

CEMEX: Building the Future
Remarks to Financial Analysts and Bankers
July 31, 2002

Lorenzo Zambrano, Chairman and CEO

Good morning and welcome!

I want to thank you all for joining me and my colleagues for these two days of meetings. I know this is a complicated time, when it seems like the world changes if you spend even a few hours away from your computer screens or cell phones. While I cannot guarantee that will not happen today, I appreciate the interest in CEMEX demonstrated by your presence here today.

My agenda has five elements this morning:

- First, to discuss the economic outlook that drives CEMEX's business opportunities, especially in North America;
- Second, to describe the CEMEX business model, explaining why we believe we will continue to grow—organically as well as through acquisitions—year in and year out, regardless of the cycle;

- Third, to highlight two of the important initiatives we are pursuing as we prepare CEMEX for the future;
- Fourth, to share with you how CEMEX approaches some important governance issues; and,
- Fifth, to answer your questions, learn from your comments, and share your thoughts on the issues that are driving the markets and their understanding of the value we at CEMEX are creating for all our shareholders.

My overall message today is simple: CEMEX performs well in bad times and outstandingly well in good times. We are optimistic about the future. We have the vision, the resources, and the discipline to continue to grow and to continue to generate value for our stakeholders.

You will be hearing from several of my colleagues during these meetings, and I think you will hear this same message from all of us.

We are here because we want you to know CEMEX better and the only way to do that is to listen, to ask, to debate, and to learn. There are no ground rules other than those imposed by our commitment to Reg FD or by our lawyers. There *are* questions we will not answer, but there are no stupid questions.

CEMEX: A global company

Why are we meeting in New York? You may or may not share the typical New Yorkers' view that the Big Apple is the center of the universe. Personally, I love New York, but I readily admit it is an acquired taste.

We are meeting in New York because CEMEX is a global company that operates throughout the industrial and developing world, with the largest trading network in the industry, and with a production and distribution footprint that extends to 33 countries.

We produce, market, transport, and distribute our products in markets as diverse as Bangladesh and Boston. We recruit our employees from Spain to Thailand. We train our teams to think and to operate globally, but with a profound understanding of the underlying diversity of customers and markets that help us to be the leader in countries like the United

States and Mexico, but also like Spain and Venezuela.

In short, we are in New York because CEMEX today is one of the leaders of an industry that itself is everyday more and more global.

The outlook

I am sure that everyone in the room has a view of the direction of the economy, and I am sure that there is a mix of optimists and pessimists.

Let me tell you that I am an optimist: we are clearly in a transition, from recession to recovery.

Admittedly, this transition is complicated. We are coping with the still lingering excesses of the bubble economy, the dramatic shift in U.S. fiscal policy caused partly by the war on terrorism, the slow but continuing evolution of the Euro and of the European Union, and the long overdue realignment of major international currencies. Combined with the market uncertainties, these issues are a drag on the pace and strength of recovery.

But there can be no doubt that the U.S. economy is recovering—which, in turn, will drive the Mexican and the rest of the global economy upwards.

In the United States, the manufacturing sector is returning to health and the consumer continues to spend. Counter-cyclical spending by the government is gaining strength, with a particularly positive impact on cement demand. Overall, public works construction for the first five months of this year increased six percent over the year earlier. During the same months, residential construction also increased strongly, rising seven percent.

For a supposedly slowly recovering economy, those are not bad numbers.

On the other hand, the Mexican recovery has been slower to gain momentum, in part because economic policy is more conservative, constrained by weak oil and tax revenues. Private sector investment, including direct foreign investment, has not yet recovered its earlier pace. And, the government's housing initiatives—which show enormous promise—are only starting to produce results.

But, in our numbers and in the results of other companies, we are starting to see that demand is now trending upward.

In short, the Mexican economy is recovering, with prudent fiscal and monetary management. This careful pace has helped to confirm Mexico's investment grade rating, kept core inflation under 5% and interest rates low, and aided the development of a peso corporate bond market with significant breadth and depth.

Our forecast for the year is for 2.7% real growth in the United States and 2% in Mexico. In both cases I think it is reasonable to expect faster growth by the end of the year and, certainly, next year. In other words, no "double-dip" recession.

I will leave it to my colleagues from our U.S. and Mexican operations to share with you our specific expectations for both markets, as well as the details of initiatives we are developing to position CEMEX to take full advantage of growing cement demand in both countries.

North America drives our prosperity

However, I would like to make one overarching point: North America is our most important market. We generate 67% of our revenues and 69% of our EBITDA in the region. We are the largest producer in North America and, more importantly, the largest marketer of cement in both countries.

North America's prosperity drives our success.

This positioning reflects a strategic choice that distinguishes us from our global peers.

- I like the long run growth dynamics of North America and, particularly, of the market segments in which we operate.
- I like the opportunities in housing and infrastructure on both sides of the border. In the United States alone, we believe that cement as a building product has penetrated approximately one-quarter of the potential market, which could leave an additional 200 million metric tons to be developed. Every additional percentage point of penetration is worth 2.8 million metric tons of new cement demand.

- I am positive that we can extend our commercial franchise and serve *more* customers *more* completely through innovative new programs, like Construrama and Multiproductos in Mexico.
- And I know that our large footprint in North America improves our access to the capital markets and helps us to lower our cost of capital.

The outlook for Europe and Asia

I will say just a few words about Europe and Asia, and my colleagues will provide considerable detail later in the program.

My general impression is that the European economy is lagging behind North America's. Of course, given our profile, this affects CEMEX much less than it affects our peers, even though growth is also slowing in Spain.

However, since—like all multinationals—our accounts *are* affected by currency fluctuations, I have asked Rodrigo Treviño to discuss the impact of currency movements on the income statement and the balance sheet, as well as how we manage our exposures.

The good news for CEMEX in Europe is that the Spanish construction industry is one of the sectors least affected by that country's macro downturn.

We are well positioned to continue to grow in Spain. I would add that other parts of Europe—particularly the emerging European countries, are also increasingly attractive markets.

Asia is more complicated. On the one hand, Japan remains mired in its stagnation. Frankly, I see no reason to believe that will change in the near term.

On the other hand, the rest of Asia seems to be recovering from the profound debt and devaluation shock of a few years ago. You will be hearing detailed reports on our operations in the Philippines, and the Semen Gresik situation from my colleagues.

Let me frame their comments, by saying that East and Southeast Asia continue to be of interest to CEMEX. We have a strong trading and a significant operational presence. We are learning the markets and the region through hands-on operations. And we are open to the possibility of acquisitions—at the right price, on the right terms, and in the right markets.

The strengthening recovery

What is the bottom line, in terms of the outlook?

Overall it seems clear that, from an economic point of view, this year will be better than last year—and, more importantly, that next year will be better than this year. We are gradually returning to a growth environment, one that will be characterized by low inflation and higher, but only modestly higher interest rates. This will be a good environment for CEMEX and, I believe, for CEMEX's investors.

Obviously, however, there has been an enormous amount of volatility and uncertainty in the capital markets that could harm this outlook. I am convinced this will soon pass.

- It will pass because the underlying economic realities will continue to improve.
- It will pass because leading companies will raise the de facto standards of investor-friendly governance, accounting, and communication.
- It will pass because governments and regulators will tighten corporate rules and regulations.

- And it will pass because investors will rearrange their portfolios to focus on companies that are well managed, that are managed with integrity, that create value consistently over time, that have good growth prospects, and that have sustainable financial flexibility with good exposure management.

This, I hope, sounds to all of you like a description of CEMEX.

CEMEX's commitment to growth

Last year, I met with many of you in Houston and told you that CEMEX is a growth company, and that growth is fundamental to our present as well as to our future.

Let me briefly remind you of what growth means to CEMEX:

- Our vision of growth is of *sustained, profitable* growth. Our business model is designed to deliver profitable growth throughout the business cycle. If there were any doubts, I think we proved the resiliency of the model last year when we not only integrated Southdown into our

network, but produced \$1.1 billion in free cash flow.

- The search for profitable growth requires continuous effort and the dedication of both management and employees. This means we constantly search for new ways to do old things, not for the sake of change, but for the sake of making things better. This helps produce consistent organic growth.
- We live in a consolidating world and work in a consolidating industry. Size and scale matter—for access to capital, to technology based efficiencies, to human talent, to new opportunities. We are constantly looking for acquisitions that are accretive, that complement our network, that produce sustainable cash flows, and from which we can extract value.

We believe that identifying, acquiring, and integrating new acquisitions is critical to producing value for our shareholders, in both the short and long run.

Our business model, which is designed to keep us growing at double-digit rates over the long term, has five key elements:

- First, we concentrate on our core business of marketing and producing cement and concrete.
- Second, we focus on dynamic markets, in developing countries and in fast growing parts of industrialized countries.
- Third, we are deeply committed to maintaining our financial strength and a strong balance sheet, with a constant drive to reduce our cost of capital. We are determined to maintain our financial flexibility and our investment grade rating.
- Fourth, we invest free cash flow in strategic investments that contribute to profitable growth.
- Fifth, we constantly seek new competitive advantages through the creative use of information technology.

At the end of the day, this model is designed to do one single, but very important thing: to produce returns in excess of our cost of capital throughout the business cycle.

In other words, we are in the business of creating value for our stakeholders.

CEMEX's latest acquisitions

Let me talk for a few moments about two very different initiatives that are excellent examples of what this strategy means in practice.

First, as many of you know, we recently completed a tender offer for Puerto Rican Cement Company, the largest cement producer in Puerto Rico. We also have a tender outstanding for Trinidad Cement Limited. TCL is a competitive player in each of the markets in which it operates: Trinidad, Jamaica, and Barbados, and the whole CARICOM region on an export basis.

In the case of TCL, company regulations restrict ownership to 20%—CEMEX's current holding—and a shareholder assembly earlier this week narrowly voted to retain that limit. However, since 67% of the shareholders voted in favor of lifting the restriction, against a 75% requirement, we remain confident that our offer is in the best interest of all stakeholders and that it will eventually be accepted.

Upon their completion, the transactions will further consolidate and complement our presence in the Caribbean, where we have a 24% market share. When they are integrated into our network, we believe we will be able to extract significant synergies in procurement, IT, back office, and elsewhere by centralizing some of those operations in our regional centers.

We believe that both transactions are attractive to CEMEX as well as to the company's shareholders. Both deals will be immediately accretive to cash earnings, and both are consistent with our financial strategy.

Both companies are excellent examples of our growth strategy. They complement our existing assets. We will be able to serve our customers better. We can extract significant synergies. And, we will deepen our trading activities.

This is value creation at work.

The CEMEX Way

Second, as I have discussed with many of you in the past, CEMEX has been investing in a fundamental

redesign of how we do our business which, in effect, means of our culture. We have called this process the CEMEX Way, which incorporates—but is not limited to—important changes we are making in our IT platforms and business processes.

What are the results of this effort?

- First, we are making our operations more efficient.
- Second, we have improved and accelerated our integration of new acquisitions, as I think will be evident in Puerto Rico and, eventually, Trinidad.
- Third, we are reinforcing a common, customer-oriented culture throughout CEMEX.
- Fourth, we are enhancing our ability to implement new technologies that are aligned with our vision of our business.
- Fifth, we are improving the flexibility of our management team, thereby making it easier to move managers throughout our constantly expanding global network.

We have largely completed the investment phase of the CEMEX Way, and, as a result, investments will now decline. However, spending to maintain our IT platforms and processes will need to increase. Taken together, investments and expenses on IT will remain around 7 per cent of EBITDA.

CEMEX Way savings will significantly exceed its related cash outlays. These savings are spread throughout the company and throughout our accounts. They include head count reductions, process improvements, reduced energy usage, changes in procurement, and others. An important source of these recurring savings is our increasing productivity.

Both of these examples—our acquisitions in the Caribbean and our investments in the CEMEX Way—are consistent with our underlying strategic commitment to profitable growth.

- Both are designed to produce measurable, bottom line results.
- Both are designed to enhance the value of our network.

- Both are designed to enhance our competitive advantage.
- And, both will deliver value to our investors.

Key governance issues

Now, I would like to discuss several important governance issues with you.

Our commitment to deliver value to shareholders rests on a clear recognition that, as a public company, we are stewards of other peoples' money. I do not want to criticize other companies, but at CEMEX we have always been crystal clear for whom we work: we work for those whose capital we are investing. We believe they invest with us to provide superior long run returns, with acceptable risk. We have never, and will never, lose sight of that fact.

At CEMEX, while we are obsessive about abiding by the laws and regulations of every jurisdiction in which we operate, I believe that is not enough. Laws and rules change over time and, by themselves, are inadequate guideposts to run a growing, globalizing company.

The real issue is not whether the rules are adequate or inadequate—although, clearly, there are gaps in GAAP and, as always, distance between the letter and spirit of the law. The real issue is whether managers and directors are honest or dishonest. Our commitment—to ourselves, to our investors, and to all our stakeholders—is to manage CEMEX with integrity.

Everything we do rests on this foundation.

Accounting and financial communication

Our commitment to our investors also means that we have designed our accounting and reporting systems to be transparent, and to reflect accurately the underlying financial and operating facts of our business. This is, in part, why we focus so intensely on free cash flow in our reporting. We believe that this—and all the detail that allows reconciliation with our cash balances—gives investors the clearest possible picture of what is happening in our numbers.

CEMEX's financial culture and management style is to be aggressively open and transparent. I am proud of the quality and quantity of our financial communication. We voluntarily subscribed to Regulation FD. We have intensified the schedule of

our meetings with investors and other financial stakeholders. We use our website to make available a broad range of detailed information in timely and “consumer friendly” formats.

Today’s meeting—at a moment when many companies seem to prefer invisibility to open communication—attests to our underlying commitment.

Shareholder and management alignment

I believe that, in a public company, management should always have a significant ownership position, and, further, that individual managers should be encouraged—strongly encouraged—to buy and hold stock in their companies. This is our policy at CEMEX.

We have stock option programs that are an integral part of our compensation structure. Today, stock options represent 50% of senior management’s total compensation.

I believe that, properly managed, such programs contribute to building long term shareholder value. We have given considerable thought to the structure of our option programs.

- First, our stock option programs have an escalating dollar strike price to challenge management on the upside and to limit reward when our stock underperforms.
- Second, our stock option programs are structured so that they do not dilute shareholders.
- Third, we recognize the intrinsic cost of our option programs every quarter in our income statement, unlike most U.S. companies.
- Fourth, since our option programs vest gradually, the risk of short-sighted decisions by executives is greatly reduced.
- Finally, we do not—and will not—re-price options lower if the market moves against us.

The point is that we have established management and governance practices at CEMEX that are entirely consistent with our relentless commitment to creating long term shareholder value.

- That is part of the reason why we have been able to deliver a compounded annual growth rate in

revenue and operating cash flow of 15%, of EBITDA per share of 12%, and of earnings per share of 8% over the last ten years.

- It is part of the reason why we have been able to grow from being a Mexico based company that had sales of \$1.3 billion and operating cash flow of \$300 million to a multinational with sales of \$6.7 billion and operating cash flow of around \$2.2 billion, which produces operating cash flow margins consistently above 30%.
- And, it is part of the reason that CEMEX is well positioned for an even more productive future.

Future expectations

What is the near term outlook for CEMEX?

We have based our forecast and our guidance on our conviction that the economic recovery will continue to improve and that our efforts to transform CEMEX will continue to be productive.

The result will be a solid performance for CEMEX for this year:

- We will produce consolidated net sales of approximately \$6.7 billion.
- We expect to generate EBITDA of about \$2.15 billion, marginally lower than last year, but a good level on which to build.
- We are targeting \$1.1 billion of free cash flow, reflecting significant savings in interest expense as well as lower CAPEX than last year.
- We will continue to build our financial strength, reducing debt, improving our financial ratios and, ultimately, enhancing our financial flexibility. Our intention continues to be to apply half of our free cash flow this year, about \$550 million, to pay down debt. Our year-end debt level will, obviously be affected by exchange rates and by debt assumed as a result of the announced acquisitions.

Frankly, I am confident that we can and will do better—once the economies of North America and the rest of our markets resume healthy growth.

- We are working hard to prepare ourselves for the strengthening of the cyclical upturn with CEMEX Way, with our commercial initiatives, with our new acquisitions, and with the continued development of our production and commercial platforms, especially in North America.
- We are becoming more efficient in our cement and ready mix operations.
- We are refocusing our employees on customer service, and providing them with the training, the technology, the products, and the incentives to serve their customers better.
- We have recaptured our financial flexibility, and we have the balance sheet and the financial capacity to support our future growth opportunities.

I will end my formal remarks with a final thought. We have come a long way over the last decade and I am convinced we have the management, the team, the resources, and the business model to go a long way further during the next ten years.

I hope you all will come along with us.

Thank you for your attention, for your participation, and for your interest in CEMEX. And now I will be happy to take your questions.