

**Remarks by Lorenzo Zambrano  
Chairman and CEO**

**Annual Analyst and Investor Meeting  
July 1, 2004  
Norwalk, Connecticut**

Good morning and welcome!

This is a very important meeting for us, and I am pleased that so many of you could join us before this long holiday weekend.

I am deeply committed to open and transparent dialogue with the financial markets. I view these annual gatherings as critical opportunities to share with you not only what we are achieving in our key operations, but—perhaps more importantly—to present the basic outlines of our strategy.

I want you to know how we are looking at the world, where we are going, and how we intend to continue to create value for our shareholders. I want you to ask questions and, within the bounds of the law and regulations, we will do our best to answer you.

In other words, today will be successful if—when we are finished—you have a better idea of how we are going to continue to deliver the kind of profitable growth that we have in the past. We will be successful if we have given you enough sense of our strategic thinking so that we never surprise you. And, of course, we will be successful if you all call your brokers and buy more of our stock!

My agenda this morning has four elements:

- First, I will briefly review the macro outlook that is driving our performance in the short run,
- Second, I will give you an overview of how we are thinking about the changing dynamics of our industry,
- Third, I will present some of the key elements of our growth strategy and of how we are creating sustainable competitive advantages, and
- Fourth, I will review our expectations for the year.

Over the course of our meeting, we will fill the outlines of our strategy and then to demonstrate how we are executing that strategy in our key markets around the world.

## **Making and keeping commitments**

Let me start, though, by reminding you of some of the commitments I made when we met last July:

- I told you that we could produce strong organic growth from our global network, even without major acquisitions. In particular, I told you that I was confident our U.S. operations were positioned to perform.

*Our worldwide cement volumes have increased 2% over the last twelve months and our ready mix volumes have grown 9%. In the United States, our cement volumes were 9% higher during the first half of this year, compared to the year earlier level—excluding the impact of the Dixon-Marquette acquisition.*

- I told you that we had made CEMEX more efficient and more productive, and that we were committed to improving—and to maintaining—our cost discipline.

*Last year we reduced corporate overhead by \$128 million and reduced the ratio of SG&A to sales by 210 basis points, both well in excess of our commitments to the market. During the first half of this year, we expect to have reduced that ratio another 90 basis points.*

- I told you that we would devote the bulk of our free cash flow to debt reduction, because a volatile environment demands a rock solid balance sheet.

*We ended last year with a net debt to EBITDA ratio of 2.7 and today we are approaching 2.3. We have used fully 80% of our free cash flow to reduce debt over the past 12 months.*

- And, finally, I told you that our business model produces good results in bad times, and great results in good times.

*Last year we produced EBITDA of \$2.1 billion, a 10% increase, and free cash flow of \$1.1 billion, growth of 21%. During the first half of 2004, we expect to have generated EBITDA of \$1.17 billion, 15% more than during the year earlier period.*

The message is simple: when we make commitments, we keep commitments.

## **Economic outlook**

I suspect that everyone now shares our view that the global expansion has gained momentum, particularly here in North America. Even with the Fed's rate increase, the U.S. economy seems solidly on path for economic growth of around 4.5% this year.

This strong U.S. performance is pulling Mexico, as well as much of the rest of the global economy along in its wake. We believe that real growth in Mexico could reach almost 4% this year.

Similarly, growth is starting to return to the rest of Latin America. Growth is particularly strong in our two most important South American markets, Venezuela and Colombia, despite complicated political conditions. As usual, Europe is lagging. However, Spain, the European market that is most important to CEMEX, continues to outpace the rest of the euro area.

For CEMEX, this means that we expect real GDP growth in almost all of our markets. In turn, this will lead to rapid growth in cement and concrete volumes in most of our markets, particularly in Mexico and the United States. We also are seeing firmness in prices—for example, in the United States—which we expect to continue.

Of course, there are risks to this generally positive growth environment. Any combination of higher oil prices, surprises on the inflation front, political problems in the Middle East, an abrupt slowdown in China, or new terrorism could turn a positive environment into a volatile, even negative one.

However, on balance, I am optimistic about our central scenario for strong growth this year, carrying into 2005. These certainly aren't the good old days of the 90s, but we clearly are in a strong, broad, deep, and sustainable cyclical expansion. This is good for our markets, good for our customers, and good for CEMEX—which means it is good for our shareholders.

### **Our industry's future**

Since I read the investment research on our industry, I know that there is speculation that the cement industry is getting ready for another round of consolidation. That speculation often takes one of two forms:

- *Either*, the consolidators will renew their acquisition drive, bidding against each other for the last remaining tons of unconsolidated capacity in markets around the world, eventually including even China and India.
- *Or*, there will be some kind of “big bang” involving the largest players in the cement world.

In either case, some seem to believe that the inevitable result will be the destruction of economic value, as the competitive dynamics drive successful consolidators to overpay for acquisitions. The flip side of that analysis—the reason that otherwise rational investors *would* overpay—seems to be that some think companies like CEMEX have only limited opportunities for profitable growth. Thus, we either participate—as predator or prey—or we stagnate.

In different words, this essentially seems to be why many look at CEMEX—despite our robust and growing cash flow—as a value, and not a growth company.

Quite frankly, I think both the analysis and the conclusions are missing several important elements:

- First, the analysis ignores changes in behavior that have occurred in our industry. From my perspective, most of the leading companies are more disciplined, more focused on value creation, more careful in executing their strategies, and more advanced in their life cycles. The motives of the different companies almost certainly differ, but the behavior changes are real.
- Second, the analysis is too static, ignoring the emergence of a “second tier” of players who are becoming active outside their home markets and who are impacting on the industry’s competitive dynamics.
- Third, even if there would be a combination among some of the larger players in our industry, the result would be the spin-off of pieces of the combined company, either for regulatory or business reasons.

In other words, the process of concentration seems to have built-in limits that would not block other companies from also growing.

- Fourth, the analysis is predicated on a narrow view of our industry, and—as a result—underestimates the industry’s growth potential.

In fact, the cement industry is huge with considerable growth and margin potential. The industry today generates around \$100 billion in revenues and \$27 billion in EBITDA. Considering only the likely growth in demand, by 2010, revenues could reach \$138 billion. More importantly, our analysis suggests that EBITDA could increase by \$10 billion. Those are good numbers—and good opportunities for CEMEX.

But the story gets better. If you look down our industry’s value chain—including aggregates, ready mix, distribution, and others as well as cement—total revenue generation could be four times larger than cement alone, with well more than double the operating cash flow.

Later today we will take you through the details of the opportunities we see throughout the value chain. My point now is that the best way to think about the future of our industry is to think about the future of the *whole* value chain.

Moreover, the competitive dynamics of these other segments are considerably different than those of the cement space.

- There are many more players, of radically different size and scale.

- Some of those companies are public, while many more are private.
- Many of these companies have the potential to create more economic value if they were integrated into larger enterprises.
- And, in some markets, an integrated company is likely to be a more effective and efficient competitor.

In other words, it is fair to say that I don't know whether this industry is on the verge of further consolidation or, if so, what form that consolidation will take. But I *do* know that this industry has the potential to grow and to generate substantial economic value.

CEMEX's challenge is whether we can capture more than our share of that growth and, more importantly, of that value creation. I am confident that we can.

### **The CEMEX track record**

The obvious question is: Where will we find the growth? The corollary question is: How can we assure that growth translates into increasing shareholder value?

Let me start to answer by reminding you of what we have achieved so far:

- Since we began our internationalization drive in 1992, we have built a company that is the third largest in the world and the largest in the Americas. We have grown organically and we have grown by acquisition.
- In the past 15 years, we have increased revenue and EBITDA at compound growth rates in excess of 18%.
- During the same time, we have produced average EBITDA margins of 31%, making us—consistently—the most efficient of the global cement companies.
- We have translated those operating results into value for shareholders by producing returns on equity above 15% and returns on capital employed over 10% since 1997.
- And, finally, during the past five years, we have generated more than \$10 billion in EBITDA and almost \$5 billion in free cash flow.

Like it says in the prospectus: past performance is no guarantee of future success. But excellent, consistent performance, through the cycle, *does* tell you a lot about CEMEX, about our management team, and about our business model. And it tells you that at CEMEX, growth—*profitable* growth—is imprinted on our DNA.

As I think about the *next* ten years, I can tell you that we will continue to grow, organically and by acquisition. And, I can also tell you that I expect the pace of our growth to accelerate.

### **Organic growth opportunities**

First, organic growth.

If you look at the past performance of the countries in which we now operate, you will discover that our existing portfolio has the potential to grow operating cash flow about 5 to 6% per year.

Moreover, in some of our markets, like the United States, we have real potential to increase cement's share of the construction materials market, without changing the competitive dynamics of the market. In others, like Mexico, we have the potential to develop new business platforms, like Construrama, that offer incremental growth opportunities.

And, in others such as the Caribbean, we have network opportunities that will likely create higher, more stable growth than the individual countries produced in the past.

In addition, our continuous efforts to increase efficiency and productivity have the potential to produce even faster growth from our existing portfolio. Hector will talk about some of these efforts later today.

### **Growing through acquisitions**

Robust organic growth is the platform for our potential to grow even more rapidly through acquisitions. If we continue to generate more than \$1 billion per year in free cash, we would have the capacity to acquire operations that would add at least another 5% to 6% in EBITDA growth per year.

Since 1992, when we acquired Valenciana in Spain, we have made 15 significant acquisitions. We have learned a lot from each of those transactions, as well as from the transactions we did *not* do.

- We have learned how to identify potential value and network synergies in an acquisition opportunity.
- We have learned how to stick to our disciplines during the bidding and negotiation process.
- We have learned how to integrate new acquisitions, with increasing speed and efficiency.

- We have learned how to use our balance sheet to finance an acquisition, as well as how to recover our financial flexibility quickly after the transaction is completed.

And, we have learned how to say yes, and how to say no, because we are religious about our acquisition criteria:

- First, any acquisition 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 will not buy companies from which we cannot extract value.
- Third, any acquisition must contribute to our solid capital structure. We will not compromise our investment grade ratings.

As I look around the world today, I am confident that we will find plenty of opportunities, at prices and conditions that will meet our criteria, to sustain rapid, profitable growth during the next ten years.

We will have opportunities to acquire cement operations in existing or new markets. We will have opportunities to acquire operations in other parts of our industry's value chain that leverage our cement assets, making them even more profitable. Some of those acquisitions may be country-scale, and some may be small ready-mix or aggregate acquisitions.

I truly believe that we are in a target rich environment, *even* with our strict disciplines.

CEMEX does not have to diversify to grow: we are an integrated cement company today and we will be a more integrated cement company tomorrow. Only bigger, more profitable, and more valuable.

None of this means we are suddenly going to throw open our checkbook. That is not our style, our discipline, or our purpose. CEMEX is, and will always be, in the business of creating value.

*Growth is how we deliver value.*

I would like to anticipate one question before it is asked. If we have so many good opportunities, why have we made so few recent acquisitions?

The answer is simple:

- First, I wanted to demonstrate clearly that we had regained our financial flexibility after acquiring Southdown.

- Second, I wanted to complete the structural initiatives we had launched in the information technology, business process, and energy areas—since these are critical to cost containment and to efficiently extending our network.
- Third, I wanted to be sure that our U.S. operations had stabilized after the acquisition and had begun to grow again.

In short, this has been a period of adjustment and of repositioning. In a world where both risks and opportunities are increasing, it made sense to *more than* regain our financial flexibility. That is exactly what we have been doing.

### **Managing to create value**

If the first part of our growth equation is opportunity, then the second part is capacity. I have already talked about the strength of our balance sheet and our ability to generate free cash. But capacity to *invest* is not necessarily co-incident with capacity to *manage*. CEMEX has both.

Today I want to emphasize five key aspects of how we work that are critical to our future success.

- First, CEMEX is rolling out a wide range of market specific programs that will make it easier for our customers to work with us.

We know we are no longer in the business of simply crushing stone or mixing concrete, if we ever were. We are in the business of helping our customers complete their projects, on time and on budget. When they succeed, we succeed.

- Second, CEMEX is committed to a continuous improvement process that produces a constant increase in productivity and efficiency.
- Third, CEMEX has worked hard to develop an energy sourcing and utilization strategy that is critical in a world where the cost of energy is likely to remain high and volatile.
- Fourth, CEMEX has developed a unique capacity to use information technology to produce efficiencies in the production process as well as to facilitate our ability to integrate new acquisitions into the network.

In addition, our IT platform gives us an ability to work increasingly closely with our customers, especially those in the high value added segment of the marketplace.

- Finally, CEMEX has implemented capital allocation and capital budgeting processes that are designed to assure the most efficient allocation of our

investment dollars. These disciplines aim at creating shareholder value by actively managing the spread between our return on capital and our weighted average cost of capital.

You will hear more about each of these during this meeting. However, I would like to spend just a few minutes now on how we think about capital allocation.

As I have stressed already, I believe that CEMEX has the potential to deliver substantial profitable growth to our shareholders, now and through the future. This requires us to invest our free cash in projects that not only meet our investment criteria, but also contribute to *increasing* our profitability.

Since 1998, our return on capital has been consistently above 10%, and the typical acquisition that we would consider is likely to offer returns of at least this level. The result, I believe, will be a higher return on capital over the medium term—not by accident, but because we are managing the company to produce increasing profitability.

At the same time, we have benefited from a significant reduction in our weighted average cost of capital, which is now below 8%. The result has been a healthy profit margin. As the upturn in the business cycle continues and as we grow, I think we will be able to improve this spread, which, of course, means that we will be delivering increasingly profitable growth to our shareholders.

### **Great results in 2004**

2004 is shaping up to be a good year for CEMEX, reflecting the gathering global economic momentum and the benefits of our investments and cost saving initiatives over the past several years.

We are announcing this morning that we expect full year revenues to increase to around \$7.45 billion, with EBITDA up 11% to around \$2.35 billion. Our present expectation is that we will increase free cash flow by 18% to around \$1.35 billion.

On the assumption that we continue to use most of our free cash to reduce net debt, the ratio of net debt to EBITDA would end the year at 2 times—assuming constant exchange rates. Our interest coverage would exceed 6 times.

This is what I mean when I talk about great results in good times!

### **Investing for long term value creation**

I believe that CEMEX is at a critical point in our company's evolution.

We have produced a record that is unparalleled in our industry. We have traced a path that no one can match: from being a Mexican company to being a Latin American company to being a global company. We have overcome the financial stigma of being

from the emerging markets and have achieved a marginal cost of borrowing comparable to our European peers.

We have prospered through the ebb and flow of the global economic cycle, demonstrating the resilience of our business model. And, we have consistently delivered outsize returns to our shareholders.

But all of that is history. If you invest, you are looking to our future, not our past earnings. You should be wondering whether we exceed what we have accomplished. You should be asking whether we have just been lucky, or whether our business model really *is* better than our competitors.’ You should be seeking signs that we have learned from whatever mistakes we have made.

So the investment judgment turns

- on the vision of CEMEX’s leadership,
- on the strength of our management team,
- on the quality of our production and marketing platforms,
- on the soundness of our financial management,
- on our discipline, and
- on our capacity to execute our strategies.

Will we produce the kind of earnings growth that justifies your long term investment? Not surprisingly, I think the answer is, Yes.

Personally, I am long CEMEX. I think the best is yet to come, and that the bulk of the surprises will be on the upside.

I thank you for joining us today, for your attention this morning, and for your interest in CEMEX. I look forward to your comments and your questions and, even more, to your continuing support for CEMEX.