of variable capital of like series for every eight shares (after making the stock split effective). All share and per share amounts for 1987 through 1993 have been adjusted to make the effect of the stock split retroactive.

(5) The number of shares outstanding represents the total shares outstanding at the close of each year, stated in millions of shares, and includes the total number of shares issued by CEMEX utilized in derivative transactions.

(6) For the periods ended on December 31, 1987 to 1995, the "Earnings Per Share" amount was determined by considering the total outstanding shares at the year's end. For the periods ended on December 31, 1996 and 1997, the "Earnings Per Share" amount was determined by considering the average number of shares outstanding each year; i.e., 1.298 and 1.284 billion, respectively, so as to comply with the provisions of Bulletin B-14 "Earnings Per Share", which have been in force since 1997. (See Footnote No. 18 to the Financial Statements.)

(7) Dividends declared at each year's annual shareholders' meeting for each period are reflected as dividends from the preceding year.

(8) As a result of CEMEX' Share Repurchase Program, as of December 31, 1997, 24 million shares were acquired for an amount of approximately US$119 million. The shares acquired through this program account for approximately 2% of the shares outstanding.

(9) Net working capital equals trade receivables plus inventories minus trade payables.

(10) EBITD equals earnings before interest and taxes plus depreciation.

(11) Net resources provided by operating activities equals majority interest net income, plus line items not affecting cash flow, plus variations in working capital, excluding the effects of acquisitions.

Financial statements

Auditors' report

The Board of Directors and Stockholders
Cemex, S.A. de C.V.:

(Thousands of Mexican pesos)

We have audited the consolidated and parent company-only balance sheets of Cemex, S.A. de C.V. and Cemex, S.A. de C.V. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated and parent company-only statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Grupo Empresarial Maya, S.A. de C.V. and Subsidiaries, and certain financial statements of other consolidated subsidiaries which were examined by other auditors. The financial statements of these subsidiaries reflect total assets and total revenues constituting 9% and 9% in 1997 and 7% and 6% in 1996, respectively, of the related consolidated totals. The parent company's investment in these subsidiaries was $11,932,900 and $6,811,280 as of December 31, 1997 and 1996, respectively, and its share in their net income (loss) was $724,392 and $(1,798,624) for the respective years then ended. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Mexico. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements and are prepared in accordance with generally accepted accounting principles. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in notes 2B and 2C, during 1997, the Company adopted the provisions of Bulletin B-15 "Foreign Currency Transactions and Translation of Foreing Currency Financial Statements", which requires financial statements of consolidated foreign companies be restated for inflation in their functional currency based on the subsidiary country's rate of inflation and subsequently translated to Mexican pesos by using the foreing exchange rate at the balance sheet date. In addition, the monetary position gain or loss is determined under Bulletin B-15 by considering the rate of inflation of each of the subsidiaries' countries. Prior to 1997, the restatement for inflation of the financial statements of foreing subsidiaries and the monetary position gain or loss were determined based upon the inflation rate in Mexico. The comparative 1996 consolidated financial statements have restated for inflation by a weighted average index, that takes into consideration the inflation rates of the countries in wich subsidiaries operate and the exchange rate of each country vis-a-vis the Mexican Peso.

In addition, as described in note 2B, during 1997 the Company adopted the provisions established in the fifth amendment to Bulletin B-10 for recognition of the effects of inflation of property, plant and equipment. This amendment to B-10 requires the use of the national inflation index of each country to restate property, plant and equipment of that country and permits the use of a specific inflation index for imported property, plant and equipment. Prior to 1997, their restatement was made based upon appraisals made by independent expert appraisers. The appraised amounts of property, plant and equipment as of December 31, 1996, served as the beginning bases for purposes of applaying the 1997 inflation indices.

In our opinion, based upon our audits and the reports of other auditors, the consolidated and parent company-only financial statements referred to above present fairly, in all material respects, the financial position of Cemex, S.A. de C.V. and Cemex, S.A. de C.V. and Subsidiaries at December 31, 1997 and 1996, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles in Mexico.

KPMG Cárdenas Dosal, S.C.

Rafael Gómez Eng

Monterrey, N.L., Mexico
January 19, 1998.

Management's responsibility for internal control

The Board of Directors and Stockholders
Cemex, S.A. de C.V.:

We have performed a study and evaluation of the system of internal accounting control of Cemex, S.A. de C.V. and Subsidiaries for the year ended December 31, 1997. The management of Cemex, S.A. de C.V. is responsible for establishing and maintaining a system of internal accounting control. Our responsibility is to express an opinion on this system of internal control based on our review.

We conducted our study and evaluation in accordance with generally accepted auditing standards. The system of internal accounting control of some subsidiaries were examined by other auditors, whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the system of internal accounting control for such subsidiaries is based solely on the reports of other auditors.

Because of inherent limitations in any system of internal accounting control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our opinion, based on our audit and the reports of other auditors, the system of internal accounting control of Cemex, S.A. de C.V. and Subsidiaries for the year ended December 31, 1997, taken as a whole, was sufficient to meet management's objectives and to provide reasonable assurance that material errors or irregularities will be prevented or detected in the normal course of business.

KPMG Cárdenas Dosal, S.C.

Rafael Gómez Eng

Monterrey, N.L. Mexico
January 19, 1998.

The management of Cemex, S.A. de C.V. is responsible for the preparation and integrity of the accompanying consolidated financial statements and for maintaining a system of internal control to provide reasonable assurance to shareholders, to the financial community and other interested parties, that transactions are executed in accordance with management authorization, accounting records are reliable as a basis for the preparation of the consolidated financial statements and to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition.

In fulfilling its responsibilities for the integrity of financial information, management maintains and relies on the company's system of internal control. This system is based on an organizational structure providing of responsibilities and the selection and training of qualified personnel. Also, it includes policies which are communicated to all personnel through appropriate communication channels. The system of internal control is supported by an internal audit function that operates at international level and reports its findings to management throughout the year. Management believes that, for the year ended December 31, 1997, the company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

Cemex, S.A. de C.V. engaged KPMG Cárdenas Dosal, S.C., the company's principal independent auditors, to perform an audit of the internal control system and express their opinion thereon for the year ended December 31, 1997. Their audit applied generally accepted auditing standards, which included a review and evaluation of control systems and performance of such test of accounting information records as they considered neccesary in order to reach their opinion. Their report is presented separately.

Lorenzo H. Zambrano
Chairman of the Board
and Chief Executive Officer

Consolidated balance sheets

(Thousands of constant Mexican pesos as of December 31, 1997)

	December 31	
ASSETS	1997	1996
CURRENT ASSETS		
Cash and temporary investments	$ 3,069,338	3,430,872
Trade accounts receivable, less allowance for doubtful accounts of $483,632 in 1997 and $469,809 in 1996	3,675,328	3,403,216
Other receivables (note 3)	1,563,331	1,548,820
Inventories (note 4)	3,449,584	3,504,279
Other current assets (note 5)	641,793	883,900
Total current assets	12,399,374	12,771,087
INVESTMENTS AND NONCURRENT RECEIVABLES		
Investments in affiliated companies (note 6)	2,240,636	3,395,448
Other investments	456,950	317,210
Other accounts receivable	107,463	138,869
Total investments and noncurrent receivables	2,805,049	3,851,527
PROPERTY, MACHINERY AND EQUIPMENT		
Land and buildings	23,558,591	21,304,941
Machinery and equipment	68,581,409	68,408,670
Accumulated depreciation	(45,754,210)	(43,430,352)
Construction in progress	2,081,073	1,921,384
Total property, machinery and equipment	48,466,863	48,204,643
DEFERRED CHARGES (note 7)	18,896,440	18,630,023
TOTAL ASSETS	$ 82,567,726	83,457,280

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1997	1996
CURRENT LIABILITIES		
Bank loans (note 8)	$ 2,826,610	959,862
Notes payable (note 8)	887,925	797,604
Current maturities of long-term debt (notes 8 and 9)	1,590,621	5,085,089
Trade accounts payable	2,379,065	1,779,020
Other accounts payable and accrued expenses	2,561,623	2,879,113
Total current liabilities	10,245,844	11,500,688
LONG-TERM DEBT (note 9)		
Bank loans	13,279,304	15,067,382
Debentures	—	243
Notes payable	20,274,960	23,208,213
Current maturities of long-term debt	(1,590,621)	(5,085,089)
Total long-term debt	31,963,643	33,190,749
OTHER NONCURRENT LIABILITIES		
Pension plan and seniority premium (note 11)	431,426	681,658
Deferred income taxes (note 14)	1,074,498	1,144,663
Other liabilities	953,441	534,290
Total other noncurrent liabilities	2,459,365	2,360,611
TOTAL LIABILITIES	44,668,852	47,052,048
STOCKHOLDERS' EQUITY (note 12)		
Majority interest:		
Common stock-historical cost basis	46,514	47,300
Common stock-accumulated inflation adjustments	2,043,061	2,043,081
Additional paid-in capital	11,545,495	11,531,984
Deficit in equity restatement	(27,802,488)	(22,963,143)
Retained earnings	36,394,567	29,148,937
Net income	6,139,959	8,201,755
Total majority interest	28,367,108	28,009,914
Minority interest	9,531,766	8,395,318
Total stockholders' equity	37,898,874	36,405,232
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 82,567,726	83,457,280

Consolidated statements of income

(Thousands of constant Mexican pesos as of December 31, 1997, except for earnings per share)

	Years ended on December 31 1997	1996
Net sales	$ 30,573,187	28,249,204
Cost of sales	(18,735,000)	(17,129,381)
Gross profit	11,838,187	11,119,823
Operating expenses:		
Administrative	(3,125,503)	(2,968,722)
Selling	(1,488,282)	(1,417,125)
Total operating expenses	(4,613,785)	(4,385,847)
Operating income	7,224,402	6,733,976
Comprehensive financing income:		
Financial expenses	(4,116,009)	(5,604,592)
Financial income	835,019	689,201
Foreign exchange loss, net	(95,426)	(846,368)
Monetary position result	4,657,120	10,203,406
Net comprehensive financing income	1,280,704	4,441,647
Other expenses, net	(1,109,961)	(1,431,705)
Income before income taxes, employees' statutory profit sharing and equity in income of affiliates	7,395,145	9,743,918
Income tax and business assets tax, net (note 14)	(403,969)	(786,528)
Employees' statutory profit sharing (note 14)	(131,731)	(46,605)
Total income tax, business assets tax and employees' statutory profit sharing	(535,700)	(833,133)
Income before equity in income of affiliates	6,859,445	8,910,785
Equity in income of affiliates	141,106	288,935
Consolidated net income	7,000,551	9,199,720
Minority interest net income	860,592	997,965
Majority interest net income	$ 6,139,959	8,201,755
Basic Earnings Per Share (note 18)	$ 4.78	6.32
Diluted Earnings Per Share (note 18)	$ 4.71	5.52

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in financial position

(Thousands of constant Mexican pesos as of December 31, 1997)

	Years ended on December 31 1997	1996
Operating activities		
Majority interest net income	$ 6,139,959	8,201,755
Charges to operations which did not require resources (note 17)	4,204,912	3,867,237
Resources provided by operating activities	10,344,871	12,068,992
Change in working capital, excluding effect of acquisitions:		
Trade accounts receivable, net	(209,916)	1,109,146
Other receivables and other assets	221,029	473,924
Inventories	(222,242)	(630,984)
Trade accounts payable	574,941	40,522
Other accounts payable and accrued expenses	(492,523)	(235,663)
Net change in working capital	(128,711)	756,945
Net resources provided by operating activities	10,216,160	12,825,937
Financing activities		
Proceeds from bank loans (repayments), net	(62,849)	4,469,637
Debentures, net	(259)	(66,076)
Notes payable, net, excluding foreign exchange effect (note 2E)	(3,304,761)	(6,349,255)
Investment in subsidiaries	(577,262)	(53,614)
Dividends paid	—	(1,076,740)
Other financing activities, net	(379,713)	(742,920)
Acquisition of shares under share repurchase program	(956,949)	—
Issuance of common stock	13,529	2,114,321
Resources used in financing activities	(5,268,264)	(1,704,647)
Investing activities		
Property, machinery and equipment, net	(2,701,085)	(1,903,785)
Acquisitions, net of cash acquired	(749,158)	(5,427,408)
Minority interest	(823,189)	(3,155,731)
Deferred charges	(533,302)	(322,402)
Other investments and monetary foreign currency effect	(502,696)	(610,106)
Resources used in investing activities	(5,309,430)	(11,419,432)
Decrease in cash and temporary investments	(361,534)	(298,142)
CASH AND TEMPORARY INVESTMENTS AT BEGINNING OF YEAR	3,430,872	3,729,014
CASH AND TEMPORARY INVESTMENTS AT END OF YEAR	$ 3,069,338	3,430,872

See accompanying notes to consolidated financial statements.

Balance sheets

(Thousands of constant Mexican pesos as of December 31, 1997)

	December 31	
ASSETS	1997	1996
CURRENT ASSETS		
Cash and temporary investments	$ 8,564	393,858
Other receivables (note 3)	438,603	150,077
Intercompany receivables (note 10)	584,712	6,029,690
Total current assets	1,031,879	6,573,625
INVESTMENTS AND NONCURRENT RECEIVABLES		
Investments in subsidiaries and affiliated companies (note 6)	55,524,227	47,287,323
Other investments	9,260	10,659
Total investments and noncurrent receivables	55,533,487	47,297,982
PROPERTY AND BUILDINGS		
Land	941,023	934,046
Buildings	241,961	241,282
Accumulated depreciation	(119,603)	(114,946)
Total property and buildings	1,063,381	1,060,382
DEFERRED CHARGES (note 7)	1,519,212	1,430,898
TOTAL ASSETS	$ 59,147,959	56,362,887

See accompanying notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1997	1996
CURRENT LIABILITIES		
Bank loans (note 8)	$ 2,056,904	393,581
Notes payable (note 8)	775,470	—
Current maturities of long-term debt (note 8)	169,380	3,685,968
Other accounts payable and accrued expenses	455,867	508,949
Intercompany payables (note 10)	9,070,679	3,508,168
Total current liabilities	12,528,300	8,096,666
LONG-TERM DEBT (note 9)		
Bank loans	1,604,111	1,879,247
Notes payable	16,817,820	22,063,028
Current maturities of long-term debt	(169,380)	(3,685,968)
Total long-term debt	18,252,551	20,256,307
TOTAL LIABILITIES	30,780,851	28,352,973
STOCKHOLDERS' EQUITY (note 12)		
Common stock-historical cost basis	46,514	47,300
Common stock-accumulated inflation adjustments	2,043,061	2,043,081
Additional paid-in capital	11,545,495	11,531,984
Deficit in equity restatement	(27,802,488)	(22,963,143)
Retained earnings	36,394,567	29,148,937
Net income	6,139,959	8,201,755
Total stockholders' equity	28,367,108	28,009,914
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 59,147,959	56,362,887

Statements of income

(Thousands of constant Mexican pesos as of December 31, 1997, except for earnings per share)

	Years ended on December 31 1997	1996
Equity in income of subsidiaries and affiliates	$ 4,460,456	5,064,018
Rental income	114,796	106,440
License fees	315,546	194,679
Total revenues (note 10)	4,890,798	5,365,137
Administrative expenses	(71,615)	(39,886)
Operating income	4,819,183	5,325,251
Comprehensive financing income:		
Financial expenses	(3,064,923)	(4,165,076)
Financial income	394,740	967,371
Foreign exchange gain (loss), net	(193,433)	97,631
Monetary position result	3,527,218	5,465,677
Net comprehensive financing income	663,602	2,365,603
Other income (expenses), net	86,488	(123,093)
Income before income taxes	5,569,273	7,567,761
Income tax benefit and business assets tax, net (note 14)	570,686	633,994
Net income	$ 6,139,959	8,201,755
Basic Earnings Per Share (note 18)	$ 4.78	6.32
Diluted Earnings Per Share (note 18)	$ 4.71	5.52

See accompanying notes to financial statements.

Statements of changes in financial position

(Thousands of constant Mexican pesos as of December 31, 1997)

	Years ended on December 31 1997	1996
Operating activities		
Net income	$ 6,139,959	8,201,755
Charges to operations which did not require resources (note 17)	(4,369,030)	(4,966,159)
Resources provided by operating activities	1,770,929	3,235,596
Change in working capital:		
Other receivables	(288,526)	(132,872)
Short-term intercompany receivables and payables, net	11,007,489	(5,628,785)
Other accounts payable and accrued expenses	(53,082)	99,840
Net change in working capital	10,665,881	(5,661,817)
Net resources provided by (used in) operating activities	12,436,810	(2,426,221)
Financing activities		
Proceeds from bank loans, net	1,388,187	395,318
Debentures, net	—	(27,708)
Notes payable	(4,469,739)	(8,053,667)
Issuance of common stock	13,529	2,114,321
Acquisition of shares under share repurchase program	(956,949)	—
Dividends paid	—	(1,076,740)
Resources used in financing activities	(4,024,972)	(6,648,476)
Investing activities		
Long-term intercompany receivables, net	—	9,814,661
Investment in subsidiaries	(9,341,399)	(1,548,273)
Dividends received	578,479	—
Deferred charges	(34,212)	(83,010)
Resources (used in) provided by investing activities	(8,797,132)	8,183,378
Decrease in cash and temporary investments	(385,294)	(891,319)
CASH AND TEMPORARY INVESTMENTS AT BEGINNING OF YEAR	393,858	1,285,177
CASH AND TEMPORARY INVESTMENTS AT END OF YEAR	$ 8,564	393,858

See accompanying notes to financial statements.

Statements of changes in stockholders' equity

(Thousands of constant Mexican pesos as of December 31, 1997)

	Common Stock Series A	Common Stock Series B
Balances at December 31, 1995	$ 1,279,576	808,104
Dividends declared (0.69 pesos per share)	—	—
Appropriation of net income from prior year	—	—
Issuance of common stock	2,637	64
Results from holding nonmonetary assets	—	—
Updating of investment and other transactions relating to minority interest	—	—
Investment by subsidiaries (note 6)	—	—
Net income	—	—
Balances at December 31, 1996	1,282,213	808,168
Acquisition of shares under share repurchase program (note 12B)	(337)	(487)
Appropiation of net income from prior year	—	—
Issuance of common stock (note 12C)	—	18
Results from holding nonmonetary assets	—	—
Updating of investment and other transactions relating to minority interest	—	—
Investment by subsidiaries (note 6)	—	—
Net income	—	—
Balances at December 31, 1997	$ 1,281,876	807,699

See accompanying notes to the consolidated and Parent Company only financial statements.

ADDITIONAL PAID-IN CAPITAL	DEFICIT IN EQUITY RESTATEMENT	RETAINED EARNINGS	NET INCOME	MAJORITY INTEREST	MINORITY INTEREST	TOTAL STOCKHOLDERS' EQUITY
9,420,364	(11,466,209)	22,241,686	7,983,991	30,267,512	9,346,313	39,613,825
—	—	(1,076,740)	—	(1,076,740)	—	(1,076,740)
—	—	7,983,991	(7,983,991)	—	—	—
2,111,620	—	—	—	2,114,321	—	2,114,321
—	(9,971,907)	—	—	(9,971,907)	—	(9,971,907)
—	—	—	—	—	(1,948,960)	(1,948,960)
—	(1,525,027)	—	—	(1,525,027)	—	(1,525,027)
—	—	—	8,201,755	8,201,755	997,965	9,199,720
11,531,984	(22,963,143)	29,148,937	8,201,755	28,009,914	8,395,318	36,405,232
—	—	(956,125)	—	(956,949)	—	(956,949)
—	—	8,201,755	(8,201,755)	—	—	—
13,511	—	—	—	13,529	—	13,529
—	(3,222,252)	—	—	(3,222,252)	—	(3,222,252)
—	—	—	—	—	275,856	275,856
—	(1,617,093)	—	—	(1,617,093)	—	(1,617,093)
—	—	—	6,139,959	6,139,959	860,592	7,000,551
11,545,495	(27,802,488)	36,394,567	6,139,959	28,367,108	9,531,766	37,898,874

Notes to the consolidated and parent company only financial statements

December 31, 1997 and 1996
(Thousands of constant Mexican pesos as of December 31, 1997)

1.- DESCRIPTION OF BUSINESS

Cemex, S.A. de C.V. (Cemex or the Company) is the parent company of entities engaged in the production and marketing of cement and concrete in the construction industry. The Company also has subsidiaries that participate in the tourism industry.

2.- SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

The accompanying Parent company-only financial statements have been prepared in order to comply with legal requirements in Mexico. The Company also presents consolidated financial statements.

The accompanying financial statements have been prepared in accordance with Accounting Principles Generally Accepted in Mexico (Mexican GAAP), which include the recognition of the effects of inflation on the financial information.

B) ADOPTION OF NEW ACCOUNTING PRINCIPLES

During 1997, the Company adopted the provisions of Bulletin B-15. In accordance with B-15, financial statements of consolidated foreign subsidiaries are restated for inflation in their functional currency based on the subsidiary country's inflation rate, and subsequently translated to Mexican pesos by using the foreign exchange rate at the balance sheet date. The consolidated Monetary Position Gain or Loss is determined by considering the inflation of each of the countries in which the Company's subsidiaries operate.

The restatement for inflation of prior periods' consolidated financial statements is determined by applying a weighted average index that takes into consideration the inflation rates of the countries in which the subsidiaries operate and the exchange rate related to the Mexican peso (notes 2C and 2E).

During 1997, the Mexican Institute of Public Accountants issued the fifth amendment to Bulletin B-10. This amendment to B-10 requires the use of the national inflation index of each country to restate property, plant and equipment of that country and permits the use of a specific inflation index for imported property, plant and equipment. The specific index reflects the change in the foreign exchange rate between the country of origin of the property, plant and equipment and the functional currency. The Company adopted the provisions of the fifth amendment, during 1997 (note 2I).

Beginning in 1997, the Company adopted the provisions of Circular No. 50, "Interest Rates to be used for the Valuation of Labor Obligations and Supplementary Application of Accounting Principles - Related to Labor Obligations", issued during 1997. This Circular requires the utilization of real interest rates (nominal rates discounted for inflation) in the actuarial assumptions used to determine the Company's pension liability.

C) PRESENTATION OF COMPARATIVE FINANCIAL STATEMENTS

The inflation restatement factors applied to the financial statements of prior periods were calculated according to Bulletin B-15 based upon a weighted average index that takes into consideration the inflation rates of the countries in which the subsidiaries operate and change in the exchange rate of each country vis-a-vis the Mexican peso. The inflation restatement factors of prior periods for the Parent Company-only financial statements were determined based on inflation in Mexico.

Inflation restatement factor using weighted average index	1.0653
Inflation restatement factor for inflation in Mexico	1.1572

The inflation restatement adjustments for common stock and additional paid-in capital are restated by using Mexican inflation. The weighted average restatement index was used for all other inflation restatement adjustments to stockholders' equity.

D) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include those of Cemex and the subsidiary companies in which Cemex holds a majority interest and/or has control.

The main subsidiaries are:

- Cementos Monterrey, S.A. de C.V.
- Grupo Empresarial Maya, S.A. de C.V.
- Tolmex, S.A. de C.V.
- Cemex Central, S.A. de C.V.
- Cementos del Norte, S.A. de C.V.
- Sunbelt Enterprises
- Turismo Cemex, S.A. de C.V.
- Compañía Valenciana de Cementos Portland, S.A.
- Corporación Venezolana de Cementos, S.A.C.A.
- Cemex USA, Inc.
- Cementos Diamante, S.A.
- Cemento Bayano, S.A.
- Cementos Nacionales, S.A.

Commencing January 1, 1997, the operations of the Colombian subsidiary, Industrias e Inversiones Samper, S.A. (Samper), were consolidated by the Company. At December 31, 1996, the investment in Samper was included on the consolidated financial statements under the equity method of accounting and the Company's investment was $1,177,784.

In 1997, the Company, through a subsidiary, acquired 30% of the voting stock of Rizal Cement, Inc., (Rizal) for US dollars 93 million. Rizal is a Philippine company that owns various cement plants. The investment in Rizal is included in the consolidated financial statements under the equity method of accounting and totals $343,293 at December 31, 1997.

All significant intercompany balances and transactions have been eliminated in consolidation.

E) FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

Transactions denominated in foreign currencies are recorded at the exchange rates prevalent on the dates of their execution or liquidation. Monetary assets and liabilities denominated in foreign currencies are adjusted into Mexican currency at the exchange rates prevailing at the balance sheet date. The resulting foreign exchange fluctuations are reflected in the results of operations as part of the comprehensive financing income or as a charge directly to the stockholders' equity when the indebtedness is directly related to the acquisition of a foreign subsidiary.

During 1997, the Company adopted Bulletin B-15 (see note 2B). Prior to 1997, the financial statements of foreign subsidiaries were consolidated under the translation method for foreign entities as set forth in International Accounting Standard No. 21 (IAS 21). The 1996 and prior financial statements, for consolidation purposes, were restated for the effects of inflation, using the Mexican inflation rate, based upon Bulletin B-10.

F) CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments include fixed-income marketable securities investments with original maturities of three months or less. Investments in marketable securities are stated at market value. Gains or losses resulting from changes in market values and the effects of inflation are included in the accompanying statements of income as part of the comprehensive financing income or cost.

G) INVENTORIES AND COST OF SALES (NOTE 4)

Inventories are stated at the lower of replacement cost or market. Replacement cost is based upon the latest purchase price or production cost. The cost of sales also reflects replacement cost at the time of sale, expressed in constant pesos as of the date of the latest balance sheet.

H) INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES (NOTE 6)

In the Parent company-only financial statements, investments in common stock representing between 10% and 100% of the issuer's common stock are accounted for by the equity method. In the consolidated financial statements, investments in common stock in which the Company holds between 10% and 50% of the issuer's capital stock are accounted for by the equity method. Under the equity method, the investments are stated at cost, adjusted for the Company's equity in the investee's earnings after acquisition and the effects of inflation on the investee's equity.

I) PROPERTY, MACHINERY AND EQUIPMENT

During 1997, the Company adopted the provisions of the fifth amendment to Bulletin B-10 (see note 2B). The beginning balances for the 1997 inflation adjustment for property, machinery and equipment were the ending balances at December 31, 1996, which were based on appraisals made by independent expert appraisers.

Net comprehensive financing cost incurred during the construction or installation period of fixed asset additions is capitalized.

Depreciation of property, machinery and equipment is provided on the straight-line method over the estimated remaining useful lives of the assets less salvage value. The useful lives of the assets are as follows:

	Years
Administrative buildings	50
Industrial buildings, machinery and equipment	10 to 35

J) DEFERRED CHARGES AND AMORTIZATION (NOTE 7)

Deferred charges are adjusted to reflect current values. Amortization of deferred charges is determined using the straight-line method based on the current value of the assets.

Amortization of cost over book value of subsidiaries acquired (goodwill) is determined under the present worth or sinking fund method, resulting in a better matching of the amortization of goodwill with the revenues generated from the related acquired companies. The amortization periods are as follows:

	Years
Goodwill from years before 1992	40
Goodwill generated since 1992	20

Deferred financing costs are adjusted to reflect current values, and represent expenses originated from the Company’s financing operations. Amortization of deferred financing cost is determined under the straight-line method over the term of the related debt based on the current value of deferred financing cost.

K) PENSION AND SENIORITY PREMIUM PLANS (NOTE 11)

Accumulated seniority premium rights to which employees are entitled are recognized in the results of operations on the basis of the present value of the benefit determined under actuarial estimations.

Some subsidiaries have established plans for eligible employees to cover retirement pensions and seniority premiums supplementary to the benefits provided by law. The obligations under these plans are based on actuarial calculations and certain irrevocable trust funds have been established for these plans.

Other benefits to which employees may be entitled are recognized as an expense in the year in which they are paid.

L) INCOME TAX AND EMPLOYEES' STATUTORY PROFIT SHARING (NOTE 14)

Income tax (IT) and employees' statutory profit sharing (ESPS) expense recognize the amounts payable and the effects on IT and ESPS of material timing differences between tax and book income on which it may reasonably be estimated that, over a defined period, a benefit or liability will arise.

M) MONETARY POSITION GAIN OR LOSS

Beginning January 1, 1997, the monetary position gain or loss is calculated by applying the inflation rate of each country in which the Company has operations to the average net monetary assets or liabilities in that country. Prior to 1997, monetary position gain or loss was calculated using the Mexican inflation rate.

N) DEFICIT IN EQUITY RESTATEMENT

The deficit in equity restatement includes the accumulated effect from holding nonmonetary assets as well as the effect of translation of financial statements of foreign subsidiaries since 1994.

O) DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign exchange rates, interest rates and other risks inherent in its operations such as foreign exchange forward contracts, interest rate swaps and options. These financial instruments, have been designated as hedges of the Company's debt or equity and their economic effects are recognized as part of the comprehensive financing income (cost) or in the stockholders' equity, according to their designation. The realized and unrealized gains and losses of forward contracts that have been designated to hedge the Company's investment in foreign subsidiaries are charged or credited directly to stockholders' equity as part of the foreign currency translation gain or loss.

3.- OTHER RECEIVABLES

Other current receivables include the following:

	1997		1996	
	Consolidated	Parent	Consolidated	Parent
Non-trade receivables	$ 972,468	21	1,243,008	10,870
Refundable income tax	374,116	434,818	—	125,851
Other refundable taxes	216,747	3,764	305,812	13,356
	$ 1,563,331	438,603	1,548,820	150,077

4.- INVENTORIES

Inventories are summarized as follows:

	Consolidated	
	1997	1996
Finished goods	$ 679,672	761,850
Work-in-process	204,698	194,042
Raw materials	444,504	394,813
Supplies and spare parts	1,742,120	1,586,238
Advances to suppliers	185,962	274,431
Inventory in transit	29,777	119,419
Real estate held for sale	162,851	173,486
	$ 3,449,584	3,504,279

5.- OTHER CURRENT ASSETS

Other current assets consist of the following:

	Consolidated 1997	Consolidated 1996
Non cement-related assets [1]	$ 482,667	504,820
Prepaid expenses	119,195	223,122
Others	39,931	155,958
	$ 641,793	883,900

[1] There are non cement-related assets, which are intended to be sold in the short-term, and that are stated at their estimated realizable value. These assets include securities and assets for lines of business other than the Company's.

6.- INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in shares of subsidiaries, affiliated and non-consolidated companies are accounted for by the equity method. Under this method, the investments are stated at acquisition cost, plus the Company's equity in the results of operations and other changes in stockholders' equity of the investees. Investments in subsidiaries and affiliated companies are summarized as follows:

	1997		1996	
	Consolidated	Parent	Consolidated	Parent
Contribution or book value at acquisition date	$ 1,179,453	34,601,474	2,349,891	13,313,647
Equity in income and other changes in stockholders' equity of subsidiaries and affiliated companies	1,061,183	20,922,753	1,045,557	33,973,676
	$ 2,240,636	55,524,227	3,395,448	47,287,323

Investments held by subsidiaries in the Parent Company, amounting to $5,287,932 and $3,410,034 as of December 31, 1997 and 1996, respectively, are offset against majority interest stockholders' equity in the accompanying financial statements. Investments held by subsidiaries in the Parent Company, which were realized, resulted in gains of $44,705 in 1997 and $190,129 in 1996, and are included in the comprehensive financing income.

7.- DEFERRED CHARGES

Deferred charges are summarized as follows:

	1997		1996	
	Consolidated	Parent	Consolidated	Parent
Excess of cost over book value of subsidiaries and affiliated companies acquired	$19,585,866	1,204,899	18,265,426	1,203,215
Terminal installation costs and other intangibles	78,704	—	217,656	—
Deferred financing costs	308,823	196,283	215,967	208,098
Others	1,782,354	505,756	2,151,441	422,666
Accumulated amortization	(2,859,307)	(387,726)	(2,220,467)	(403,081)
	$18,896,440	1,519,212	18,630,023	1,430,898

8- SHORT-TERM BANK LOANS AND NOTES PAYABLE

Short-term debt is summarized by currency at December 31, 1997 and 1996, as follows:

	Consolidated	
	1997	1996
Dollars	$ 4,119,709	5,769,307
Spanish Pesetas	1,152,585	345,005
Venezuelan Bolivars	17,346	136,346
Colombian Pesos	15,516	504,005
Mexican Pesos	—	41,971
Dominican Pesos	—	45,921
	$ 5,305,156	6,842,555

At December 31, 1997, there were no deposits established to repay short term indebtedness. At December 31, 1996, the Company established deposits amounting to US dollars 52 million to repay certain debt. These deposits were offset against the debt in the accompanying consolidated balance sheets.

9.- LONG-TERM DEBT

The consolidated long-term debt is as follows:

	1997	Interest Rate	1996	Interest Rate
A) Bank Loans				
Syndicated loans denominated in foreign currency, due from 2001 to 2003	$ 8,034,053	5.8% - 8.6%	10,041,473	6.2% - 8.4%
Bank loans denominated in foreign currency, due from 1998 to 2003	5,245,251	5.3% - 20.9%	5,012,450	5.9% - 24.6%
Bank loans denominated in Mexican currency, due in 1999	—		13,459	28.8%
Total long-term bank loans	13,279,304		15,067,382	
B) Debentures	—		243	
C) Notes Payable				
Euro-Note Programme denominated in foreign currency, due from 1998 to 2006	14,915,297	8.5% - 12.8%	18,523,462	4.5% - 12.8%
Commercial paper denominated in foreign currency, with revolving maturities every one or two years	2,905,200	5.8% - 6.4%	2,854,152	5.5% - 7.2%
Yankee Notes, due in 2003	1,412,250	8.4%	1,469,049	8.4%
Other notes denominated in foreign currency, due from 1998 to 2003	1,042,213	6.3% - 10.0%	297,129	8.5% - 12.0%
Other notes denominated in Mexican currency, due in 1999	—		64,421	31.5%
Total long-term notes payable	20,274,960		23,208,213	
	33,554,264		38,275,838	
Current maturities	(1,590,621)		(5,085,089)	
	$31,963,643		33,190,749	

The maturities of the long-term debt at December 31, 1997, are as follows:

	Consolidated	Parent Company
1999	$ 9,421,215	5,992,879
2000	9,790,741	6,164,108
2001	6,111,702	3,204,500
2002	1,140,084	24
2003 and thereafter	5,499,901	2,891,040
	$ 31,963,643	18,252,551

A total of 98% and 92% of the long-term debt is denominated in US dollars in 1997 and 1996, respectively. Parent Company total long-term debt is denominated in US dollars.

The following subsidiaries guarantee indebtedness of the Company amounting to US dollars 1,250 million: Tolmex, S.A. de C.V., Empresas Tolteca de México, S.A. de C.V., Cemento Portland Nacional, S.A. de C.V., Cementos Monterrey, S.A. de C.V., Cementos Mexicanos, S.A. de C.V., and Grupo Empresarial Maya, S.A. de C.V. The combined summarized financial information of these guarantors as of December 31, 1997, is as follows:

Net sales	$ 3,928,208
Operating income	1,247,780
Net income	1,880,394
Total assets	36,431,450
Total liabilities	6,553,653
Stockholders' equity	29,877,797

At December 31, 1997, the Company and its subsidiaries had the following lines of credit with annual interest rates ranging from 5.6% to 12.7%, in accordance with the negotiated currency:

	Line of Credit	Available
Euro-medium term notes (USMD $1,250)	$ 10,087,500	4,680,600
Revolving line of credit (USMD $600)	4,842,000	4,842,000
European commercial paper (USMD $500)	4,035,000	3,550,800
US commercial paper (USMD $300)	2,421,000	—
Current line of credit (USMD $250)	2,017,500	282,450
Lines of credit of foreign subsidiaries	3,820,250	2,039,859
Other lines of credit from Mexican banks	5,511,789	3,264,401
Other lines of credit from foreign banks	4,348,439	2,093,716
	$ 37,083,478	20,753,826

At December 31, 1997 and 1996, there are current liabilities amounting to US dollars 752 and US dollars 340 million, respectively, classified as long-term debt due to the ability of the Company to refinance such indebtedness with the available amounts of the long-term lines of credit.

At December 31, 1997 and 1996, the Company has established deposits amounting to US dollars 25 and 30 million, respectively, to repay certain long-term debt. These deposits have been offset against the corresponding debt in the accompanying balance sheets.

In addition, the Company has outstanding financial transactions totaling US dollars 616.5 million as of December 31, 1997, that have been offset in the accompanying consolidated balance sheets as follows: US dollars 180 million for financial instruments representing shares of the Company held by a subsidiary of the Company; US dollars 320 million for a minority interest without voting rights or dividend rights of the Company's Spanish subsidiary, and US dollars 116.5 million for the transfer of certain assets of a subsidiary to a trust. These financial transactions include certain guarantees and mature at various dates from 1998 through 2007. The Company has the option to reacquire the related assets at various dates.

Certain credit agreements are guaranteed by the Company and/or its subsidiaries and contain restrictive covenants that limit the sale of assets, require the Company to maintain control of the shares of certain subsidiaries, establish liens and require the Company to maintain certain financial ratios. At December 31, 1997, the Company was in compliance with or had received waivers for the required financial ratios.

10.- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The most important intercompany balances from affiliated companies at December 31, 1997 and 1996, are the following:

Parent Company	1997 Current	
	Assets	Liabilities
Cemex Control, S.A. de C.V.	$ 272,743	—
Cegusa, S. A.	216,556	—
Cementos Monterrey, S.A. de C.V.	32,872	—
Badenoch Corporation	26,938	—
Concreto y Precolados, S.A.	16,666	—
Concretos Monterrey, S.A. de C.V.	10,629	—
Cementos Mexicanos, S. A. de C.V.	2,074	—
Cemex Central, S.A. de C.V.	1,248	—
Productora de Bolsas de Papel, S.A. de C.V.	1,164	—
Concreto Premezclado Nacional, S.A. de C.V.	1,101	—
Cementos Guadalajara, S.A. de C.V.	1,033	—
Cementos Anáhuac, S.A. de C.V.	791	—
Cementos del Norte, S.A. de C.V.	—	5,781,741
Centro Distribuidor de Cemento, S.A. de C.V.	—	1,162,409
Sunbelt Enterprises.	—	1,130,094
Grupo Empresarial Maya, S.A. de C.V.	—	996,146
Others	897	289
	$ 584,712	9,070,679

Parent Company	1996 Current	
	Assets	Liabilities
Sunbelt Enterprises	$ 4,133,361	—
Badenoch Corporation	726,821	—
Petrocemex, S.A. de C.V.	451,696	—
Cemex Control, S.A. de C.V.	345,282	—
Cegusa, S.A.	250,599	—
Cementos Monterrey, S.A. de C.V.	53,179	—
Cementos Tolteca, S.A. de C.V.	27,274	—
Anacorp	19,377	—
Concretos Monterrey, S.A. de C.V.	5,257	—
Concreto y Precolados, S.A.	4,817	—
Cementos Guadalajara, S.A. de C.V.	3,109	—
Cementos Portland Nacional, S.A. de C.V.	2,372	—
Cemex Internacional, S.A. de C.V.	2,141	—
Cementos Anáhuac, S.A. de C.V.	1,348	—
Cementos del Norte, S.A. de C.V.	—	2,380,541
Grupo Empresarial Maya, S.A. de C.V.	—	1,126,164
Others	3,057	1,463
	$ 6,029,690	3,508,168

The principal transactions carried out with related parties are the following:

Parent Company

	1997	1996
Rental income	$ 114,796	106,440
License fees	315,546	194,679
Financial expenses	(787,506)	(801,606)
Financial income	356,848	896,752
Dividends from subsidiaries	578,479	—

11.- PENSION PLANS AND SENIORITY PREMIUM

The net periodic pension cost of the pension and seniority premium plans mentioned in note 2K was determined based on computations prepared by independent actuaries as of December 31, 1997 and 1996. Pension and seniority premium expense for 1997 and 1996 was $109,450 and $183,065, respectively.

The actuarial present value of benefit obligations and the funded status of the plans as of December 31, 1997 and 1996, are as follows:

	1997	1996
Present benefit obligations	$ 480,503	575,287
Excess (deficit) of projected benefit obligations over present benefit obligations	(21,701)	122,851
Projected benefit obligations	458,802	698,138
Plan assets at fair value	(51,381)	(42,981)
Deficit in plan assets	407,421	655,157
Unrealized net transition asset	24,005	26,501
Net pension liability recognized in the consolidated balance sheets	$ 431,426	681,658

The most significant assumptions used in the determination of the net periodic cost were the following:

	1997	1996
Range of discount rates for plans	4.5% - 5.5%	6% - 25%
Rate of return on plan assets	7%	15%

12.- STOCKHOLDERS' EQUITY

A) CAPITAL STOCK

Capital stock of the Company as of December 31, 1997, is as follows:

	Series A [1]	Series B [2]
Subscribed and paid shares	979,695,687	434,802,023
Share repurchase program	3,497,000	1,807,000
Treasury shares	9,216,905	—
Trust subscribed shares without value	—	69,853,477
	992,409,592	506,462,500

Of the total shares, 1,089,000,000 correspond to the fixed portion and 409,872,092 correspond to the variable portion.

[1] Series “A” or Mexican shares represent at least 64% of capital stock.

[2] Series “B” or free subscription shares represent, at the maximum, 36% of capital stock.

B) SHARE REPURCHASE PROGRAM

Under the Company’s share repurchase program, as of December 31, 1997, a total of 9,693,000 Series “A” and 14,436,099 Series “B” shares have been acquired and canceled in stockholders’ equity of the Company', in the amount of $824 common stock and $956,125 charged against the share repurchase reserve. Of those shares acquired, 3,497,000 Series “A” shares and 1,807,000 Series “B” shares are in the Company’s treasury, and the remaining 6,196,000 Series “A” shares and 12,629,099 Series “B” shares are under specific contracts with various financial institutions, for which the Company has requested the physical delivery of the shares for safekeeping in the Company’s treasury.

C) EXECUTIVE STOCK OPTION PLAN

In 1995, the Company adopted a stock option incentive plan for Series “B” common shares of the variable portion of the common stock. This plan grants to eligible personnel, designated by a Technical Committee, stock option “rights” to subscribe up to 72,100,000 of the Series “B” common shares. As of December 31, 1997, the trust has granted option rights for 21,152,885 Series “B” common shares and 2,246,523 common shares have been exercised at the assigned value that generated $63,815 as a additional-paid in capital.

The options rights may be exercised up to 25% per year of the granted option rights during first the four years and during a maximum period of ten years subsequent to the date of grant.

D) RETAINED EARNINGS

Retained earnings at December 31, 1997, include $24,316,862 of earnings generated by subsidiaries and affiliated companies which may be distributed by the Company when dividends are declared from the subsidiaries or affiliated companies.

Retained earnings at December 31, 1997, include a reserve to repurchase the Company’s common shares in the amount of $8,493,756.

Net income of the year is subject to an allocation of a 5% to constitute a legal reserve, until such reserve equals one-fifth of the capital stock. As of December 31, 1997, the legal reserve amounted to $873,221.

Earnings distributed as dividends in excess of tax earnings will be subject to tax as defined by the Mexican Income Tax Law, in which case, only 66% of retained earnings may be distributed as dividends.

E) EFFECTS OF INFLATION

The effects of inflation on the majority interest of the stockholders' equity at December 31, 1997, are summarized as follows:

	Historical cost	Inflation adjustment	Total
Common stock	$ 46,514	2,043,061	2,089,575
Additional paid-in capital	6,466,398	5,079,097	11,455,495
Deficit in equity restatement.	—	(27,802,488)	(27,802,488)
Retained earnings	17,783,998	18,610,569	36,394,567
Net income	5,926,898	213,061	6,139,959

F) FOREIGN CURRENCY TRANSLATION

Net foreign currency translation adjustments of $182,353 and $147,613 for the years ended December 31, 1997 and 1996, respectively have been charged directly to stockholders' equity and are summarized as follows:

	1997	1996
Translation adjustment	$ 569,156	435,638
Foreign exchange loss [1]	(354,851)	(288,025)
Forward foreign exchange contract designated as a hedge [2]	(31,952)	—
	$ 182,353	147,613

[1] Foreign exchange losses from the financing identified with the acquisitions of foreign subsidiaries in accordance with Bulletin B-15 in 1997 and IAS 21 in 1996.

[2] See note 13.

13.- DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 1997, the Company had entered into various derivative financial instrument transactions, the most significant of which are described in the following paragraphs:

The Company has entered into various derivative product transactions for a notional amount of US dollars 375 million to hedge its interest rate exposure for debt denominated in dollars. In addition, the Company has interest rate swaps and collars of interest rates that cover up to US dollars 550 million and pesetas 7,500 million of variable interest rate debt based upon Libor and Mibor.

The Company is subject to foreign exchange rate risks for its international operations. In order to have a protection from these risks, the Company has entered into foreign exchange forward contracts for a nominal amount of US dollars 350 million, which have been designated as a hedge of the Company's net investment in foreign subsidiaries.

In addition, the Company has a forward contract to guarantee the price of its shares for the nominal amount of US dollars 60 million.

14.- INCOME TAX, BUSINESS ASSETS TAX AND EMPLOYEES' STATUTORY PROFIT SHARING

In accordance with present tax legislation, corporations must pay either the income tax or business assets tax depending on which amount is greater for their operations in Mexico. Both taxes recognize the effects of inflation, in a manner different from generally accepted accounting principles. Employees' statutory profit sharing is calculated in the same manner as income tax but without the recognition of inflation.

The business assets tax law establishes a 1.8% tax levy on assets, indexed for inflation in the case of inventory, property, plant and equipment after deducting certain liabilities.

The Company and its subsidiaries in Mexico, consolidate for income tax and business assets tax purposes. The amounts for income tax and business assets tax presented in the accompanying consolidated financial statements represents the consolidated results. For employees' statutory profit sharing purposes, the amount presented in the accompanying consolidated financial statements are the sum of the individual results of each Company.

Income tax benefit (expense) for the years ended December 31, 1997 and 1996, consists of:

	1997		1996	
	Consolidated	Parent	Consolidated	Parent
Current income tax	$ (1,122,399)	(908,398)	(854,379)	—
Benefit from tax consolidation	—	760,654	—	633,994
Utilization of tax loss carryforwards	718,430	718,430	—	—
Effects of inflation (note 2C)	—	—	67,851	—
	$ (403,969)	570,686	(786,528)	633,994

Total income tax expense includes $191,021 and $238,000 from foreign subsidiaries and $212,948 and $548,528 from Mexican subsidiaries for the years ended 1997 and 1996, respectively.

The Company, as a holding company, prepares its income tax return on a consolidated basis, which resulted in tax benefits of $760,654 in 1997 and $633,954 in 1996.

The Company has accumulated tax loss carryforwards in Mexico which may be offset against taxable income in the succeeding ten years according to the Income Tax Law. The expiration dates of such losses are as follows:

Year in which tax loss occurred	Amount of carryforward	Year of expiration
1994	$ 5,573,243	2004
1995	5,662,977	2005
	$ 11,236,220	

For the year ending December 31, 1997, the Company utilized tax loss carryforwards of $2,113,029 which generated a benefit of $718,430.

Any business assets tax levied in excess of income tax for a given year may be recovered, revalued for inflation, in any of the succeeding ten years, provided that the income tax levied exceeds the business assets tax.

The recoverable business assets tax as of December 31, 1997, is as follows:

Year in which business assets tax exceeded income tax	Amount of carryforward	Year of expiration
1989	$ 14,972	1999
1990	22,546	2000
1996	5,415	2006
1997	202,297	2007
	$ 245,230	

At December 31, 1997, deferred income taxes have been recorded on timing differences as follows:

	Consolidated
Tax depreciation exceeding book depreciation	$ 594,869
Inventories	264,279
Financing costs capitalized and other items	215,350
	$ 1,074,498

The effects of inflation are not recognized for tax purposes in some countries in which the Company operates, or they are recognized in a manner different from the accounting principles used by the Company. These effects, as well as other differences between accounting bases and tax bases, may generate differences between the expected income tax rate and the effective rate shown in the consolidated income statements.

15.- FOREIGN CURRENCY POSITION

The exchange rate of the Mexican peso to the U.S. dollar at December 31, 1997 and 1996 was $8.07 and $7.88, respectively. At January 19, 1998, the exchange rate is $8.24 pesos.

At December 31, 1997, and for the year then ended, the principal balances denominated in foreign currencies, as well as nonmonetary assets in Mexico denominated in foreign currencies, are summarized as follows:

	Thousands of U.S. dollars		
	Mexico	Foreign	Total
Current assets	143,950	917,487	1,061,437
Non current assets	850,959 [1]	4,812,457	5,663,416
Total assets	994,909	5,729,944	6,724,853
Current liabilities	405,732	707,537	1,113,269
Long-term liabilities	2,592,022	1,518,189	4,110,211
Total liabilities	2,997,754	2,225,726	5,223,480

[1] Nonmonetary assets in Mexico denominated in foreign currencies.

Consolidated financial information relating to the principal Mexican operations in foreign currencies is summarized as follows:

	Thousands of U.S. dollars	
	1997	1996
Export sales	131,773	171,836
Import purchases	43,452	42,402
Interest income	12,652	16,594
Interest expense	225,300	224,163

16.- GEOGRAPHIC SEGMENT DATA

A summary of condensed selected financial information by principal geographic locations as of December 31, 1997 and 1996, is as follows:

	Net Sales		Operating Income		Total Assets	
	1997	1996	1997	1996	1997	1996
Mexico	$ 13,865,453	12,529,876	4,112,098	3,876,398	45,003,344	40,337,099
Spain	5,908,518	6,495,743	1,272,090	1,537,085	19,725,504	22,129,771
Venezuela	3,731,818	3,370,339	1,292,200	1,182,330	9,076,657	8,477,095
United States	3,560,138	3,651,007	225,970	283,907	5,244,059	5,171,198
Colombia	2,989,593	1,407,370	660,387	309,746	9,058,970	10,263,240
Others	4,313,315	4,787,940	(338,343)	(455,490)	5,855,425	12,498,845
	34,368,835	32,242,275	7,224,402	6,733,976	93,963,959	98,877,248
Eliminations	(3,795,648)	(3,993,071)	—	—	(11,396,233)	(15,419,968)
Consolidated	$ 30,573,187	28,249,204	7,224,402	6,733,976	82,567,726	83,457,280

17.- CHARGES TO OPERATIONS WHICH DID NOT REQUIRE RESOURCES

Items charged or credited to income, but which did not result in cash receipts or disbursements, are summarized as follows:

	1997		1996	
	Consolidated	Parent	Consolidated	Parent
Depreciation of property, machinery and equipment	$ 2,406,160	4,464	2,393,469	4,822
Amortization of deferred charges and credits, net	969,816	86,962	581,673	93,037
Seniority premium	109,450	—	183,065	—
Equity in income of subsidiaries and affiliates	(141,106)	(4,460,456)	(288,935)	(5,064,018)
Minority interest	860,592	—	997,965	—
	$ 4,204,912	(4,369,030)	3,867,237	(4,966,159)

18.- EARNINGS PER SHARE

Basic earnings per share are calculated by dividing majority interest net income for the year by the weighted average number of common shares outstanding during the year.

Diluted net earnings per share, request the effect upon the majority interest net income and the weighted average number of common shares plus the incremental shares that would have been outstanding upon the assumed exercise of the stock options described in note 12C and, for 1996, the effects from the assumed conversion of the convertible debt.

The weighted average number of shares utilized in the calculations is as follows:

	Basic [1]	Diluted
December 31, 1997	1,283,994,608	1,302,900,970
December 31, 1996	1,298,042,412	1,347,928,211

[1] In 1997, includes 62,577,742 shares related with financing transactions (see note 9).

19.- CONTINGENCIES AND COMMITMENTS

A) GUARANTEES

At December 31, 1997, Cemex has signed as guarantor for loans made to certain subsidiaries in the amount of US dollars 273 million.

B) TAX ASSESSMENTS

The Company and certain of its subsidiaries have been notified of several tax assessments determined by the tax authorities for years prior to 1996. Total tax assessments amounts to $644 millions at December 31, 1997.

The tax assessments result primarily from: (i) disallowed deductions resulting from employee benefit plans; and (ii) the authority estimates that certain “Advance Payments to Suppliers” are not by their nature credits, thus recalculating the deductions because of the inflationary component of the credits. The companies involved have legally contested the assessments by seeking legal remedies available before the courts.

The companies have obtained favorable resolutions in similar tax cases, that set forth case precedents for the tax claims referred to herein. Also, the Company has obtained favorable resolutions on tax claims for amounts superior to those referred to herein.

Based on the above, and on the fact that the assessments do not fulfill all legal requirements and do not comply with substantive and procedural requirements of the tax laws, the Company believes that such claims will be nullified once the legal proceedings before the courts are concluded.

C) ANTI-DUMPING DUTIES

In 1990, the United States Department of Commerce (DOC) imposed an anti-dumping duty order on imports of clinker from Mexico. As a result, certain subsidiaries of the Company, as importers of record, have been subject to the payment of estimated anti-dumping duty deposits on imports of gray portland cement and clinker from Mexico since April 1990. The order is likely to continue for an indefinite period, although under the new World Trade Organization rules, it will be reviewed by the U.S. government not later than July 2001 to determine whether the conditions for imposing the order still exist. The Company has defended itself and its subsidiaries in this matter and will continue to do so through the available means in order to determine the actual dumping margins within each period of the administration reviews carried out by the DOC.

As of December 31, 1997, the Company has accrued a liability of US dollars 51 million, including accrued interest, for the difference between the amount of the anti-dumping duties paid on imports and the latest findings by the DOC in its administrative reviews for all of the review periods, except for one review period, for which the Company believes the DOC determination will not ultimately serve as the basis for anti-dumping duty assessments.

As of December 31, 1997, except for the first and third administrative review periods, there has been no final determination of anti-dumping margin for any of the review periods and final results could vary from the amounts recorded in the consolidated financial statements.

D) LEASES

The Company has entered into various noncancellable operating leases, primarily for the lease of operating facilities, cement storage and distribution facilities and certain transportation and other equipment, which require annual rental payments plus the payment of certain operating expenses of certain of the facilities. Future minimum annual rentals due under such leases are summarized as follows:

Year ending December 31,	Thousands of U.S. dollars
1998	24,841
1999	23,010
2000	20,873
2001	19,282
2002	15,405
2003 and thereafter	115,955
	219,366

Rental expense for the years ended December 31, 1997 and 1996, was US dollars 22 and 23 million, respectively.

E) PLEDGED ASSETS

At December 31, 1997, there are liabilities amounting to US dollars 43 million secured by property, plant and equipment.

Our management team

Lorenzo H. Zambrano, 53
Chairman of the Board and Chief Executive Officer

Mr. Zambrano joined CEMEX in 1968 and has been involved in all operational aspects of the business. He holds a degree in industrial engineering from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and an M.B.A. from Stanford University. He is Chairman of the Board of Directors and CEO of CEMEX. He is a member of the Board of Alfa, S.A. de C.V., Empresas ICA, S.A. de C.V., Grupo Autrey, S.A. de C.V. and Cydsa, S.A. de C.V. He is also Chairman of the Board of ITESM and a member of the Stanford Business School's Advisory Committee.

Héctor Medina, 47
Executive Vice President of Planning and Finance

Mr. Medina, who joined CEMEX in 1988, is a graduate of ITESM with a degree in chemical engineering. He received an M.S. degree in administration from the University of Bradford Management Center in England and an M.S. degree from the Escuela de Organización Industrial in Spain.

José Domene, 43
President of CEMEX International

Mr. Domene, who joined CEMEX in 1987, received a B.S. in chemical engineering from the University of Wisconsin and an M.B.A. from Stanford University. He is responsible for overseeing CEMEX' international operations.

Francisco Garza, 42
President of CEMEX Mexico

Mr. Garza is a graduate of ITESM and has an M.B.A. from Cornell University's Johnson Graduate School of Management. Since he joined CEMEX in 1990, he has occupied several senior management positions in the company.

Armando J. García, 45
Executive Vice President of Development

Mr. García, who originally joined CEMEX in 1975 and rejoined the company in 1985, is a graduate of ITESM and has an M.B.A. from the University of Texas. He is responsible for managing CEMEX' operations technology, human resources, energy, investigation and development departments.

Mario de la Garza, 58
Vice President of Administration

Mr. de la Garza, who joined CEMEX in 1965, is a C.P.A. He graduated from Universidad Autónoma de Nuevo León with a degree in philosophy and attended the "Programa de Alta Dirección de Empresas, AD2" at the Instituto Panamericano de Alta Dirección de Empresas.

Rodrigo Treviño, 41
Chief Financial Officer

Mr. Treviño, who joined CEMEX in 1996, received his B.S. and M.S. degrees in industrial engineering and engineering management from Stanford University. He is responsible for the company's finance, capital markets, treasury and investor relations.

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The terms we use

Clinker:
Clinker is an intermediate cement product. Limestone, clay and iron oxide are sintered in a kiln at around 1450 degrees Celsius to produce clinker. One metric ton of clinker is used to make approximately 1.1 metric tons of gray Portland cement.

Gray cement:
Gray Portland cement is a hydraulic binding agent with a composition by weight of at least 95% clinker, and 0 to 5% of a minor component (usually calcium sulfate). It can set and harden underwater and, when mixed with aggregates and water, produces concrete or mortar. Today, our research and development focuses on blended cements. These special cements not only meet our customers more stringent demands, but they also reduce our energy consumption.

White cement:
White cement is a strategic, high-potential speciality cement, which is particularly suited for the world's emerging markets. It is not only used for decorative purposes, but also for a wide range of uses as a structural building material.

Ready-mix:
Ready-mix concrete is the mixture of cement, aggregates and water. It is a building material that is produced in batching plants and delivered directly to the building site. Stringent controls during the manufacturing process guarantee the high quality and consistency of the finished product.

Aggregates:
Aggregates are sand and gravel, which are mined from quarries. They give ready-mix concrete its necessary volume and add to its overall strength. Under normal circumstances, one cubic meter of fresh concrete contains two metric tons of gravel and sand.

Installed capacity:
Installed capacity means the theoretical annual production capacity of a plant; whereas Effective Capacity is a plant's actual optimal annual production capacity, which can be 10 to 20% less than installed capacity.

Metric ton:
Metric ton is equivalent to 1.102 short tons.

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