



# **CEMEX UK OPERATIONS LIMITED**

## **DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2006**

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Company Number 658390

# CEMEX UK OPERATIONS LIMITED

## Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006.

### Principal activity

The principal activity of the company throughout the year continued to be the production and supply of building materials for use in the construction industry in its own name and through a number of group companies acting as its agents. These agent companies are listed on page 35.

### Business review

CEMEX is a global building materials company with a presence in more than 50 countries. It has leading positions in aggregates, cement and ready-mixed concrete.

CEMEX UK Operations Limited is the principal CEMEX trading company in the United Kingdom. It trades through a number of group companies acting as its agents (see page 35 for details) as well as in its own right, and its activities are primarily the extraction, processing and supply of building materials for use in the construction industry.

In addition to aggregates, cement and ready-mixed concrete, CEMEX UK also produces mortar, screed, asphalt, and has a significant share of the roof tile, concrete-block paving, and landscaping sectors. Additionally, the company is the leading supplier of concrete sleepers to the rail industry and a supplier of PFA cement additives, and provides specialised products, such as insulated cavity closer and texture coatings.

The principal operations of the business are extraction, processing and distribution of materials, and CEMEX has a national supply network in the UK with over 450 locations, to ensure that quality building materials are available to customers locally.

### Operating locations

Cement plants	3
Cement grinding mills	5
Readymixed concrete plants	269
Aggregates Quarries	78
Asphalt plants	46
Building products manufacturing sites	28
Operational landfills	17
Marine aggregate terminals	6

# CEMEX UK OPERATIONS LIMITED

## Directors' report *continued*

### Market conditions

In 2006 the annual gross domestic product growth rate for the UK was 2.7%, with total construction output growing by 1.3%. This was an improvement from the decline of 0.9% in 2005.

However, the country continued to languish near the bottom of the European league for investment in the built environment, as the Government did not deliver on its promised investment in a number of key areas, including the building of social housing, improvement of school buildings and infrastructure, modernisation of health provision and transport infrastructure improvements.

As an industry, construction continued to face cost pressures, in particular for fuel, transport and energy costs.

During 2006, vertical integration and consolidation continued within the construction industry. However, CEMEX retained its top three UK market positions for aggregates, cement and readymixed concrete.

### Performance and focus

For the year to 31 December 2006 the company reports a loss after tax of £18m (2005 restated £56m) from turnover of £1,032m (2005 £1,080m).

Construction activity in the UK grew by 1.3% in the year, with better performance in the industrial, commercial and public-housing sectors offsetting slowdowns in the infrastructure, private residential and maintenance sectors.

During 2006, CEMEX made capital investments to the value of £63 million in the UK.

Productivity remained world class at each of the UK's three cement plants and within the aggregates division, CEMEX closed nine underperforming quarries and improved productivity by 8%. The supply of CEMEX plants with internally-generated products was also increased, and aggregate stock piles and inventory were reduced to improve cash flow. Within the readymixed concrete sector, 21 underperforming plants were closed. Productivity across all plants improved by 8% and the consumption of internal cement and aggregates increased.

Following a rationalisation of assets within the building products sector to improve margins, a number of minor UK businesses were divested, including tile adhesives, concrete drainage, flagstones and kerb products.

The streamlining and enhancing of systems, which are part of the CEMEX model used worldwide, was launched in the UK during 2006. This included back-office processes and commercial computerised systems for readymix, aggregates and asphalt products.

CEMEX UK also commenced the restructuring of its regional customer service function to improve the commercial effectiveness of its aggregates and readymix operations, with a consolidation of the current 22 sales and shipping offices into seven customer service centres.

### Key performance indicators

The high level financial key performance indicators used by management to measure the performance of the business are sales volumes, turnover, margin, profit and net cash flow. The company uses non-financial key performance indicators to monitor its health and safety performance which include the number of lost time injuries and the number of reportable incidents.

# CEMEX UK OPERATIONS LIMITED

## Directors' report *continued*

### **Corporate social responsibility, safety and employees**

In 2006, CEMEX UK was presented with the coveted Cooper Heyman Cup at Quarry Products Association (QPA) Showcase for its restoration work at Attenborough Nature Reserve in Nottinghamshire. The company also won the Restoration Award with Special Merit for Powburn Quarry in Northumberland and developed a sustainability statement which sets out seven indicators of sustainable performance with which the company operations and behaviour are firmly aligned.

The company also invested £30 million in sustainability-related projects, which included new kiln firing systems that have helped achieve a reduction of over 30% in nitrous oxides at two of the company's cement plants, and the installation of a £6.5 million bag filter that has cut emissions of dust from a third plant by 80%. At one of the company's biggest quarries, a £13.5 million investment has also greatly reduced emissions.

Increasing the use of alternative fuels to heat cement kilns is key to improving emissions and environmental performance, and in 2006 CEMEX started trials of a new fuel, Climafuel, at two UK plants, while applying for permission to conduct a trial in 2007 at a third plant and for permission to use tyres permanently at this plant. Climafuel is an alternative fuel which is made using household and commercial waste and can, therefore, substantially reduce waste being landfilled.

A 24/7, out-of-hours delivery service was developed to ease pressure on congested roads and sites and ensure that customers start the day with full silos and aggregate bins. Where possible, deliveries now take place at night to reduce day time congestions and maximise utilisation of the CEMEX UK fleet.

Sophisticated planning and tracking systems were adopted to ensure vehicle efficiency and that 95% of lorries are at payload before travelling. Back haulage and fleet availability was optimised and improved for both cement and aggregates deliveries.

Throughout 2006 the drive to improve health and safety across all sites was sustained. The number of employee Lost Time Injuries reported was reduced by 67% per cent from the previous year, and 168 UK sites enjoyed 10 or more injury-free years.

### **Company goals and strategy**

#### ***Cementitious***

The UK cementitious market saw a continued displacement of cement through the increased penetration of slag during 2006. A lack of sufficient slag volumes put pressure on competitors to recover their cement share of the market. CEMEX is meeting this challenge through the increased offering of CEM3 and leveraging its European network by using German slag.

CEMEX has challenged the Government in a Judicial Review to redress the shortage of carbon credits allocated to one of its UK plants from 2008. Irrespective of the outcome, it remains a key focus for CEMEX to reduce emissions by increasing the use of alternative fuels to heat cement kilns.

#### ***Aggregates***

In the aggregates sector, CEMEX is continuing its operational improvement project, which already has led to £5.2 million savings, to increase efficiency.

The aggregates business is facing the challenge of replacing mineral reserves to secure future volumes. The company is meeting this challenge through investment, the extension of existing sites and the acquisition of new mineral reserves. But developing new reserves is costly and has put a pressure on aggregates margins, and so in 2007 there is pressure on this sector to increase efficiency of production to mitigate this cost.

## CEMEX UK OPERATIONS LIMITED

### Directors' report *continued*

#### **Mortar**

While CEMEX is a relatively small provider of dry silo mortar, this market is seeing continued growth, and CEMEX UK aims to take advantage of this opportunity by investing in a number of new projects to grow this market and become a more prominent supplier

#### **Asphalt**

The Government has not delivered on its promised investment in transport infrastructure, and as a result the demand for asphalt has declined. However, CEMEX remains strong within the smaller customer segment and is focusing on improving service levels to maintain this position

#### **Customer focus**

It is a priority to extend the out of hours delivery service, and develop innovative products and services for customers in 2007

#### **Sustainability**

In 2007 CEMEX is continuing the work to improve its sustainable performance across the business and focus on delivery of three high level goals

- 1 Reducing overall emissions
- 2 Ensuring the long-term supply of building materials for the UK construction industry
- 3 Ensuring that CEMEX is a good neighbour at all times

CEMEX is also looking to maximize opportunities for recycling and the reuse of materials to support the sustainable construction agenda and help ensure that high-quality products and services are provided as efficiently, cost effectively and sustainably as possible

#### **People**

Implementation of the CEMEX human resources platform is continuing in the UK, with e-learning and further development opportunities being added to improve employee productivity further

Sustainability begins at the heart of every company and in 2007 CEMEX is also focusing on the encouragement of employees to work and behave in a way that contributes to a more sustainable future. This means integrating sustainable practices, including recycling, through education and motivation in the workplace

Although lost time injuries were reduced significantly during 2006, Health and Safety continues to be a key priority for the business. To ensure that all employees go home safe every night, the target therefore remains zero accidents

#### **Capital investments**

In 2006, CEMEX invested £63 million in the UK operations, this spanned the entire business, including the aggregates, cement, readymixed concrete and concrete products sectors

The programme included environmental improvements and the upgrade and modernisation of equipment and plants, and demonstrates the company's commitment to the UK construction industry. Many of the projects have the latest state-of-the-art equipment incorporated to reduce dust and noise and minimise impact on neighbours

As part of the investment, CEMEX also embarked on a two-year initiative to bring the UK into line with the corporate identity of the parent company, which consists of red and blue stripes with the blue CEMEX logotype

In 2007, CEMEX plans to continue this investment programme to improve quality and service for construction customers

# CEMEX UK OPERATIONS LIMITED

## Directors' report *continued*

### Risks and uncertainties

The principal operations of CEMEX's UK Operations are extraction, processing and distribution of building materials. Many of these operations are tightly regulated by the Environment Agency, which is the public body tasked with protecting and improving the environment on behalf of the Government.

CEMEX is responsible for ensuring that the needs for minerals are balanced against the impact of the operations on people and the environment. The company depends on local communities and regulators to secure land reserves and grant planning and operational permits.

In the UK the company's three cement plants are also subject to binding caps on carbon dioxide emissions imposed by the European Union's directive implementing the Kyoto Protocol on climate change.

Cement-making is energy intensive, and to mitigate rising energy and fuel costs, fossil fuels are increasingly being part-replaced with alternative fuels made from wastes, including chipped tyres and household waste.

Construction activity and the demand for building products tend to decrease during periods of cold weather or when heavy or sustained rainfalls occur. Consequently, demand for our products is significantly lower during the winter.

### Results and dividend

The loss for the year attributable to shareholders was £18,272,000 (2005 restated loss £55,650,000) which will be transferred to reserves. The directors do not recommend payment of a final dividend to ordinary shareholders (2005 £nil).

### Interests in land

In the opinion of the directors, the current open market value of the company's land interests significantly exceeds the amount at which the assets are included in the balance sheet at 31 December 2006, however it is not practicable to value these assets on an annual basis.

### Directors

The directors who served during and since the end of the year are as shown below:

C A Leese	(appointed 31 July 2007)
G Moores	(resigned 31 August 2006)
C L Oakley	
M A Ogden	(resigned 31 October 2007)
I Ortiz	
G N Russell	(appointed 31 October 2007)
L H Russell	(appointed 31 October 2007)

### Disabled persons

Employment opportunities are available to disabled persons in accordance with their abilities and aptitudes, on equal terms with other employees. Should employees become disabled during the course of their employment, every effort is made to enable them to continue employment, with re-training for alternative work where necessary. The same opportunities for training, personal development and career advancement are available to disabled persons as for other employees.

# CEMEX UK OPERATIONS LIMITED

## Directors' report *continued*

<b>Employee involvement</b>	The company's policy is to provide equal opportunities to all existing employees. The company has an established system of communication with employees through line management. Employees regularly receive information about the financial progress and position of the CEMEX Group by means of a house journal and reports to the employees on the Group's financial results and on pension funds.
<b>Financial instruments</b>	<p>The company uses financial instruments, comprising borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's business. The company has not entered into any derivative transactions.</p> <p>The main risks arising from the group's financial instruments are credit risk on trade debts, interest rate risk on its borrowings and exchange gains or losses on monetary assets and liabilities in foreign currencies.</p>
<b>Payment policy</b>	The company has a policy to settle the terms of payment with its suppliers when agreeing the terms of each transaction, ensures that those suppliers are made aware of the terms of payment, and abides by the terms of payment.
<b>Donations</b>	The company made charitable donations of £14,567 (2005: £37,000) and no political donations during the year (2005: £nil).
<b>Disclosure of information to auditors</b>	The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.
<b>Statutory dispensation and auditors</b>	The company has an election in force under section 379A of the Companies Act 1985 dispensing with the laying of accounts and reports before the company in a General Meeting, the holding of an Annual General Meeting and the obligation to appoint auditors annually.

Approved by the board of directors on 7 February 2008 and signed on its behalf by



**M L Collins**  
Secretary  
CEMEX House, Coldharbour Lane, Thorpe, Egham, Surrey TW20 8TD

## **CEMEX UK OPERATIONS LIMITED**

### **Statement of directors' responsibilities in respect of the directors' report and the financial statements**

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



# CEMEX UK OPERATIONS LIMITED

## Independent auditors' report to the members of CEMEX UK Operations Limited

We have audited the financial statements of CEMEX UK Operations Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Practice) are set out in the statement of directors' responsibilities on page 8.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the directors' report is consistent with the financial statements.

KPMG LLP

KPMG LLP  
Chartered Accountants and Registered Auditors  
BIRMINGHAM

7 February 2008



# CEMEX UK OPERATIONS LIMITED

## Profit and loss account for the year ended 31 December 2006

	Notes	2006	Restated 2005
		£000	£000
Turnover	3	1,031,987	1,079,558
Cost of sales		(718,792)	(721,469)
Exceptional cost of sales	4	-	(18,810)
		(718,792)	(740,279)
Gross profit		313,195	339,279
Distribution costs		(182,873)	(211,259)
Administrative expenses		(183,791)	(134,068)
Exceptional administrative expenses	4	-	(22,255)
		(183,791)	(156,323)
Other operating income	6	2,716	3,337
Operating loss		(50,753)	(24,966)
Exceptional items			
(Loss)/Profit on sale or termination of operations	7	(37)	2,005
Profit on disposal of fixed assets		20,783	11,004
		20,746	13,009
Income from shares in group undertakings and participating interests		1,720	1,098
Interest receivable and similar income	8	10,062	2,893
Interest payable and similar charges	9	(26,877)	(22,980)
Amounts written off investments	13,14	-	(8,837)
Loss on ordinary activities before taxation	4	(45,102)	(39,783)
Tax credit/(charge) on loss on ordinary activities	10	26,830	(15,867)
Retained loss for the financial year	24	(18,272)	(55,650)

These results are derived wholly from continuing operations

# CEMEX UK OPERATIONS LIMITED

## Balance sheet as at 31 December 2006

	Notes	2006	2005
		£000	£000
<b>Fixed assets</b>			
Intangible assets	11	261	4,784
Tangible assets	12	672,443	678,951
Investments in group undertakings	13	80,800	80,800
Investments in participating interests	14	527	927
		<b>754,031</b>	<b>765,462</b>
<b>Current assets</b>			
Stocks	15	62,677	66,843
Debtors	16	228,990	210,217
Cash at bank and in hand		4,499	69,287
		<b>296,166</b>	<b>346,347</b>
<b>Creditors:</b>			
amounts falling due within one year	17	(235,436)	(251,210)
<b>Net current assets</b>		<b>60,730</b>	<b>95,137</b>
<b>Total assets less current liabilities</b>		<b>814,761</b>	<b>860,599</b>
<b>Creditors:</b>			
amounts falling due after more than one year	18	(261,700)	(255,325)
<b>Provisions for liabilities and charges</b>			
Deferred tax	20	(83,250)	(109,157)
Other provisions	21	(148,334)	(150,012)
		<b>(231,584)</b>	<b>(259,169)</b>
<b>Net assets before net pension liability</b>		<b>321,477</b>	<b>346,105</b>
<b>Net pension liability</b>	22	<b>(79,100)</b>	<b>(55,230)</b>
<b>Net assets</b>		<b>242,377</b>	<b>290,875</b>
<b>Capital and reserves</b>			
Called up share capital	23	345,100	345,100
Profit and loss account	24	(102,723)	(54,225)
<b>Equity shareholders' funds</b>		<b>242,377</b>	<b>290,875</b>

The financial statements on pages 10 to 35 were approved by the Board of Directors on 7 February 2008 and signed on its behalf by



C A Leese  
Director

## **CEMEX UK OPERATIONS LIMITED**

### **Statement of total recognised gains & losses** *for the year ended 31 December 2006*

	<b>2006</b> £000	<i>Restated</i> <b>2005</b> £000
Loss for the financial year	<b>(18,272)</b>	(55,650)
Actuarial (loss)/gain on pension scheme	<b>(44,600)</b>	1,300
Deferred tax on actuarial (loss)/gain	<b>13,380</b>	(390)
<b>Total gains and losses recognised since last annual report</b>	<b><u>(49,492)</u></b>	<b><u>(54,740)</u></b>

## CEMEX UK OPERATIONS LIMITED

### Reconciliation of shareholders' funds *for the year ended 31 December 2006*

	2006 £000	<i>Restated</i> 2005 £000
Loss for the financial year as previously reported	(18,272)	(54,909)
Prior year adjustment (note 2) Share based payments	-	(741)
Loss for the financial year as restated	(18,272)	(55,650)
Actuarial (loss)/gain on pension scheme	(44,600)	1,300
Deferred tax on actuarial (loss)/gain	13,380	(390)
Share based payments	994	741
Net reduction in shareholders' funds	(48,498)	(53,999)
Opening shareholders' funds	290,875	344,874
Closing shareholders' funds	242,377	290,875

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts

### 1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

In these financial statements the following new standard has been adopted for the first time

- FRS 20 'Share based payments'

The accounting policy under this new standard is set out below and an indication of the material effects of its adoption is included in note 2

#### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

#### Turnover

Turnover comprises sales of materials for use in the construction industry at invoiced values excluding value added tax but inclusive of aggregate levy where applicable. Turnover is recognised at the point that goods are despatched and invoiced

#### Consolidated financial statements

As the company is a wholly owned subsidiary of CEMEX España S A and is included in its consolidated financial statements, which are publicly available, the company has taken advantage of section 228 of the Companies Act 1985 and consolidated financial statements have not been prepared

#### Depreciation

Depreciation is calculated to write off the cost or valuation of tangible fixed assets over their expected useful lives using the straight-line basis. The expected useful lives of the assets of the business are reassessed periodically in the light of experience. The straight-line annual rates of depreciation most widely used are

Freehold buildings	2%
Leasehold land & buildings	2% or over the life of the lease if shorter
Plant, machinery, equipment & ships	3.3% to 20%
Information systems	10% to 33.3%
Motor cars and vans	20%
Commercial vehicles	12.5%

Freehold land is not depreciated. The cost of mineral deposits is depleted in the proportion which the production for the year bears to the latest estimates of mineral reserves

#### Disposals of land and buildings

Disposals of properties are included when contracts have been exchanged and completed before the end of the financial year

#### Share based payments

Share based incentive arrangements are provided to certain employees under group savings related and executive share option schemes. Share options granted to employees and other share based arrangements put in place since 7 November 2002 are valued at the date of grant or award using an appropriate pricing model and are charged in the profit and loss account over the vesting period of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the vesting period

# **CEMEX UK OPERATIONS LIMITED**

## **Notes to the accounts** *continued*

### **1. Principal accounting policies** *continued*

#### **Goodwill**

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised in the balance sheet and amortised on the straight-line basis through the profit and loss account over 20 years or the estimated useful life of the businesses acquired if lower

#### **Investments**

Investments are held at cost less provisions required to reduce their carrying values to their recoverable amounts

#### **Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term

#### **Finance leases**

Assets held under finance leases are included in fixed assets and the capital elements of the commitments are shown as obligations under finance leases. Payments under such leases are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account over the lease term in proportion to the reducing capital element outstanding

Assets held under finance leases are depreciated over their useful lives or the lease term if shorter

#### **Leasing income and receivables**

Income from leasing contracts, being the excess of total rentals received over the cost of the net investment in leases, is taken to the profit and loss account according to the investment period method of accounting in direct relationship to the reducing capital invested during the primary lease period. Finance lease receivables represent the amounts due under these contracts less finance charges allocated to future periods

#### **Provisions**

Land reinstatement provisions represent the current estimated cost of reinstating aggregate-bearing, landfill and other land and are provided over the lives of the sites. The costs of monitoring landfill sites are provided at discounted net present value. Provisions are made on a site-by-site basis

Other provisions are reviewed annually based on best estimates available at the time

#### **Taxation**

The charge for taxation is based on the loss/profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

#### **Grants received**

Grants received from government and similar agencies, where they relate to expenditure on fixed assets or are to finance the activities of the company over a number of years, are recognised in the profit and loss account over the expected useful economic lives of the related assets or over the number of years of the activity. The amount still to be recognised is treated as deferred income

#### **Income from shares in group undertakings**

Income from shares in group undertakings comprises dividends received and receivable. Dividends are recognised where approved by shareholders or received in cash

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 1. Principal accounting policies *continued*

#### Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and appropriate production overheads. Net realisable value comprises the estimated selling price, less further production costs to completion, and appropriate selling and distribution costs. Provision is made for obsolete, slow moving and defective stocks.

#### Debtors

All known bad debts in respect of trade debtors are written off or fully provided for and, in addition, further provisions are made where considered appropriate.

#### Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. All differences are taken to the profit and loss account.

#### Pensions

The company operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficits are recognised in full. The movement in the schemes' combined deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

#### Participating interests

Participating interests are interests in which the company owns at least 20% of the equity and, in the opinion of the directors, the company exercises a significant influence on management. Income from these investments is included in the profit and loss account where dividends are approved by shareholders or received in cash.

#### Financial instruments

Following the adoption of the disclosure requirements of FRS 25, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.



# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 2. Prior period restatements

In these financial statements, FRS20 "Share based payments" has been adopted for the first time. Details of the share based payments made in 2006 and 2005 are shown in note 5. The effect has been increase the loss before tax by £994,000 in 2006 and by £741,000 in 2005. There is no effect on shareholders' funds.

### 3. Turnover

All turnover arises in the United Kingdom and from one class of business.

### 4. Loss on ordinary activities before taxation

	2006 £000	2005 £000
The loss on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation and depletion of tangible fixed assets		
Depreciation - owned assets	38,709	43,854
Depreciation - assets held under finance leases	9,431	10,684
	<hr/> 48,140	<hr/> 54,538
Impairment of tangible fixed assets	11,266	-
Loss on disposal of tangible fixed assets (excluding land and buildings)	1,214	1,446
Amortisation of goodwill	365	365
Impairment of goodwill	4,158	-
Hire of plant and machinery under operating leases	10,471	17,208
Other operating lease rentals	1,607	1,071
Auditors' remuneration - for audit of these financial statements	807	305
- other services	750	-
Government grants	(202)	(187)
	<hr/>	<hr/>
Exceptional cost of sales		
Redundancy and reorganisation costs	-	18,810
	<hr/>	<hr/>
Exceptional administrative expenses		
Redundancy and reorganisation costs	-	22,255
	<hr/>	<hr/>

Following the acquisition of the RMC Group by CEMEX, the company embarked on a major reorganisation programme to restructure and rationalise its operations and systems in line with those adopted by CEMEX internationally. Exceptional costs amounting to £41,065,000 were incurred in 2005 as a result, which included staff terminations, site closures and stock provisions.

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 5. Employees and directors

Staff are employed by the company and by the group undertakings that act as agents for the company. Their costs, which are borne by this company, and the average number of employees are shown below

Staff costs	2006 £000	<i>Restated</i> 2005 £000
Wages and salaries	200,548	167,932
Social security costs	18,256	13,940
Pension costs	20,000	22,643
Share based payments	1,537	932
	<b>240,341</b>	<b>205,447</b>

Wages and salaries include redundancy costs of £3,202,000 (2005 £12,354,000)

Average number of persons employed by the company during the year	2006 Number	2005 Number
Sales and distribution	2,423	1,742
Production	2,366	3,318
General and administration	920	1,331
	<b>5,709</b>	<b>6,391</b>

Directors	2006 £000	2005 £000
Aggregate emoluments	1,384	1,192
Company pension contributions to money purchase schemes	5	4
Company pension contributions to defined benefit schemes	16	130
Compensation for loss of office	95	328
	<b>1,500</b>	<b>1,654</b>

	2006 Number	2005 Number
The number of directors to whom retirement benefits were accruing under defined benefit schemes during the year	1	4
The number of directors to whom retirement benefits were accruing under money purchase schemes during the year	1	2
The number of directors exercising share options during the year	-	5

Highest paid director	2006 £000	2005 £000
Aggregate emoluments	<b>748</b>	<b>521</b>

The highest paid director did not exercise any share options during the year

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 5. Employees and directors *continued*

#### Share based payments

The immediate parent company, CEMEX Investments Limited has granted options over shares to employees under share option schemes. Where grants were made after 7 November 2002 they have been accounted for as required by FRS 20 "Share based payments". As permitted by the transitional arrangements of that standard, awards made before that date have not been so accounted. All options have been valued at the date of grant using the Black Scholes option pricing model.

Details of Savings Related Share Options granted since 7 November 2002

Grant date	10 Oct 2003	10 Oct 2003	8 Oct 2004	8 Oct 2004
Share price at grant date	£6.66	£6.66	£8.50	£8.50
Exercise price	£4.97	£4.97	£5.06	£5.06
Shares under option	374,704	290,752	373,636	389,923
Vesting period	3 yrs	5 yrs	3 yrs	5 yrs
Expected volatility	50%	50%	33%	33%
Option life	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs
Risk free rate	3.75%	3.75%	4.75%	4.75%
Expected dividend yield	4.68%	4.68%	3.67%	3.67%
Fair value per option	£2.46	£2.60	£3.50	£3.50

The movements on these options over the year are as follows

	2006 Number	2006 Weighted average exercise price	2005 Number	2005 Weighted average exercise price
At 1 January	1,127,074	£3.04	1,335,858	£3.01
Lapsed	(121,487)	£3.16	(196,555)	£2.86
Exercised	(63,831)	£2.81	(12,230)	£2.61
At 31 December	941,756	£3.04	1,127,074	£3.04
Exercisable at 31 December	236,864	£2.46	-	-

The share based payment charge for Savings Related Share Options in 2006 was £653,000 (2005: £831,000)

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 5. Employees and directors *continued*

#### Share based payments *continued*

Details of Executive Share Options granted since 7 November 2002

Grant date	14 Apr 2003	13 Apr 2004
Share price at grant date	£3 64	£6 16
Exercise price	£3 64	£6 16
Shares under option	542,400	379,000
Vesting period	3 yrs	3 yrs
Expected volatility	50%	33%
Option life	10 yrs	10 yrs
Risk free rate	3 75%	4 00%
Expected dividend yield	8 57%	5 06%
Fair value per option	£0 81	£1 12

The movements on these options over the year are as follows

	2006 Number	2006 Weighted average exercise price	2005 Number	2005 Weighted average exercise price
At 1 January	5,112	£0.84	760,642	£0 96
Cash cancelled	-	-	(751,856)	£0 96
Exercised	(1,975)	£0.81	(3,674)	£0 89
At 31 December	3,137	£0 85	5,112	£0 84
Exercisable at 31 December	2,713	£0.81	-	-

The share based payment charge for Executive Share Options in 2006 was £1,000 (2005 £274,000 credit)

Senior executives of the company participate in a loyalty scheme whereby they are made an allocation of stocks in the ultimate parent company, CEMEX S A B de C V. These allocations are released to the employees in 4 equal tranches on the first 4 anniversaries of the allocations being granted. These have been accounted for as equity settled share based payments under FRS 20.

	2006 Number	2006 £000	2005 Number	2005 £000
Total stocks awarded in year for releasing to employees over the following 4 years	461,973	1,410	125,192	763

The share based payment charge for this scheme in 2006 was £883,000 (2005 £375,000)

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 6. Other operating income

	2006 £000	2005 £000
Net rent from land and property management	1,561	3,337
Other	1,155	-
	<u>2,716</u>	<u>3,337</u>

### 7. Disposal of operations

The company's Lytag and Masonry businesses were disposed of in 2006 for a net loss of £37,000 and the businesses of Biscem and DME Tyres were disposed of in 2005 for a profit of £2,005,000

The results of these businesses were not material to the company overall and no reclassification to discontinued activities has been made

### 8. Interest receivable and similar income

	2006 £000	2005 £000
Other interest receivable	11	979
Gains on foreign currency conversion	3,550	14
Interest receivable from group undertakings	1	-
Other finance income (see note 22)	6,500	1,900
	<u>10,062</u>	<u>2,893</u>

### 9. Interest payable and similar charges

	2006 £000	2005 £000
Bank overdrafts and bank loans	1,004	98
Loans from parent company	19,098	16,164
Finance leases	2,154	2,267
Unwinding of discounts	4,610	4,440
Preference shares	11	11
	<u>26,877</u>	<u>22,980</u>

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 10. Taxation

	2006 £000	Restated 2005 £000
<b>Analysis of tax charge on ordinary activities</b>		
Current tax		
United Kingdom Corporation tax at the rate of 30% (2005 30%) on the loss on ordinary activities for the year	-	-
Prior year adjustments	(4,073)	4,174
	<u>(4,073)</u>	<u>4,174</u>
Deferred tax		
Deferred tax on timing differences for the current year	(7,070)	1,289
Prior year adjustments	(18,837)	8,454
Deferred tax on defined benefit pension schemes	3,150	1,950
	<u>(22,757)</u>	<u>11,693</u>
<b>Tax (credit)/charge on loss on ordinary activities</b>	<u><b>(26,830)</b></u>	<u><b>15,867</b></u>
 <b>Reconciliation of current tax charge</b>		
The current tax (credit)/charge for the year is greater (2005 greater) than the rate of 30% (2005 30%) The reasons for the difference are explained below		
Loss on ordinary activities before tax	(45,102)	(39,783)
Loss on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2005 30%)	(13,531)	(11,935)
Adjustments for the effects of		
Disallowable expenditure	1,653	4,371
Non-taxable income	-	(329)
Amortisation of goodwill	1,357	110
Difference between book profits on fixed assets sold and chargeable gains	2,547	671
Other timing differences	3,286	2,360
Difference between capital allowances and depreciation for the year	4,287	(7,906)
Movements on provisions	(503)	4,257
Movement on defined benefit pension schemes	-	(1,950)
Depreciation of assets not qualifying for capital allowances	(3,150)	1,624
Prior year adjustments	(4,073)	4,174
Group relief given for no payment	4,054	8,727
<b>Current tax (credit)/charge for the year</b>	<u><b>(4,073)</b></u>	<u><b>4,174</b></u>

A number of changes to the UK corporation tax system have been substantively enacted since the balance sheet date. The changes relate to the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008 and to the abolition of balancing adjustments for industrial buildings allowances. If these changes had been substantively enacted before the balance sheet day they would have reduced the deferred tax liability recognised in the company. Given uncertainties around which period the timing differences which make up the deferred tax balance will reverse, it is not possible to calculate the full financial impact of these changes. The current tax rate applicable to the company from 1 April 2008 will be 28%.

## CEMEX UK OPERATIONS LIMITED

### Notes to the accounts *continued*

#### 11. Intangible assets

Goodwill  
£000

##### Cost

At 1 January 2006 and at 31 December 2006

7,139

##### Amortisation

At 1 January 2006

2,355

Charge for the year

365

Impairment

4,158

At 31 December 2006

6,878

##### Net book value

At 31 December 2006

261

At 31 December 2005

4,784

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 12. Tangible assets

	Land & buildings			Plant machinery & equipment	Motor vehicles	Total
	Freehold	Long leasehold	Short leasehold			
	£000	£000	£000	£000	£000	£000
<b>Cost</b>						
At 1 January 2006	229,853	44,289	45,736	813,745	88,668	1,222,291
Reclassifications	408	1,179	-	(1,587)	-	-
Transfers from other group undertakings	-	-	-	44	-	44
Additions	7,365	21	10	48,692	6,489	62,577
Disposals	(10,945)	(3,398)	(5,050)	(26,526)	(2,180)	(48,099)
Transfers to other group undertakings	-	-	-	(297)	-	(297)
At 31 December 2006	226,681	42,091	40,696	834,071	92,977	1,236,516
<b>Depreciation and depletion</b>						
At 1 January 2006	68,324	10,666	23,711	394,828	45,811	543,340
Reclassifications	-	1,160	-	(1,160)	-	-
Transfers from other group undertakings	-	-	-	5	-	5
Charge for the year	20,305	1,523	1,657	14,796	9,859	48,140
Impairment	-	-	-	11,266	-	11,266
Disposals	(6,610)	(317)	(3,975)	(25,916)	(1,830)	(38,648)
Transfers to other group undertakings	-	-	-	(30)	-	(30)
At 31 December 2006	82,019	13,032	21,393	393,789	53,840	564,073
<b>Net book value</b>						
At 31 December 2006	144,662	29,059	19,303	440,282	39,137	672,443
At 31 December 2005	161,529	33,623	22,025	418,917	42,857	678,951

Buildings situated on land owned by other group undertakings have been classified according to the tenure from the group point of view. Tangible fixed assets have been transferred during the year to and from fellow group undertakings at the original cost or valuation to the group together with the accumulated depreciation to the date of transfer. Plant, machinery and equipment includes fixtures, fittings and tools.

A reclassification of depreciation has been made between freehold land and plant and machinery to correct for brought forward depreciation misclassification.

<b>Capital commitments</b>	<b>2006</b>	<b>2005</b>
	£000	£000
Contracts placed for future capital expenditure not provided for in the financial statements	758	3,818



# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 12. Tangible fixed assets *continued*

#### Assets held under finance leases

	2006 £000	2005 £000
Assets held under finance leases, capitalised and included in freehold land and buildings, plant, machinery and equipment		
Cost	83,736	84,830
Cumulative depreciation	(47,895)	(37,902)
Net book value	<u>35,841</u>	<u>46,928</u>

Depreciation of £9,431,000 (2005 £10,684,000) was charged in the year on assets held under finance leases

### 13. Investments in group undertakings

	£000
<b>Cost</b>	
At 1 January 2006 and 31 December 2006	<u>134,063</u>
<b>Provisions</b>	
At 1 January 2006 and 31 December 2006	<u>53,263</u>
<b>Net book value</b>	
At 1 January 2006 and 31 December 2006	<u>80,800</u>

Names of group undertakings	Country of incorporation & operation	Business activity	Percentage of equity held	
			2006 %	2005 %
C C P Limited	Great Britain	Concrete Products	100	100
RMC Dormant No 2 Limited	Great Britain	Non-trading	100	100
Reservoir Aggregates Limited	Great Britain	Aggregates	49	49
CEMEX Seament Limited	Great Britain	Cement agent	100	100
Seament Limited	Great Britain	Cement	100	100
RMC Russell Limited	Great Britain	Non-trading	100	100
Processing Ash LLP	Great Britain	Ash	65	75

All investments are in the respective companies' ordinary share capital

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 14. Investments in participating interests

Cost	Shares £000	Loans £000	Total £000
At 1 January 2006	1,451	411	1,862
Disposals	(1,335)	-	(1,335)
At 31 December 2006	116	411	527
<b>Provisions</b>			
At 1 January 2006	935	-	935
Disposals	(935)	-	(935)
At 31 December 2006	-	-	-
<b>Net book value</b>			
At 31 December 2006	116	411	527
At 31 December 2005	516	411	927

Names of participating interests	Called up ordinary share capital	Percentage of equity held	
		2006 %	2005 %
Atlantic Aggregates Limited	£1,000	-	49
Blackwater Aggregates Limited	£2	50	50
Brett Hall Aggregates Limited	£1,000	50	50
Buxton Rail Limited	£100	50	50
Eton Aggregates Limited	£384	25	25
Havering Aggregates Limited	£100	50	50
Humber Sand & Gravel Limited	£100	50	50
Island Barn Aggregates Limited	£200,000	50	50
Isle of Wight Aggregates Limited	£2	50	50
Purfleet Aggregates Limited	£100	50	50
West London Aggregates Limited	£100	50	50

The investment in Atlantic Aggregates Limited was disposed of during 2006

All of the above undertakings are registered in England and Wales and are involved in the production and sale of aggregates

### 15. Stocks

	2006 £000	2005 £000
Raw materials and consumables	22,399	27,043
Work in progress	2,519	6,606
Finished goods and goods for resale	37,759	33,194
	<b>62,677</b>	<b>66,843</b>

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 16. Debtors

	2006 £000	2005 £000
<b>Amounts falling due within one year</b>		
Trade debtors	137,639	139,307
Amounts owed by group undertakings	33,997	6,368
Amounts owed by participating interests	3,776	352
Finance lease receivables	-	3,234
Capital debtors	10,244	7,668
Other debtors	7,704	10,402
Prepayments and accrued income	26,312	22,119
	<b>219,672</b>	<b>189,450</b>
<b>Amounts falling due after more than one year</b>		
Trade debtors	1,270	472
Finance lease receivables	-	3,858
Other debtors	-	669
Capital debtors	7,349	15,768
Prepayments and accrued income	699	-
	<b>9,318</b>	<b>20,767</b>
	<b>228,990</b>	<b>210,217</b>

Amounts owed by group undertakings are unsecured and free of interest

The cost of assets acquired in the year for onwards finance leasing was £nil (2005 £1,780,000)

### 17. Creditors – amounts falling due within one year

	2006 £000	2005 £000
Overdrafts	14,710	31,902
Trade creditors	3,000	100
Amounts owed to group undertakings	208,007	200,474
Amounts owed to participating interests	611	-
Obligations under finance leases	8,779	10,005
Other creditors	19	3,021
Corporation tax	-	4,174
Accruals and deferred income	310	1,534
	<b>235,436</b>	<b>251,210</b>

The overdrafts are guaranteed by certain other group companies as part of a joint and several guarantee

Third party liabilities incurred by the company's agents are accounted for by the agents and reimbursed by the company through amounts owed to group undertakings

Amounts owed by group undertakings are free of interest

## CEMEX UK OPERATIONS LIMITED

### Notes to the accounts *continued*

#### 18. Creditors – amounts falling due after more than one year

	2006 £000	2005 £000
Amounts owed to parent company		
Loan	75,575	69,658
Loan Note	162,892	151,496
	<b>238,467</b>	<b>221,154</b>
Finance leases	19,149	29,531
Preference shares	215	212
Accruals and deferred income	3,869	4,428
	<b>261,700</b>	<b>255,325</b>

The loan from the parent company is unsecured and has no fixed date of repayment. Interest is payable at 1% above base rate.

At the option of the company, the Loan Note may be repaid between 2006 and 2011 or may be converted into Preference shares. Interest is payable on the principal amount at the Retail Price Index + 2.94%.

#### Finance leases

	2006 £000	2005 £000
The minimum lease payments under finance leases fall due as follows		
Within 1 year	9,255	11,727
Within 2-5 years	21,811	29,908
After 5 years	193	2,717
	<b>31,259</b>	<b>44,352</b>
Less future finance charges	<b>(3,331)</b>	<b>(4,816)</b>
	<b>27,928</b>	<b>39,536</b>

Obligations under finance leases are secured on the assets to which they relate.

#### 19. Financial instruments

The company uses financial instruments, comprising borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's business.

The company has not entered into any derivative transactions.

The main risks arising from the group's financial instruments are credit risk on trade debts, interest rate risk on its borrowings and exchange gains or losses on monetary assets and liabilities in foreign currencies.

There is no material difference between the book values and fair values of the financial assets and financial liabilities.

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 19. Financial instruments *continued*

The maturity profile of the company's financial liabilities

	Overdrafts £000	Finance leases £000	Other £000	Total 2006 £000
Less than 1 year	14,710	8,779	-	23,489
In more than 1 year but not more than 2 years	-	7,786	-	7,786
In more than 2 years but not more than 5 years	-	11,238	238,467	249,705
In more than 5 years	-	125	215	340
	<u>14,710</u>	<u>27,928</u>	<u>238,682</u>	<u>281,320</u>
	Overdrafts £000	Finance leases £000	Other £000	Total 2005 £000
Less than 1 year	31,902	10,005	-	41,907
In more than 1 year but not more than 2 years	-	8,230	-	8,230
In more than 2 years but not more than 5 years	-	18,664	-	18,664
In more than 5 years	-	2,637	221,366	224,003
	<u>31,902</u>	<u>39,536</u>	<u>221,366</u>	<u>292,804</u>

All the above are floating rate financial liabilities

### 20. Deferred tax

	2006 £000	2005 £000
Deferred tax has been calculated at the rate of 30% (2005 30%) on the following timing differences		
Accelerated capital allowances and expense provisions	35,512	58,847
Chargeable gains held over	47,738	50,310
	<u>83,250</u>	<u>109,157</u>

#### Movement in the year

	£000
At 1 January 2006	109,157
Released in the year	(25,907)
At 31 December 2006	<u>83,250</u>

No provision has been made for deferred tax on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. The total amount unprovided is £34,185,000 (2005 £34,185,000). At present it is not envisaged that any tax will become payable in the foreseeable future.

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

21. Other provisions	Land reinstatement	Landfill monitoring	Claims and guarantees	Onerous contracts	Re- structuring	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2006	11,065	114,730	10,000	3,278	10,939	150,012
Transfers	(1,444)	1,444	-	-	-	-
Provided/(released) in the year	95	1,688	-	3,829	-	5,612
Unwinding of discount	-	4,610	-	-	-	4,610
Utilised in the year	(2)	(15)	-	(944)	(10,939)	(11,900)
At 31 December 2006	<u>9,714</u>	<u>122,457</u>	<u>10,000</u>	<u>6,163</u>	<u>-</u>	<u>148,334</u>

The land reinstatement and monitoring provisions are estimated and reviewed annually. The timing of utilisation will differ for each site between 1 and 60 years.

A provision for claims and guarantees has been created to cover legal claims made against the company in the course of its business and for guarantees that the company has contractually provided to third parties. Utilisation is expected within the next 2 years.

Onerous contracts include obligations under leases. These provisions will be utilised over the next 8 years.

## 22. Pensions

The company is the main participant in defined benefit pension schemes operated by CEMEX Investments Limited for the employees of its UK subsidiaries, which are now closed to new members.

A full actuarial valuation was carried out by a qualified actuary as at 31 December 2006. The major assumptions used for the actuarial valuation were:

	2006	2005	2004	2003
Price inflation	2.9%	2.6%	2.6%	2.5%
Rate of increase in salaries	3.9%	3.6%	3.6%	3.5%
Rate of increase in pensions in payment	2.9%	2.6%	2.6%	2.5%
Rate of increase for deferred pensioners	2.9%	2.6%	2.6%	2.5%
Discount rate	5.2%	4.9%	5.4%	5.5%

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 22. Pensions *continued*

The fair value of the assets and the expected rate of return at each balance sheet date were

	Rate of return 2006 %	Fair value 2006 £000	Rate of return 2005 %	Fair value 2005 £000	Rate of return 2004 %	Fair value 2004 £000	Rate of return 2003 %	Fair value 2003 £000
Equities								
Domestic	7.6	162,000	7.5	167,000	7.5	154,000	7.5	162,000
Overseas	7.9	243,000	7.8	232,000	7.8	190,000	7.8	162,000
Bonds								
Fixed interest	4.5	120,000	4.5	113,000	4.8	163,000	5.0	141,000
Index linked	4.0	120,000	4.0	118,000	4.3	32,000	4.8	34,000
Property	6.3	90,000	6.5	64,000	6.6	42,000	-	-
Other (insured annuities)	3.9	34,000	3.6	6,000	3.6	15,000	7.0	37,000
		<u>769,000</u>		<u>700,000</u>		<u>596,000</u>		<u>534,000</u>

#### Reconciliation to balance sheet

	2006 £000	2005 £000
Fair value of fund assets	769,100	699,800
Actuarial value of fund liabilities	(882,100)	(778,700)
Gross deficit in the fund	(113,000)	(78,900)
Deferred tax asset	33,900	23,670
Net liability	<u>(79,100)</u>	<u>(55,230)</u>

#### Movements in the deficit

	2006 £000	2005 £000
At 1 January	(78,900)	(86,700)
Contributions paid	24,000	26,400
Current service cost	(20,000)	(18,000)
Curtailment cost	-	(3,800)
Other finance income	6,500	1,900
Actuarial gain/(loss)	(44,600)	1,300
At 31 December	<u>(113,000)</u>	<u>(78,900)</u>

#### Analysis of the amount charged to operating profit

	2006 £000	2005 £000
Current service cost	20,000	18,000
Curtailment cost	-	3,800
	<u>20,000</u>	<u>21,800</u>

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 22. Pensions *continued*

#### Analysis of the amount credited to other finance income

	2006 £000	2005 £000
Expected return on pension scheme assets	(44,800)	(38,800)
Interest on pension scheme liabilities	38,300	36,900
	<u>(6,500)</u>	<u>(1,900)</u>

#### Analysis of the amounts recognised in the statement of total recognised gains and losses

	2006 £000	2005 £000
Actuarial return less expected return on pension scheme assets	31,400	66,400
Experience gains and losses arising on the scheme liabilities	-	-
Changes in assumptions underlying the present value of the scheme liabilities	(76,000)	(65,100)
	<u>(44,600)</u>	<u>1,300</u>

#### History of experience gains and losses

	2006 £000	2005 £000	2004 £000
Difference between the expected and actual return on scheme assets			
Amount	31,400	66,400	23,900
Percentage of scheme assets	4.1%	9.5%	4.0%
Experience losses on scheme liabilities			
Amount	-	-	(6,200)
Percentage of the present value of scheme liabilities	-	-	0.9%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses			
Amount	(44,600)	1,300	(3,500)
Percentage of the present value of scheme liabilities	5.1%	0.2%	0.5%

#### Defined contribution scheme

The defined benefit pension schemes shown above are no longer admitting new members. New members may join a defined contribution scheme. The contributions payable by the company to that scheme amounted to £1,209,000 (2005 £843,000).



# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 23. Called up share capital

	2006 £000	2005 £000
<b>Authorised share capital</b>		
345,100,000 £1 Ordinary shares, 127,700,000 £1 Preference shares and 527,200,000 unclassified £1 shares	1,000,000	1,000,000
<b>Share capital allotted, called up and fully paid</b>		
345,100,000 £1 Ordinary shares	345,100	345,100
200,000 £1 Preference shares	200	200
Shares classified as shareholders' funds	345,100	345,100
Shares classified as liabilities	200	200

The Preference shares are redeemable in 2016 at £1 28 each, uplifted by the increase in RPI since 2001, and carry a variable cumulative preference dividend of 2.65% above the prospective real redemption rate of 2016 UK gilts. The preference shareholders are entitled to return of capital in priority to other shareholders in the event of a winding-up, and may only vote at a general meeting of the company on resolutions affecting the rights of preference shareholders.

The classification of the unclassified shares is determined at the point of allotment.

### 24. Reserves

	Profit and loss account £000
At 1 January 2006	(54,225)
Retained loss for the financial year	(18,272)
Actuarial loss on pension scheme	(44,600)
Deferred tax on actuarial loss	13,380
Share based payments	994
At 31 December 2006	(102,723)

Goodwill eliminated directly against reserves relating to acquisitions made prior to 1998 amounts to £7,111,000 (2005 £7,111,000)

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 25. Obligations and commitments under leases

	2006		2005	
	Land & buildings	Other	Land & buildings	Other
	£000	£000	£000	£000
At 31 December the company had annual commitments under non-cancellable operating leases expiring				
Within 1 year	-	580	-	1,197
Within 2-5 years	356	1,402	96	2,051
After 5 years	404	-	812	72
	<u>760</u>	<u>1,982</u>	<u>908</u>	<u>3,320</u>

### 26. Contingent liabilities

The company has entered into a joint and several guarantee with certain group companies, guaranteeing a group bank overdraft facility of £100,000,000 for the CEMEX Investments Limited group

The company is registered with H M Revenue & Customs as a member of the CEMEX Investments Limited group for value added tax purposes and is therefore jointly and severally liable on a continuing basis for amounts owing by other members of the group in respect of their value added tax liabilities

There are claims outstanding at 31 December 2006 amounting to £1,616,000 (2005 £1,669,000) in connection with the supply of goods for which no provision has been made in the accounts, as in the opinion of the directors, no loss will arise

### 27. Cash flow statement

As the company was a wholly owned subsidiary undertaking of CEMEX España, S A , for which consolidated financial statements are produced including this company, it is exempted by FRS 1 (revised 1996) from preparing a cash flow statement. The consolidated accounts of CEMEX España, S A are available from Hernandez de Tejada1, Madrid 28027, Spain

### 28. Related parties

As the company was a wholly owned subsidiary undertaking of CEMEX España, S A , for which consolidated financial statements are produced including this company, it is exempted by FRS 8 from disclosing transactions with entities that are part of that Group or investees of that Group qualifying as related parties

Transactions with others whom the company considers to be related parties are summarised as follows

#### Transactions with pension funds

The company makes pension contributions to the pension funds of the CEMEX pension funds managed by fellow subsidiary undertakings acting as trustees for those funds. The company is not directly concerned in the administration of the funds

The details of the fund and the latest actuarial valuation are set out in note 22

# CEMEX UK OPERATIONS LIMITED

## Notes to the accounts *continued*

### 28. Related parties *continued*

#### Transactions with participating interests

The company trades with its participating interests (see note 14) in the normal course of business. The aggregate of these transactions is shown below

	2006	2005
	£000	£000
Sales to participating interests	1,778	2,618
Purchases from participating interests	5,270	7,590
Management charges to participating interests	123	123
Loans advanced to participating interests	411	411
Amounts owed by participating interests	3,776	352
Amounts owed to participating interests	611	-

### 29. Ultimate parent company and parent undertaking of larger group of which the company is a member

The company's immediate parent undertaking and controlling party is CEMEX Investments Limited, which is incorporated in Great Britain.

The largest group in which the results of the company are consolidated is that headed by CEMEX, S A B de C V, the ultimate parent company and controlling party, which is incorporated in Mexico. Its address is Av Ricardo Margain Zozaya 325, CP 66265, San Pedro Garza Garcia, N L Mexico.

The smallest group in which the results of the company are consolidated is that headed by CEMEX España, S A, incorporated in Spain. Its address is Hernandez de Tejada 1, Madrid 28027, Spain.

The consolidated financial statements of these groups are available to the public and may be obtained from the above addresses.

### 30. Agent companies

The following companies act as agents of this company

Name	Activity
CEMEX UK Materials Limited	Aggregates, building products, ready mixed concrete, mortar and screed
CEMEX UK Logistics Limited	Logistics
CEMEX Logistics Eastern Limited	Logistics
CEMEX Logistics North East Limited	Logistics
CEMEX Logistics North West Limited	Logistics
CEMEX Logistics Scotland Limited	Logistics
CEMEX Logistics South East Limited	Logistics
CEMEX Logistics Western Limited	Logistics
CEMEX UK Marine Limited	Aggregates
CEMEX UK Construction Services Limited	Contracting
C C P Limited	Building products
CEMEX UK Trading Limited	Cement
CEMEX UK Cement Limited	Cement
CEMEX Seament Limited	Cement
RMC Environmental Services Limited	Waste control
RMC (HW) No 1 Limited	Waste control
Rombus Leasing Limited	Leasing

The company indemnifies its agent companies against all losses and liabilities they may incur in pursuing their activities as agents.