

Good afternoon.

I am Lorenzo Zambrano, Chairman and CEO of CEMEX.

I am delighted to be with you again this year. It is a testimony to the convening power of Deutsche Bank that, in good times and bad, you can gather together so many of the leading companies and the leading investors in our industry. This is an important opportunity for all of us.

My agenda has three core elements this afternoon:

- First, to discuss the macro-economic outlook that drives our business opportunities;
- Second, to outline how CEMEX is continuing to refine a business model that delivers value to our shareholders throughout the ebb and flow of the business cycle;
- Third, to answer your questions and learn from your comments.

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

CEMEX is a global company that operates in the most dynamic markets in the industrial and developing world, with one of the largest trading network in the industry, and with a production and distribution footprint that extends to 33 countries.

We are a growth company. Since 1990, CEMEX has grown from being a Mexico-focused company that had sales of \$1.3 billion and operating cash flow of \$300 million, to a Mexico-based, global company today with sales of \$6.6 billion and operating cash flow of around \$2 billion. And, despite this rapid growth, we have maintained operating cash flow margins significantly above those of our global peers.

In the process, we have delivered compounded annual growth rates in revenues and operating cash flow of 15% over the last ten years.

This performance has made CEMEX one of the leaders of an industry that itself is everyday more and more global, and more and more consolidated.

Before I talk about the health of the global economy, let me say a word about the health of our industry.

Although cycles come and go, our industry is today one of many that would be vulnerable to a prolonged bout of economic weakness. This is not because we are a so-called mature industry, but because we are in the middle of a transformation from a highly atomized industry to an increasingly globalized one. Important markets like China and India are, for the time being, still largely outside this dynamic. And, there will always be a role for local players.

But the consolidation process is a fact of life, driven by the underlying economics of our industry. The only variables are the pace of consolidation and the rationality of the process.

I know that the term “globalization” is somewhat out of fashion these days. Nevertheless, we live—and

will continue to live—in a globalizing world and we operate in a consolidating industry.

The strategies of all the major actors in this industry are driven by the need to grow through disciplined acquisitions, the need to integrate acquisitions effectively, the need to leverage technology to drive down costs, the need to attract world class talent, and the need to maintain strong balance sheets.

Within the industry, our challenge is to do each of those better than the next company. That is certainly our goal at CEMEX.

But we all need to recognize that we are competing for technology, for capital, and for people, not just with each other, but with many other companies in many other industries.

And, I believe this competition is contributing to a fundamental improvement in the long-run health not only of CEMEX, but also of our industry—which is the upside of globalization.

Admittedly, it would be easier to sell the benefits of globalization if we could be more positive about the immediate future of the global economy. Although I think the worst is behind us, I confess my crystal ball is a little cloudy these days.

However, let me tell you that I am an optimist, at least about CEMEX's two most important markets, Mexico and the United States. Both countries have clearly moved from recession to recovery. While there are many risks, I expect both economies to gain strength over the next quarters.

Why am I optimistic?

- First, U.S. policy makers have demonstrated a strong commitment to expansionary fiscal and monetary policies. Dollar interest rates are low. Taxes are going to be cut further. Federal spending is increasing. The United States is investing in infrastructure. Most importantly, the United States seems determined to be the engine of global recovery.
- Second, the excesses of the bubble economy have largely dissipated. I firmly believe that the worst is over.

- Third, Mexico's conservative fiscal and monetary policies have helped to confirm the country's investment grade rating, kept core inflation low, allowed interest rates to fall, contributed to the development of a sound banking system, and aided the development of a substantial peso bond market. These are the preconditions to a significant and sustainable economic expansion.
- Fourth, liquidity is abundant. Sooner or later, investors will put more of their money to work. When they do, they will seek to invest in companies that are financially strong, global in reach, and well positioned to ride the updraft of the next cycle.

This means that the expansion, when it comes, will not falter for lack of oxygen.

Unfortunately, in the short run, there are still many obstacles to a coordinated, global recovery. These include European interest rates that are too high for the current environment, the continued stagnation in Japan, the long overdue realignment of major international currencies,

the overhang of corporate scandals, the financial crises in South America, and the prospect—I think the probability—of a war in the Middle East.

With all of that working against us, it is no wonder that the pace and strength of the global recovery have been disappointing and that markets have been volatile.

As many of you know, North American trends are particularly important to CEMEX's performance since we generate 67% of our revenues and 69% of our EBITDA in that region. We have become the largest producer of cement and cement products in North America and, more importantly, the largest marketer of cement in both Mexico and the United States.

We *are* a global company and we benefit from our global diversification, but today our results are significantly driven by the economics of North America.

Since North America is the strongest part of the global economy, this is obviously positive for CEMEX's near-term future.

I think it is important to recognize that, while the *macro-economic* cycles in the United States and Mexico are increasingly convergent, in the short run, *cement demand* cycles can move in opposite directions. Last year, our volumes grew 7% in the United States, but contracted 7% in Mexico. This year Mexico is growing 4%, but U.S. volumes are falling 4%.

These divergent trends reflect important sectoral differences. The U.S. housing cycle, which prevented a worse recession than actually occurred, may now be running its course, although this is likely to be somewhat offset by higher spending on infrastructure.

In Mexico, which suffers from a significant housing shortage, social housing and self construction are important sources of demand growth, and these should increase.

During this year public works spending has also increased, and this dynamic should continue into 2003.

Thus, Mexican cement demand next year, which is already on an accelerating trend, should accelerate yet further in the coming months.

Let me add a few words here about Spain, our third most important market.

Like virtually all of Europe, Spanish economic growth has been slowing. Nevertheless, reflecting the dynamics of a country that is aggressively building infrastructure and housing, cement demand should reach 44 million tons this year, 4% greater than 2001. By the way, this is almost double the level of 1997. Although the rate of increase may slow somewhat next year, Spain will remain a very important contributor to CEMEX's performance.

What is the bottom line in terms of the outlook?

Overall, at least from a macro-economic point of view, this year has turned out to be better than last year. And, much more importantly, next year will be better than this year.

In North America, we are gradually returning to a growth environment, one that will be characterized

by low inflation and higher, but only modestly higher, interest rates.

I am much less optimistic about Europe and Japan, where there is little upward momentum in sight. Nevertheless, key countries in Europe, as well as key emerging markets, will eventually return to a sustained, positive growth path.

To some extent, this dynamic is already in place. From the perspective of CEMEX, we expect faster growth next year in 12 of our 14 largest markets. And, in 10 of these markets, we expect cement demand to increase next year. On a weighted average basis, cement demand growth in our markets seems likely to increase by 2.7% next year, compared to an estimated 1.8% this year.

There are certainly important risks in the outlook, none greater than the likelihood of war in the Middle East. However, on balance I think those risks can and will be managed in ways that are consistent with steadily stronger economic growth.

Whatever the exact amplitude of next year's economic activity,

it is clear that the global economy and global financial markets are in a transition from an era of high growth in the 90's to an era of more moderate growth.

Until we reach that new equilibrium, volatility and risk are likely to remain unusually high.

Operating successfully in such an uncertain environment is a challenge for any company. But I believe we are better able to cope with such an environment than many others.

- First, CEMEX was born and grew up in highly volatile markets, so our management has long experience in coping with dramatic swings in economic, political, and industry conditions. We know how to find opportunity in uncertainty, and we know how to manage risk.
- Second, the CEMEX culture encourages innovation and sharing of best practices. This means we are expert on learning what works and what does not work, and then quickly implementing successful practices across our network.

- Third, the CEMEX business model generates substantial free cash flow in good markets and bad markets, so that we do not have to sell assets or disinvest during down cycles in order to sustain our financial flexibility.
- Fourth, CEMEX's management team is engaged in a permanent search for new ways to support our customers, for new cost efficiencies, and for new opportunities to improve our recruiting and training programs. Thus, we avoid the shocks of aggressively shrinking our organization in bad times or inflating it during good times.

Let me discuss how we are reinforcing some of the initiatives that have made us—by far—the most profitable global cement company.

People are our most critical resource.

We devote enormous time and effort to attracting the best people and to providing them with the best training, in order to provide the world class customer service that we want to be CEMEX's hallmark.

We are investing in our people with aggressive recruiting campaigns, focused efforts to identify and train new generations of leaders, frequent international assignments for our managers, and a deep commitment to providing life-cycle training to all our employees.

At CEMEX we have transformed our Human Resource function in order to focus their efforts on developing and maintaining our talent pool. We have standardized our global HR processes, integrated our systems into a single technological platform, and centralized and automated administrative activities.

The result is that our HR professionals spend their time on people, rather than on paper.

We also have assigned special responsibilities for developing new human capital to our key personnel. For example, each of the top 50 officers of CEMEX mentors 5 to 7 younger managers who are considered to be rising stars. The process—supplemented by an aggressive and highly selective recruiting program—assures that our leadership group constantly renews itself.

But *better* people and *better trained* people do not necessarily mean *more* people.

We are constantly working to become more efficient in our use of people. Since 1990 our headcount has increased at an annual rate of only 5.5%, while sales have increased at a 16% rate.

The creative use of technology has long been one of CEMEX's distinguishing characteristics. Over the past several years, we have been investing in a common technology platform and implementing common processes throughout our network, which we call the CEMEX Way.

This is allowing us to economize on our back office operations,
to improve our operational efficiency,
and to accelerate the sharing of best practices—which is a CEMEX passion.

The CEMEX Way has been allowing us to systematically map, catalog, and disseminate standardized business practices, while reinforcing our capacity to learn and to innovate.

This is critical in an industry like ours where the global consolidators are growing through acquisitions, and where the accumulation of dozens of incompatible information systems and processes would destroy efficiency. Equally critical, though, is the capacity to identify and incorporate local innovations and superior practices from acquired companies.

Thus, we have built the CEMEX Way to capture *innovation* as well as to promote *best practice standardization*.

This creative tension between innovation and sharing best practices is essential to our success. One of our mechanisms for sharing ideas and challenging conventional thinking is actually quite low tech: a monthly country managers' meeting.

Each month, we bring together our top corporate management and all of our country managers to compare detailed performance data and to share breakthrough ideas. New approaches as well as emerging challenges quickly rise to the surface in this setting. Moreover, the close personal relationships that develop in these regular meetings reinforce our ability to work effectively as a team.

We are also redoubling our customer focus, creating new distribution channels to serve existing customers better and to attract new customers.

On the one hand, this allows us to bullet-proof our existing distribution networks in key markets. On the other hand, we can create value by capturing new customers as well as a higher share of our customers' construction related expenditures.

For example, in Mexico, we have built a national, branded distribution channel called Construrama. Construrama leverages our cement distribution infrastructure and sales force to provide heavy materials—as well as cement—to our distributors. We invested \$10,000 in each of their stores, enough to pay for a new Construrama storefront, a computer, and inventory-tracking software. We also trained the distributors in marketing, financial planning, tax accounting, and inventory control, and we provided national advertising and a shared promotion network.

The result is that today we have 741 franchises with 2,305 points of sale throughout Mexico. Let me put this in context. We have one Construrama outlet for every two gas stations in the country.

This is a “win-win” initiative. CEMEX benefits through increased customer loyalty; we generate additional earnings; and we reinforce our brand.

At the same time, our distributors benefit from the power of pooled purchasing, the introduction of new management techniques, and the impact of shared advertising and nation-wide branding.

We are developing and deploying similar kinds of customer focused innovations, designed for local market conditions, throughout our global network.

At CEMEX we concentrate on our core business of marketing and producing cement and concrete—which we are convinced offers significant growth opportunities.

To sustain our growth, we will continue to expand our footprint, build our distribution capabilities, and provide new customer services, rather than to diversify into new product lines.

This makes organic growth critically important to our future ability to deliver value to shareholders. This is why we have invested in dynamic markets, both in

the emerging and industrialized world, and why we continually work to expand the use of cement as a building product.

We want to help fast growing markets grow even faster.

For example, in the United States, cement has penetrated only approximately one-quarter of its potential market. Asphalt is widely used in highway and street construction as well as in parking lots, even though cement is a more cost effective material. As a result, we estimate that there could be as much as 200 million metric tons of additional demand per year available to be developed.

We believe that our industry can capture a significant portion of that incremental demand through focused promotion activities at the national, state, and local levels. In order to help the industry grow, CEMEX has taken a leadership role in those initiatives.

Let me put this in perspective. Every additional percentage point of penetration—*remember, today we are at only 25%*—generates 2.8 million metric tons of new cement demand.

Similar opportunities, if smaller in scale, exist throughout our global network.

We are continually looking at all our processes and all aspects of our business to reduce costs, because we believe that cost control is a permanent part of any successful business model—not just something to be implemented when markets turn sour.

Let me give you just one, extremely important, example.

We are obsessed with energy savings because energy is such an important cost factor in our industry. Our permanent goal is to reduce costs as well as to reduce the impact of our production processes on the environment. Thus, we are always looking for ways to make our plants more energy efficient, to increase flexibility in sourcing, and to achieve economies of scale in purchasing.

As a result, we have been able to reduce fuel consumption per ton of cement produced by 16% since 1994, while simultaneously reducing the cost of the energy and electricity we consume.

One of our most successful initiatives in this area has been the introduction of petroleum coke into our fuel mix. This story has two important aspects. First, ten years ago, only one of our plants used pet coke; today more than half do, virtually all those where it is the best available alternative. Second, our engineers have designed an effective process to use low-cost, high sulfur pet coke in the production process. This not only makes a powerful contribution to our fuel efficiency, but has a positive impact on the ecosystem by imbedding sulfur in the product instead of releasing it into the environment.

The savings are substantial. For example, in Mexico, our year-to-date energy cost has been reduced by 24 percent in dollar terms. Similarly, with pet coke and other initiatives that we are only beginning to implement in the United States, we have avoided any fuel cost increase over the past two years, despite a rising fuels market. And in Costa Rica, we reduced fuel costs by 60% in less than two years.

But more can always be done to reduce and to contain costs—in the energy area and elsewhere—and we are committed to finding every possible efficiency.

Finally, in today's market, financial flexibility is of paramount importance—both as an insurance policy against downside surprises and as preparation for unexpected opportunities. We have a strong balance sheet, one that has given us investment grade ratings, but I am committed to making it yet stronger. This means we are committed to further reducing our debt, and we will do so over the next year.

Our business model is designed to deliver sustained free cash flow throughout the business cycle, allowing us to finance our growth while maintaining our financial flexibility.

A few facts. During the past five years, from 1998 through the third quarter of this year, CEMEX generated almost \$4.5 billion in free cash flow. During the same period we made significant investments in the Philippines, Indonesia, Chile, Egypt, Costa Rica, the United States, Thailand, and Puerto Rico.

But we *also* improved our interest coverage from 2.4 times at the end of 1997 to 5.5 times for the twelve months through the third quarter of this year. *And* we reduced the ratio of net debt to EBITDA from 4 in 1997 to 3.1 at the end of last quarter.

None of this is accidental. At CEMEX we are highly disciplined in our approach to new acquisitions, as we have demonstrated over the past several years. But we are equally disciplined in building and maintaining our financial flexibility.

Together, these are keys to our future growth.

The common thread running through each of these different issues—
human resource development,
the CEMEX Way and innovation management,
intensified customer focus,
market development initiatives,
cost containment, and maintaining our financial flexibility—is that, at CEMEX, we take a long run approach to managing our business.

We do not wait for bad times to cut or for good times to run. We manage our business to give us the resources to perform successfully throughout the cycle.

The result is that we cope well with the inevitable slowdowns in the world economy.

But we cope even better—indeed, we prosper—when the global economy moves back into a period of sustained growth.

For CEMEX, this has been an important year.

We are transforming CEMEX from an industrial company known for its production excellence to a company that will be known for the excellence of its customer service, while continuously improving our production platform.

We are preparing the company for the eventual cyclical upturn by developing our commercial initiatives, and by pursuing highly selective bolt-on acquisitions.

We are focusing considerable effort on becoming more efficient in our cement and ready mix operations.

We are providing our employees with the training and the technology to serve their customers even better, which is essential to our future growth.

And we are committed to improving our financial flexibility.

The result has been a solid performance this year:

- We will produce consolidated net sales of approximately \$6.6 billion.
- We expect to generate EBITDA of about \$2 billion, marginally lower than last year, but a good level in a difficult world economy. And, we anticipate cash earnings for the year of \$1.4 billion.
- We are targeting \$950 million of free cash flow, reflecting significant savings in interest expense as well as lower CAPEX than last year.

I will end my formal remarks with a final thought. CEMEX has come a long way over the last decade. I am convinced we now have the management, the team, the resources, the business model, and the financial platform 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 and for your interest in CEMEX. And now I will be happy to take your questions.