

**Remarks by Lorenzo Zambrano
Chairman and CEO
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Good morning and welcome.

Thank you all for joining us today.

Although our habit is to organize these meetings every year, I felt that you would find these sessions more useful if we had first made some progress integrating RMC into CEMEX, so that we could spend the day talking about what we have done, rather than what we hoped we would do.

So, today's meeting will have two overarching themes:

- First, we want to tell you how we have integrated RMC; the synergies we have identified and the synergies we have already delivered; and how CEMEX, which is now twice as large as when we last met, will continue to deliver shareholder value through *disciplined execution*—in our new as well as in our established markets.
- Second, we want to tell you how we are looking at the world and at our industry how we are going to cope with the vagaries of the business cycle, and how we are going to continue to create shareholder value through *disciplined, profitable growth*.

Let me repeat myself to make an important point: at CEMEX, we will never be interested in growth for its own sake. Our goal and our purpose is *profitable growth*, because that is the only way we know how to create value for our owners, the more than 80 thousand CEMEX shareholders around the world.

I want to start, though, by putting CEMEX—and some of the executives you will meet today—into context.

Twenty years ago we were a small, privately held cement company based in the north of Mexico. We produced 8 million tons in 5 cement plants. We sold most of our product through wholesalers. That year we generated revenue of 275 million dollars and EBITDA of 84 million dollars—and that was a good year!

By the way, our total headcount then was 6,500 people, almost entirely Mexican.

Today we are a much different company.

- In 2005, our sales exceeded 15 billion dollars, a compound annual growth rate of 22% over 20 years, and we produced operating cash flow of 3.6 billion dollars, a 20 year growth rate of 21%.

- Last year, we sold 81 million metric tons of cement, 160 million metric tons of aggregates, and 70 million cubic meters of ready mix, as well as significant volumes of other products for many thousands of customers in more than 50 countries.
- We reached those customers through a robust mix of traditional distribution channels—our own and our wholesalers— multi-product storefronts, mobile telephones, the Internet, and other innovative platforms. And we provided them with a broad array of services designed to help them complete their construction projects, on time and on budget.
- Today we employ more than 50,000 people, more than three-quarters of whom are from countries other than Mexico. And roughly 40% of our senior management team joined CEMEX through companies we have acquired during the past two decades.

This means we have succeeded in retaining and growing our most important asset—our management and our people—as we grow our business.

Two decades ago we were a local cement company. Now, we are the world's third largest cement producer, the largest ready mixer, and the seventh largest aggregates supplier. Add it all together, and that makes us the second largest integrated building materials company.

Those numbers, though, do not tell the most interesting part of the story. Because, at CEMEX, we don't grow to get bigger, we grow to create value.

Since 1999:

- Our return on capital employed has consistently exceeded—and by a widening margin—our cost of capital;
- The two largest acquisitions we have made since 2000—Southdown and RMC—were immediately accretive to shareholders;
- We have significantly and steadily increased our free cash flow generation, while strengthening our balance sheet, and
- Our share price has grown at a compound annual growth rate of 33%.

When we last met, I asked you to think about CEMEX as a value company, since I believed the market was under-pricing our ability to generate quality earnings over time.

Although I think we are still undervalued relative to our peers, I am going to ask you to start thinking about us as a growth company, because I believe that the best is yet to come.

In my judgment, we have the capacity to continue to grow this business significantly, in terms of the top line and—*much* more importantly—the bottom line. We will continue to create value for our customers and our shareholders, both by taking advantage of the opportunities that exist in our markets today and by finding new opportunities.

Today we will talk a lot about the integration of RMC into CEMEX, a process we call the PMI, for Post Merger Integration. Even at CEMEX, where integrating acquisitions is a habit, RMC was a challenge. It was bigger, covered more geography, encompassed more businesses, and involved more diverse cultures and languages than anything we had done before.

But, I am pleased to report that the integration has been a success:

- We have identified and documented recurring synergies of 360 million dollars that will be fully realized next year. This includes 260 million dollars in Europe and 100 million dollars in the United States.
- In cash terms, we realized around 60 million dollars in synergies last year. More importantly, virtually all of the PMI initiatives that will produce savings over time have already been implemented. Now we need to do two things: maintain the integration discipline while these initiatives mature and continue to look for new savings opportunities.

You will hear examples of both during the sessions on North America and on Europe.

- 80% of the synergies are coming from changes in processes, repositioning of business operations, and implementation of our management platforms and systems. In other words, from sources other than headcount reductions. The underlying story here is about reshaping good businesses, not losing good employees.
- In fact, one of the PMI's most important accomplishments is that we have succeeded in retaining most of the RMC managers and personnel that we need to manage and grow our new businesses. This includes key country managers, operational and back office leaders, and thousands of employees. These people are critical to our future success

The bottom line is that we will exceed our objective of producing at least a 10% return on the capital employed in acquiring RMC by the end of this year. That is a full year earlier than we committed to you when we announced this transaction.

That is my definition of a successful acquisition—which is the only kind we will ever make.

Now I would like to shift from where we are to where we are going. How will CEMEX continue to deliver throughout the cycle—good results in bad times and great results in good times?

The first part of the answer is that we will continue to build an integrated platform across our industry's value chain in key markets in North America, Europe, South America, and Asia. This, of course, was the underlying logic that led us to acquire RMC, and it is the logic that continues to define our strategy.

Eighteen months ago, I told you that the cement industry's value chain generated EBITDA of more than 50 billion dollars per year. Today, we think that opportunity space

exceeds 70 billion dollars, overwhelmingly in the countries and regions where CEMEX now operates.

This means there are plenty of opportunities for CEMEX to grow, organically and by acquisition, without compromising our strict investment criteria or upsetting our industry's competitive balance. It also means we won't have to cross many frontiers to find opportunities to continue to grow.

At CEMEX we think of growth across three dimensions:

- Organic market growth that increases prices and volumes—the dynamics of which are largely outside our control;
- EBITDA growth resulting from disciplined investments in existing businesses to improve our margins or to increase our production capacity; and
- Acquisition of new operations in existing or new markets.

In terms of organic growth, I expect that 2006 will be another relatively good economic year, even though the world economy seems to be slowing a bit.

- The United States is in the later stages of an economic cycle that has already produced an average 8% increase in real construction GDP over the past two years. However, this year we are still seeing strong industrial and commercial as well as public works spending that is more than offsetting the beginning of a slow down in housing.

Of course, cycles come and go. That is why we are investing in efforts to expand cement's share of the building materials market, strengthening our brand and our distribution channels, and enhancing the efficiency of our production and logistics platforms in the U.S.

I am confident that we will be able to manage the down side of the cycle when it eventually comes. However, what I find really exciting about the United States is the prospect of a long term construction boom.

I recently saw a study by the Brookings Institution in Washington which argued that half of the buildings in which Americans will live, play, and work in the year 2030 don't yet exist. And, most of those will be built in the U.S. South and West, in the markets where we have concentrated our resources.

That is a terrific long term opportunity for the industry and for CEMEX.

- Mexico continues to be an extremely attractive building materials market.

We will maintain our leading position—because of our extensive network of aggregate, cement, and ready mix facilities, as well as the customer loyalty and satisfaction that we continue to build.

My country will have an important presidential election in July. I am confident that the combination of our independent central bank and the broad consensus

underlying Mexico's conservative fiscal policy will ensure a smooth transition, regardless of who wins.

Frankly, one of the few things on which three major candidates seem to agree is that the country needs to grow faster. They also agree that the keys to faster growth are more rapid housing construction and increased infrastructure development. That is good for Mexico—and good for CEMEX.

- Europe is a mixed bag of dynamic and stable growth countries. Spain, Ireland, Poland, and other countries that are new to the EU are likely to continue to invest heavily in infrastructure, housing, and other construction activities.

We are particularly excited about the demographic and market dynamics in Eastern Europe. This is why we will talk in some detail this afternoon about Poland. I want to give you a sense of how we think we can position ourselves, as we did in Spain, to grow as these countries grow and rapidly integrate into Europe.

On the other hand, there is little underlying economic momentum in the UK, France or Germany. Of course, these markets will have stronger and weaker years. We are now seeing relatively weak conditions in the UK, while the tone in the German economy—if not yet in the construction sector—is certainly more positive than it has been.

In these countries our challenge is to reposition our assets and our people, focusing on becoming more efficient and on improving our value proposition. This will allow us to continue to increase EBITDA generation from these so-called mature markets, even when market conditions limit top line growth.

That is what we are doing in the UK, for example, which you will hear about in some detail later today.

These markets—North America and Europe, including Spain—accounted for almost 85% of our EBITDA generation last year. The balance of our portfolio is in dynamic, but sometimes volatile, markets in South America, the Middle East, and Asia.

Overall, on a weighted average basis, we expect real construction growth of almost 3.5% in our markets during 2006, down from around 4% last year.

That is a solid foundation for another good year for CEMEX.

One of the keys to managing a business for long term value creation is to reduce vulnerability to cyclical downturns as much as possible.

At CEMEX, we do that through geographic diversification, by positioning ourselves across our industry's value chain, and by making highly selective investments in existing businesses that either reduce cost or increase capacity.

That process—the disciplined allocation of capital to growth capital spending and to acquisitions—is critical to our strategy and to our future success.

- It requires the application of a centralized, consistent, profitability-driven framework for all capital expenditures across the company, regardless of geography and regardless of business line.
- It requires that we establish and maintain the same kind of rigorous criteria for capital expenditures as we do for acquisitions.
- And it requires the active participation of top management in the capital budgeting process to ensure discipline and control.

Let me put some numbers on these concepts:

- In 2005, we tightened our capital budgeting process as we took control of RMC. We wanted to avoid the fate of other companies who have become distracted during large acquisitions. Nevertheless, total cap ex was 785 million dollars, of which growth cap ex amounted to 185 million dollars, primarily in our legacy operations.

For example, we upgraded the kiln burner in our Apo plant in the Philippines, installed a new hopper to produce low heat clinker in Tepeaca in Mexico, and purchased an import terminal in Pensacola, Florida in the United States.

In other words, we were assuring that our existing operations had the oxygen they needed to continue breathing even while much of our attention was focused on acquiring and integrating RMC.

- In 2006, the picture will change, in degree but not in discipline. We expect to increase total cap ex to 1.3 billion dollars. Roughly 750 million dollars will go to maintain our production and distribution platform, while around 500 million dollars will be invested to capture EBITDA opportunities in our existing markets.

However, all these capital expenditures will go through the same rigorous capital budgeting process. This ensures that discretionary investment goes to the projects that will yield the highest returns, on a global basis.

We will talk later today about some of these EBITDA-enhancing investments, but I want to mention a few to give you a flavor of what we are doing:

- In Latvia we are beginning a 1 million ton expansion of our clinker plant;
- We are investing in a new production line in our Balcones cement plant in the United States that will eventually add 1.1 million tons of cement capacity;
- We are modernizing more than 200 ready mix plants in the UK; and
- In France we have recently completed the purchase of a 60 million ton quarry outside Paris.

The point is simple: we expect to invest significant resources in order to grow our existing businesses. We will do so in a highly disciplined, return driven process. This

ensures that our discretionary capital investments are aligned with our corporate objectives, and that they contribute to increasing shareholder value.

I have said elsewhere that RMC is not our last acquisition. That will come as no surprise to those of you who know that growth is deeply imprinted on CEMEX's DNA.

Since 1992, when we acquired Valenciana in Spain, through last year and RMC, we have made 16 significant acquisitions. We have learned a lot from each of them:

- We have learned how to identify opportunities that match our strategic criteria as well as our management capacity.
- We have learned how to remain disciplined during the bidding and negotiation process.
- We have learned how to rapidly integrate new acquisitions with increasing effectiveness and efficiency, while identifying and capturing significant synergies and extending our management systems and processes.
- We have learned how to expand our management team both by retaining key talent from the companies we acquire, and by giving our younger managers opportunities in the integration process.
- We have learned how to quickly recover our financial flexibility after the transaction is completed.

The success of our strategy rests firmly on an almost religious adherence to three simple criteria:

- First, any acquisition we make must provide risk adjusted returns in excess of our weighted average cost of capital.
- Second, any acquisition must be able to benefit from our management and turnaround expertise, and must enhance our network. We do not buy companies from which we cannot extract value.
- Third, any acquisition must contribute to our solid capital structure. We intend to maintain our investment grade ratings.

The RMC acquisition demonstrated these criteria in practice. I am sure what has worked in the past will work in the future. We will certainly find plenty of opportunities, at prices and conditions that will meet our criteria, to sustain our rapid and profitable growth.

This does not have to happen tomorrow or even next year. Indeed, it does not *have* to happen any time soon for us to continue to deliver value to our shareholders. In the meanwhile, we will continue to devote our free cash flow, after maintenance cap ex, to high return investments in our existing network and to enhancing our financial flexibility.

I think it is clear that we are at an inflection point in our history. Last year we literally doubled in size. We significantly extended our business along the value chain. And we executed the largest, fastest and most successful PMI we ever attempted.

I believe that the greatest challenges to any growing organization come at moments of such success. CEMEX could be at one of those moments.

So, your question should be: "How are we going to avoid the fate of other successful companies that grew rapidly and successfully, only to stumble on the next recession or the next acquisition?"

I think there are five keys to CEMEX's successful future:

- First, we need to maintain the capital allocation discipline, with regard to expansion cap ex as well as to acquisitions, which has served us well in the past. And we will continue to do so.
- Second, we need to manage costs as aggressively in good times as in bad times. This means doing things like continuing to invest in energy flexibility, constantly upgrading our IT platform, and leveraging our increasing size to produce new economies in global purchasing.

Let me give you three examples of how this constant focus on costs pays off:

- Even though oil prices have risen 118% from 2001 through 2005, our energy cost per ton of cement produced has increased only 11%.
- Since 1985 our headcount has increased eight fold while our sales have increased almost fifty times.
- During the past ten years we have reduced the average cost of borrowing from more than 10% to less than 5%, and significantly lowered our weighted cost of capital.
- Third, we need to reinforce and deepen our commitment to continuous improvement in all our operations. Our goal is operational excellence at the lowest possible cost. This is the only way we can provide our customers with high quality, reliable service.
- Fourth, we need to get closer to our customers. Among other initiatives:
 - We continue to build customer loyalty in Mexico and other markets, with programs like Construrama and Multiproductos;
 - We are developing innovative new partnerships with building professionals in markets like California and Florida where we think there is considerable room to grow cement's share of market; and
 - We are developing a new brand-architecture and a region-wide marketing program to introduce CEMEX in our new European markets.

But we need to do more to assure that we have the best possible value proposition for our customers in every market in which we participate.

- Finally, we need to continue to invest in our people. As I said earlier, we have succeeded in retaining much of RMC's key talent, which was a major goal of the PMI. Now we are making CEMEX's development and training platforms available to thousands of our new employees.

Moreover, the expansion of the company created new opportunities, especially for younger CEMEX executives, which is considerably enlarging our pool of internationally experienced personnel.

During 2005, we posted our strongest financial results ever. We achieved record EBITDA and free-cash-flow generation, surpassing the expectations we held a year ago.

For the year as a whole, EBITDA grew 40 percent to close to 3.6 billion dollars. Net sales increased 88 percent, reaching 15.3 billion dollars. Our free cash flow was close to 2.2 billion dollars, after maintenance cap ex.

This year will be another good year. We expect to generate EBITDA of about 4 billion dollars in 2006, and free cash flow of close to 2.4 billion dollars, again, after maintenance cap ex. These expectations reflect the strength of our asset portfolio and of our business model, as well as the quality of our earnings.

Of course, we have many challenges and even more opportunities. But I think there are two elements that will shape the CEMEX story this year:

- First, we will continue the full integration of RMC. This means realizing *at least* all of the synergies we have identified and it means fully deploying our business model throughout our newly acquired operations.
- Second, we will sustain our capital allocation discipline which is the lynchpin of our profitable growth strategy.

This means investing our free cash flow in the same highly disciplined manner that we have demonstrated over the past several years. In the absence of investments or acquisitions that meet our strict criteria and our benchmark ten percent return on capital employed, we will continue our bias towards de-leveraging.

Today our net debt to EBITDA ratio is 2.4 and I am comfortable using free cash flow to pay down debt, even if this again takes us temporarily to a net debt level of less than two times EBITDA.

I would like to conclude with a final thought.

Last year was a good year, but it was not an extraordinary year. We demonstrated CEMEX's potential, but we did not demonstrate the limits of that potential.

To me, that means that the best is yet to come.

Thank you.