

**Remarks of Lorenzo Zambrano, Chairman and CEO, to the “CEMEX Americas” global analyst meeting, July 19, 2001, Houston, Texas.**

I want to welcome you and thank you for coming to Houston to meet with me and with some of the key leaders of CEMEX’s management team.

Our goals for these two days of meetings are:

- To explain CEMEX’s business model, our understanding of the challenges we face, how we plan to continue to grow and to remain the most profitable global cement company, and our expectations for the future;
- To introduce some of the key members of our operating management, in order to help you better understand why I am confident that our future is even brighter than our past; and,
- To learn from your comments, questions, and insights.

You already know us well. After this meeting, I hope you will know us even better. I encourage you to use the time we have together not only to ask your questions, but also to offer your opinions. We are

experts in our industry and you are experts in yours. I want you to tell me and my colleagues what you think about what we are doing, how we can better communicate with the capital market, and—ultimately—how we can persuade investors to recognize fully the value we are creating.

Why are we meeting in Houston? We are here because it is the site of our U.S. headquarters and of one of our most exciting operations. In the United States today, CEMEX is the largest marketer and producer of cement, with operations stretching from California to Florida, and from Texas to the Great Lakes. This year we will be a \$2 billion revenue company in the United States, with more than 8,000 customers in 30 states.

I am very proud of the pace with which we have integrated Southdown into our U.S. operations and our global network. We are in the process of creating cost savings of more than \$100 million—compared to Southdown’s 2000 EBITDA of \$391 million—we have discovered new and better ways to serve our customers, and we have laid the groundwork for continued growth. We have rapidly combined two good organizations into an even better one, and done so while producing good operational

results, even at a moment when the U.S. economy has slowed significantly.

During this meeting Francisco Garza, whose management responsibilities encompass our U.S. and Mexican operations as well as our trading activities, will discuss with you in detail our North American business. This region is very important to our present and to our future, and I want you to understand how we are building on our already strong franchise in Mexico and how we are creating value in the United States.

I know that you are particularly interested in the progress we are making in our U.S. integration process, so we have also invited Clarence Comer, the president of our U.S. operations and, formerly the CEO of Southdown, to join us today. I encourage you to learn the details of the exciting transformation that has already taken place, as well as of the opportunities that lie ahead.

We have called this meeting, “CEMEX Americas,” so you also will have an opportunity morning to hear from Victor Romo, who leads our South American operations, about the results we are realizing in the rest of the Americas—markets that are important to

us and where we are building strong competitive positions.

**My agenda today has three elements:**

- First, to outline the strategy that I believe will allow us to continue to grow and to maintain our record as the most profitable global cement company;
- Second, to discuss the role that information technology plays in CEMEX's competitive advantage and how we are investing in and growing that advantage;
- Third, to share with you my conviction that—despite the economic slowdown—2001 will be another record year for CEMEX, and my expectation that 2002 will be even better.

Since CEMEX is committed to full disclosure, my conscience—if not my lawyer—requires me to disclose that my hidden agenda is to convince you that CEMEX is the best cement company in the world. Therefore, I believe we should—and eventually will—trade at a premium to our global peers. If this meeting helps accomplish that, it will be our most successful.

**Last year was a record year for CEMEX, capping an extraordinary *decade* of transformation, growth, and profitability.**

Over the past decade, we delivered a compounded annual growth rate in operating cash flow of more than 20%.

We produced earnings per share and EBITDA per share growth of 18%.

We grew from being a Mexico based company that had sales of \$1.3 billion and operating cash flow of \$300 million to a multinational with operations in 30 countries, sales of \$5.6 billion, and operating cash flow of \$2 billion.

Since 1990, we have maintained operating cash flow margins above 30%, rising to 36% to 2000. This is one-third higher than our global peers. We are the highest free cash flow producer in the cement industry—last year we produced operating free cash flow of \$960 million and this year we expect over \$1.2 billion. Our commitment to technology and rigorous cost control has allowed us to grow and to become increasingly productive—in absolute terms as well as compared to our major competitors.

Today we have production and distribution operations in 33 countries and we extend our reach to more than 60 countries through our trading activities. Every day we serve thousands of customers in North America, South America, Europe, Asia, and Africa providing high quality cement and cement products, both in bags and in bulk.

But we understand that our real business is helping our customers complete their construction projects. At the end of the day, no one *wants* to buy cement; they *want* to build a house or a bridge or a road. So, we are working hard to develop new ways to help our customers achieve their goals, more efficiently and more effectively. We know that nothing is more important to our success than the success of our customers.

Our modern and highly efficient production and distribution platform is critical to our ability to serve our customers. Our asset base includes installed production capacity of almost 80 million metric tons in 16 countries, a broad network of distribution terminals and port facilities, and fleets of trucks and ships.

CEMEX's trading activities supplement our manufacturing base and extend our global reach. For example, this year there is a shortage of cement in California and we are using our system to import almost 2 million tons to help our customers there.

Our assets are spread strategically across the globe; today 29% of our production capacity is in the United States and Spain, and 71% is in high growth emerging markets, including a bit less than 40% in Mexico. This mix not only reflects CEMEX's ability to work successfully and profitably in developed as well as in developing markets, but also helps us to weather swings in macroeconomic cycles.

We use our information technology to stitch these assets into a highly flexible, customer oriented global network. Our corporate philosophy wholeheartedly embraces new technology, helps us share best practices throughout our global network, and keeps us at the cutting edge of management techniques.

But a network can only be as good as its people. Our people are experts in their businesses and experts in the markets we serve. We are constantly training our employees, endlessly developing the *human* assets that make our *physical* assets increasingly valuable.

**The result is that CEMEX is a market leader in every one of our key markets: we are either number one or two in the United States, Mexico, Spain, Colombia, Venezuela, and Egypt, and number three in the Philippines. Importantly, we are far and away the leader in North America, the most economically dynamic geography in the world.**

We have aggressively grown CEMEX over the past decade, even while building our creditworthiness. Our strong financial performance, our near obsessive commitment to cost control, and our creative use of technology have allowed us to grow *and* to maintain both a sound balance sheet and substantial financial flexibility. Tomorrow, Rodrigo Trevino, our CFO, will detail our financial strategy, and discuss specific measures we are undertaking to strengthen further our capital structure.

Our financial strength was recognized last year when CEMEX received investment grade ratings from two of the leading rating agencies. It was recognized again earlier this year when we completed a massively over subscribed private placement at a time when the corporate bond market was closed to most issuers.

**But CEMEX is different. We are a *global* company that operates successfully in widely different markets and that produces outstanding financial results, year in and year out.**

- **It is that know-how and diversity that make us the most profitable and most dynamic multinational cement company in the world.**
- **It is that track record that lays the foundation for an exciting future.**

**And, CEMEX is also different because we are a growth company.**

We know how to grow and we need to grow. We have the resources, the people, the expertise, the management model, and the opportunities to grow—organically and through acquisitions. This is an essential part of who we are.

I hope that declaration reassures you. We all know companies who have pursued growth at any cost: acquiring for the sake of acquiring, overpaying for acquisitions in a competitive frenzy. But at CEMEX our acquisition philosophy and process is highly

focused and highly disciplined—and, increasingly effective.

This is so important that I have asked Hector Medina, who oversees finance and planning for CEMEX, to discuss with you tomorrow morning how we *think* about acquisitions and how we *process* our acquisitions.

Let me briefly outline our growth strategy:

- First, our vision of growth is of *profitable* growth. No other kind is sustainable. Business history is littered with examples of companies that bulked up through acquisitions without growing earnings, only to collapse under their weight. That will never be CEMEX.
- Second, 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. A company in our industry is either a *consolidator* or it is *consolidated*. CEMEX is and will remain a *consolidator* because I believe it is the best way to produce value for our shareholders, in both the short and long run.

- Third, growth—especially profitable growth—does not just happen; it requires continuous effort and, of course, a good measure of luck. Nothing is easier than to manage sideways. But I believe in constant evolution, and I also believe that good business management is a permanent search for improvement. *In CEMEX we are passionate about change.* This is key to our ability to grow.

A growth company needs a growth model. The business model we have developed at CEMEX aims to create value for all our stakeholders—and it is designed to keep us growing at double-digit rates.

This growth model incorporates several critical elements:

- First, CEMEX is concentrated on our core business of marketing and producing cement and concrete.
- Second, we focus on dynamic markets.
- 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.

- Fourth, we invest free cash flow in strategic investments that contribute to profitable growth.
- Fifth, we are determined to continue to develop our competitive advantages through the creative use of information technology.

*How does this model differ from our competitors’?*

We are more focused on our core business. We have a greater presence in high growth, dynamic markets which means strong organic growth. We are leaders in selling branded products, which is a critical success factor in many markets. Our superior financial performance produces a strong capital structure and the financial flexibility to invest aggressively, without undermining our creditworthiness.

And, none of our competitors yet approaches the sophistication, efficiency, or effectiveness with which we use information technology for the benefit of our customers and—through continually enhanced operating efficiency—our shareholders.

**I want to spend a few minutes discussing the last element of our business model in more detail: the use of information technology—including the Internet—to optimize our operations, service our**

**customers, and generate value for our shareholders.**

We have a well established track record of using information technology to serve our customers and to streamline our operations. Building on that experience is a key priority for CEMEX, since I believe it not only distinguishes us from our peers, but also creates enormous, tangible value for the company.

As I told many of you last fall when we met in New York, we are working hard to accelerate our digital evolution. We now call this process the “CEMEX Way,” which is a company wide effort to *manage* our global knowledge base efficiently, *identify and disseminate* best practices, *standardize* our business processes, *implement* key information and Internet based technologies, and *foster* innovation.

At CEMEX we strive to transform knowledge into profitability. The CEMEX Way is our tool to accelerate and intensify that process. We are aiming at nothing less than to reinvent our company and our industry.

**What is the challenge that the CEMEX Way addresses?**

A successful global organization like CEMEX needs to standardize as many processes as possible not only to manage its costs, but to realize the synergies of operating around the world. Running a company that is operating in countries as diverse as Egypt, the Philippines, Costa Rica and the United States clearly requires a common language. Not just English, which is our operating language. But common reports, common systems, common practices, and common technology platforms—if only so we can talk to each other effectively and efficiently.

**However, I think the opportunity is much larger than common technology platforms.**

I believe that the Internet is a revolutionary technology. Used creatively and aggressively, it is a tool that we can use to transform CEMEX into a new company. Bigger. Smarter. More profitable. More competitive. More efficient. Reaching more customers with better service. And, in the process, growing customer loyalty.

**Through the CEMEX Way we are using the power of the Internet and of information technology to share best practices, to streamline**

**business processes, and—most importantly—to get closer to our customers.**

We launched the CEMEX Way in Mexico, Spain, and South America earlier this year and I expect it to be fully implemented throughout the company by the end of 2002. This involves a dramatic amount of change. Our processes are changing. How our people do their jobs is changing. How we interact with our customers and our suppliers is changing. How we create value is changing. I believe that the results will more than justify the effort.

### **How will CEMEX benefit from the CEMEX Way?**

First, the CEMEX Way will produce significant cost savings throughout the organization. Excluding the United States, I expect that the CEMEX Way will reduce our cost base by at least \$150 million on an annual basis once it is fully implemented.

In addition, a significant portion of the more than \$100 million cost savings from integrating Southdown is due to the efficiencies of the CEMEX Way. Indeed, our new approach to systems and our increasingly intense use of information technology are a substantial part of the reason why the

Southdown integration lasted only 4 months, compared to 18 months to integrate our Spanish acquisition in the early 90s.

How are we going to save \$150 million?

The savings are spread over the whole organization and are the result of intensive analysis and rethinking of how we do our business. Multidisciplinary teams from every country—specialists in every process—worked together to identify best practices and to develop standardized processes. Implementation of those new business processes—effectively, the CEMEX Way—is producing literally hundreds of specific cost savings initiatives.

I will highlight just a few of those savings to give you a flavor for what we are doing.

- We are implementing a new supply chain management system that uses I2 Technology's new logistics tools to improve demand planning, inventory, and transportation management as we move supplies and product around the world. On a global basis, this system will save a minimum of \$10 million per year.

- In maintenance, we are reducing annual costs by \$15 million by centralizing inventory, as well as standardizing processes and spare parts across our system.
- In procurement, we have consolidated our purchasing into four international negotiation centers, saving us \$12 million through economies of scale.
- We have combined 7 data centers in South America into a single one in Venezuela. Eventually we will consolidate 21 data centers around the world into 4 strategically positioned mega centers. This consolidation is reducing spending on hardware, maintenance, licensing, support systems, and headcount. More importantly, we are improving the quality, quantity, and timeliness of information available to operating management, *and* we are dramatically reducing the time it takes us to integrate new acquisitions into CEMEX.

Getting more efficient also means empowering our people to work more efficiently—using technology and training to improve their productivity as well as job satisfaction.

Implementation of the CEMEX Way will lead to an important cost savings in personnel; excluding the United States, the programs we are now implementing will allow us to reduce our pre-Southdown headcount by 7.2%, resulting in a \$45 million annual savings—which is included in the \$150 million cost reduction I mentioned a few minutes ago. Just in Mexico, labor related cost savings already realized this year total \$7.3 million.

**Let me stress that these savings are real; they are well documented; and they are already being realized.**

We are well advanced in implementing the CEMEX Way in Mexico. In addition, I expect we will be substantially complete in Spain and South America by the end of this year.

I want to emphasize that the CEMEX Way is not only about reducing costs. One of our primary goals in designing and launching the CEMEX Way is to give our customers improved service, more efficient distribution, simplified business transactions, and 24/7 access to real time account information.

For example, a key CEMEX Way initiative involves the creation of online storefronts for our customers. So far, we have launched these in Spain, Venezuela, and Mexico—and will do so in the United States and elsewhere soon. Customers will be able to place orders and purchase products over the Internet, as well as to receive up to the minute information about the status of their accounts, invoices, and all aspects of their commercial relationship with us.

We have built this system so that it can be adapted to local market needs and specific customer requirements. We learned from our customers in Spain that they want very specific product information and details. In Venezuela, the most popular item are email accounts used by customers to stay in touch with our local sales team. In Mexico, we have implemented a "frequent purchaser program" which rewards online purchases with bonus points towards rewards like airplane tickets.

But this initiative is not about creating popular web pages for our customers. In Venezuela, after less than a year's operation, 24% of our sales are now channeled through our online storefront, because some of our clients find it efficient and effective. This—as well as the acceptance we are beginning to see in other markets—helps build customer loyalty,

raises switching costs, and improves the quality of our customer service.

**And all of that contributes to strengthening our customer relationships, which is critical in an increasingly competitive world.**

I want to emphasize that the CEMEX Way is more about *standardization* than it is about *centralization*. And one of the most important by-products of standardization is to create space for innovation, as people focus their energy on the new, instead of on the usual. This is where the Internet is particularly valuable, since it is a tool that delivers almost endless amounts of information to the desktop. A smart organization not only empowers, but also encourages its employees to use that information in creative ways. And CEMEX is a smart organization.

**Implementing the CEMEX Way will produce an important cultural shift within our organization. The result will be a company that is more global, but even better attuned to local differences; one that is more intensively focused on customer satisfaction, and better able to deliver new, customer specific service; and one that creates even more value for its shareholders.**

## **What is next for CEMEX?**

My basic message today is that I believe we have built a company, a management team, and a business model that have only begun to prove themselves. Our track record is good, but I think our future will be even better.

In the short run, I know we are living through a difficult economic environment—in North America and globally. I am hopeful that the worst of the adjustment is over, at least in the United States, although I expect that the recovery is still some months off.

**But, I have not changed our financial expectations for the year. We want—and we expect that—2001 will be another record year for CEMEX.**

- **We are forecasting operating cash flow to grow 20%. Although the components of growth have changed—U.S. volumes are higher, Mexico volumes lower, the peso stronger than expected—we continue to expect cash flow of \$2.5 billion this year.**
- **We are targeting \$1.2 billion of operating free cash flow, of which close to \$200 million will**

**be used for expansion and energy conversion projects in our existing markets.**

- **We will continue to build our financial strength, reducing debt, improving our financial ratios, and regaining financial flexibility. We have already reduced net debt by about \$550 million during the first six months of this year, and expect to reduce net debt by \$850 million over the course of the full year.**
- **Finally, we are expecting earnings per share growth of around 20% this year, excluding the extraordinary gain from the sale of our stake in Banacci.**

These are our immediate financial expectations. You have seen our numbers for the first six months of the year and you know we are on target.

**I believe that 2002 will be another year of growth for CEMEX.**

We are demonstrating that our business model works in turbulent markets, and I am convinced we will

perform well as economies and markets recover over the course of next year.

Based on our initial assessment of our markets and our operations, I expect that we will produce at least high single-digit growth in EBITDA from our existing operations in 2002. This will allow us to continue our historic rates of operating cash flow and free cash flow growth. Thus, I expect we will produce free cash flow in excess of \$1.3 billion next year. This will allow us to strengthen our balance sheet as well as to pursue attractive acquisition opportunities.

I am optimistic about renewed expansion in the North American economy. Both the United States and Mexico are likely to grow faster next year, resulting in above average growth in demand volume for us in both countries. In the United States, we will complete a significant capacity expansion at our Victorville plant in California, and expect to reap the benefits of an aggressive marketing campaign—including an important national accounts initiative—that has recently been launched.

Next year we will continue to see significant cost reductions and efficiencies from the CEMEX Way, from implementation of the integration initiatives in the United States, and from our programs to reduce

energy costs. The cost savings I spoke about earlier will have their full impact by the end of 2002.

**The result, I believe, will be another strong growth year for CEMEX.**

I expect that 2002 will be a year in which we will have the financial flexibility and strength to continue to participate in the consolidation of the industry, and that it will be a year in which we will again produce excellent results for our shareholders—with continued strong growth in earnings per share.

I am excited about CEMEX and I hope you are, too.

We have come a long way in ten years.

- CEMEX yesterday was a Mexican company with a rich tradition, a solid production base, and endless ambitions.
- CEMEX today is a global company, serving thousands of customers every day through an integrated worldwide network.

Of course, we still have endless ambitions—and an exciting future.

**Thank you.**



