CEMEX SA DE CV
Form 20-F
May 27, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

(Mark One)

|_| REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to ________________

Commission file number 1-14946 ______________________________________

CEMEX, S.A. de C.V.

(Exact name of the registrant as specified in its charter)

CEMEX MEXICO, S.A. de C.V.
EMPRESAS TOLTECA DE MEXICO, S.A. de C.V.

(Exact names of co-registrants and guarantors as specified in their respective charters)

CEMEX CORPORATION

(Translation of registrant's name into English)

CEMEX MEXICO CORPORATION
EMPRESAS TOLTECA DE MEXICO CORPORATION

(Translation of co-registrants' and guarantors' names into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Av. Ricardo Margain Zozaya #325, Colonia Valle del Campestre,
Garza Garcia, Nuevo Leon, Mexico 66265

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchang
American Depositary Shares ("ADSs"), each ADS representing five Ordinary Participation Certificates (Certificados de	

Participacion Ordinarios) ("CPOs"), each CPO representing two Series A shares and one Series B share(1) New York

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not applicable

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
9.625% Notes due 2009 guaranteed by CEMEX Mexico, S.A. de C.V. and Empresas Tolteca de Mexico, S.A. de C.V.

(Title of Class)

Guarantees of the 9.625% Notes due 2009 by CEMEX Mexico, S.A. de C.V. and Empresas Tolteca de Mexico, S.A. de C.V.

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,789,730,511 CPOs (1)
3,703,634,244 Series A shares (including Series A shares underlying CPOs) (1)
1,851,817,122 Series B shares (including Series B shares underlying CPOs) (1)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18 |X|

(1) This information does not give effect to the stock split approved by shareholders on April 28, 2005, which is expected to be effected in July 2005. For further description of the stock split, see "Presentation of Financial Information."

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INTRODUCTION

CEMEX, S.A. de C.V. is incorporated as a stock corporation with variable capital organized under the laws of the United Mexican States. Except as the context otherwise may require, references in this annual report to "CEMEX," "we," "us" or "our" refer to CEMEX, S.A. de C.V., its consolidated subsidiaries and, except for accounting purposes, its non-consolidated affiliates. For accounting purposes, references in this annual report to "CEMEX," "we," "us" or "our" refer solely to CEMEX, S.A. de C.V. and its consolidated subsidiaries. See note 1 to our consolidated financial statements included elsewhere in this annual report.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements included elsewhere in this annual report have been prepared in accordance with Generally Accepted Accounting Principles in Mexico ("Mexican GAAP"), which differ in significant respects from U.S. GAAP. We are required, pursuant to Mexican GAAP, to present our financial statements in constant Pesos representing the same purchasing power for each period presented. Accordingly, unless otherwise indicated, all financial data presented in this annual report are stated in constant Pesos as of December 31, 2004. See note 24 to our consolidated financial statements included elsewhere in this annual report for a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us. Non-Peso amounts included in those statements are first translated into Dollar amounts, in each case at a commercially available or an official government exchange rate for the relevant period or date, as applicable. Those Dollar amounts are then translated into Peso amounts at the CEMEX accounting rate, described under Item 3 -- "Key Information -- Mexican Peso Exchange Rates" as of the relevant period or date, as applicable.

On April 28, 2005, our shareholders approved a new stock split, which we expect to occur in July 2005. In connection with the stock split, each of our existing series A shares will be surrendered in exchange for two new series A shares, and each of our existing series B shares will be surrendered in exchange for two new series B shares. Concurrent with this stock split, we authorized the amendment of the CPO trust agreement pursuant to which our CPOs are issued to provide for the substitution of two new CPOs for each of our existing CPOs, with each new CPO representing two new series A shares and one new series B share. The number of our existing ADSs will not change as a result of the stock split; instead the ratio of CPOs to ADSs will be modified so that each existing ADS will represent ten new CPOs following the stock split and the CPO trust amendment. The proportional equity interest participation of existing shareholders will not change as a result of the stock split. The financial data set forth in this annual report have not been adjusted to give retroactive effect to the stock split.

References in this annual report to "U.S.$" and "Dollars" are to U.S. Dollars, references to "(euro)" are to Euros, references to "(pound)"and "Pounds" are to British Pounds, references to "(Y)" and "Yen" are to Japanese Yen and, unless otherwise indicated, references to "Ps," "Mexican Pesos" and "Pesos" are to constant Mexican Pesos as of December 31, 2004. The Dollar amounts provided in this annual report and the financial statements included elsewhere in this annual report, unless otherwise indicated, are translations of constant Peso amounts, at an exchange rate of Ps11.14 to U.S.$1.00, the CEMEX accounting rate as of December 31, 2004. However, in the case of transactions conducted in Dollars, we have presented the Dollar amount of the transaction and the corresponding Peso amount that is presented in our consolidated financial statements. These translations have been prepared solely for the convenience of the reader and should not be construed as representations that the Peso amounts actually represent those Dollar amounts or could be converted into Dollars at the rate indicated. See Item 3 -- "Key Information -- Selected Consolidated Financial Information."

The noon buying rate for Pesos on December 31, 2004 was Ps 11.15 to U.S.$1.00 and on April 29, 2005 was Ps11.08 to U.S.$1.00.

CO-REGISTRANTS

Our co-registrants are wholly-owned subsidiaries that have provided a corporate guarantee guaranteeing payment of our 9.625% Notes due 2009. These subsidiaries, which we refer to as our guarantors, are CEMEX Mexico, S.A. de C.V., or CEMEX Mexico, and Empresas Tolteca de Mexico, S.A. de C.V., or Empresas Tolteca de Mexico. The guarantors, together with their subsidiaries, account for substantially all of our revenues and operating income. See Item 4 -- "Information on the Company -- North America -- Our Mexican Operations." Pursuant to Rule 12h-5 under the

Securities Exchange Act of 1934 (the "Exchange Act"), no separate financial statements or other disclosures concerning the guarantors other than the narrative disclosures and financial information set forth in note 24(x) to our consolidated financial statements have been presented in this annual report.

PART I

Item 1 - Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2 - Offer Statistics and Expected Timetable

Not applicable.

Item 3 - Key Information

Risk Factors

Many factors could have an effect on our financial condition, cash flows and results of operations. We are subject to various risks resulting from changing economic, environmental, political, industry, business, financial and climate conditions. The principal factors are described below.

We may not be able to realize the expected benefits from our acquisition of RMC or the expected benefits from future acquisitions.

A key element of our growth strategy is to integrate our recently acquired operations with existing operations. Our ability to realize the expected benefits from these acquisitions depends, in large part, on our ability to integrate the new operations with existing operations in a timely and effective manner. These efforts may not be successful. Furthermore, our growth strategy depends on our ability to identify and acquire suitable assets at desirable prices. We cannot assure you that we will be successful in identifying or purchasing suitable assets in the future. If we fail to make further acquisitions, we may not be able to continue to grow in the long term at our historic rate.

On March 1, 2005, we completed our acquisition of RMC Group p.l.c., or RMC, a leading international producer and supplier of cement, ready-mix concrete and aggregates, for a total purchase price of approximately U.S.$5.8 billion, which included approximately U.S.$1.7 billion of assumed debt. RMC, which is headquartered in the United Kingdom, has significant operations in the United Kingdom, Germany, France and the United States, as well as operations in other European countries and globally. At that time, we estimated that we would achieve approximately U.S.$200 million of annual savings by 2007 through cost-saving synergies. See Item 4 "Information on the Company -- Description of RMC Operations." Our success in realizing these cost savings and deriving significant benefits from this acquisition will depend on our ability to standardize management processes, capitalize on trading network benefits, consolidate logistics and improve global procurement and energy efficiency.

In addition, although we have realized our expected benefits from acquisitions in the past, the acquired companies were primarily engaged in cement operations, which have traditionally been the focus of our business. Also, the companies we have acquired in the past have had significant operations in only one country. The integration of RMC's worldwide operations, which consist primarily of ready-mix concrete and aggregates operations, presents new challenges as it requires us to simultaneously integrate operations in many different countries and focus on ready-mix concrete and aggregates operations on a global scale, in addition to our traditional focus on cement operations. See Item 4 "Information on the Company -- Our Business Strategy."

Our ability to pay dividends and repay debt depends on our subsidiaries' ability to transfer income and dividends to us.

We are a holding company with no significant assets other than the stock of our wholly-owned and non-wholly-owned subsidiaries and our holdings of cash and marketable securities. Our ability to pay dividends and repay debt depends on the continued transfer to us of dividends and other income from our wholly-owned and non-wholly-owned subsidiaries. The ability of our subsidiaries to pay dividends and make other transfers to us is limited by various regulatory, contractual and legal constraints that affect our subsidiaries.

We have incurred and will continue to incur debt, which could have an adverse effect on the price of our CPOs and ADSs, result in us incurring increased interest costs and limit our ability to distribute dividends, finance acquisitions and expansions and maintain flexibility in managing our business activities.

We have incurred and will continue to incur significant amounts of debt, which could have an adverse effect on the price of our Ordinary Participation Certificates, or CPOs, and American Depositary Shares, or ADSs. Our indebtedness may have important consequences, including increased interest costs if we are unable to refinance existing indebtedness on satisfactory terms. In addition, the debt instruments governing a substantial portion of our indebtedness contain various covenants that require us to maintain financial ratios, restrict asset sales and restrict our ability to use the proceeds from a sale of assets. Consequently, our ability to distribute dividends, finance acquisitions and expansions and maintain flexibility in managing our business activities could be limited. As of December 31, 2004, we had outstanding debt equal to Ps66.1 billion (U.S.$5.9 billion), not including obligations under equity derivative transactions in our own stock. The aggregate amount of debt we incurred in connection with the RMC acquisition was approximately U.S.$5.8 billion, including our assumption of debt of approximately US$1.7 billion.

Approximately U.S.$819 million of the U.S.$5.8 billion of debt incurred in connection with the RMC acquisition was included in our outstanding debt as of December 31, 2004.

We have to service our Dollar and Yen denominated debt with revenues generated in Pesos or other currencies, as we do not generate sufficient revenue in Dollars and Yen from our operations to service all our Dollar and Yen denominated debt. This could adversely affect our ability to service our debt in the event of a devaluation or depreciation in the value of the Peso, or any of the other currencies of the countries in which we operate.

A substantial portion of our outstanding debt is denominated in Dollars and Yen; as of March 31, 2005, the portions were 58% and 7%, respectively. This debt, however, must be serviced by funds generated from sales by our subsidiaries. As of the date of this annual report, we do not generate sufficient revenue in Dollars and Yen from our operations to service all our Dollar and Yen denominated debt. Consequently, we have to use revenues generated in Pesos or other currencies to service our Dollar and Yen denominated debt. See Item 5 -- "Operating and Financial Review and Prospects -- Qualitative and Quantitative Market Disclosure -- Interest Rate Risk, Foreign Currency Risk and Equity Risk -- Foreign Currency Risk." A devaluation or depreciation in the value of the Peso, or any of the other currencies of the countries in which we operate, compared to the Dollar or the Yen could adversely affect our ability to service our debt. During 2004, Mexico and Spain, our main non-U.S. Dollar denominated operations, generated approximately half of our sales (approximately 33% and 16%, respectively), before eliminations resulting from consolidation. In 2004, approximately 22% of our sales were generated in the United States, with the remaining 29% of our sales being generated in several countries, with a number of currencies having material depreciations against the Dollar and the Yen. During 2004, the Peso appreciated 0.9% against the Dollar and depreciated 3.9% against the Yen, while the Euro appreciated 7.1% against the Dollar and appreciated 2.6% against the Yen.

In connection with our acquisition of RMC, we incurred a substantial amount of debt denominated in Pounds. As of March 31, 2005, approximately U.S.$1.3 billion, or 12%, of our outstanding indebtedness was Pound denominated. However, we believe that our generation of revenues in Pounds will be sufficient to service these obligations.

Our derivative instruments may have adverse effects on the market for our securities.

We have equity forward contracts in our own stock, which we entered into as a means of meeting our obligations that may require us to deliver significant numbers of shares of our stock under our employee stock option programs. The estimated fair value of these equity forward contracts is linked to the market price of our CPOs or ADSs. As of December 31, 2004, the notional amount of our outstanding obligations under our equity forward contracts was approximately U.S.$1.2 billion, with an estimated fair value gain of U.S.$66.2 million. Pursuant to the terms of our equity forward contracts, if the shares underlying our equity forward agreements suffer a substantial decrease in market value, we could be required to compensate for the decrease in market value. If we default on this obligation, the counterparties to our equity forward contracts have the option of either requiring us to repurchase the underlying shares or selling the underlying shares into the market, which may adversely affect the price of our CPOs and ADSs.

We are disputing some tax claims, an adverse resolution of which may result in a significant additional tax expense.

We have received notices from the Mexican tax authorities of tax claims in respect of the tax years from 1992 through 1996 for an aggregate amount of approximately Ps3.6 billion, including interest and penalties through December 31, 2004. An adverse resolution of these claims could materially reduce our net income. See Item 4 -- "Information on the Company -- Regulatory Matters and Legal Proceedings -- Tax Matters."

Our operations are subject to environmental laws and regulations.

Our operations are subject to laws and regulations relating to the protection of the environment in the various jurisdictions in which we operate, such as regulations regarding the release of cement into the air or emissions of greenhouse gases. Stricter laws and regulations, or stricter interpretation of existing laws or regulations, may impose new liabilities on us or result in the need for additional investments in pollution control equipment, either of which could result in a material decline in our profitability in the short term.

We are subject to restrictions due to minority interests in our consolidated subsidiaries.

We conduct our business through subsidiaries. In some cases, third-party shareholders hold minority interests in these subsidiaries. Various disadvantages may result from the participation of minority shareholders whose interests may not always coincide with ours. Some of these disadvantages may, among other things, result in our inability to implement organizational efficiencies and transfer cash and assets from one subsidiary to another in order to allocate assets most effectively.

We are an international company and are exposed to risks in the countries in which we have significant operations or interests.

We are dependent, in large part, on the economies of the countries in which we market our products. The economies of these countries are in different stages of socioeconomic development. Consequently, like many other companies with significant international operations, we are exposed to risks from changes in foreign currency exchange rates, interest rates, inflation, governmental spending, social instability and other political, economic or social developments that may materially reduce our net income.

In 2004, the largest percentage of our net sales (33%) and total assets (23%), at year-end, were in Mexico. If the Mexican economy experiences a recession or if Mexican inflation and interest rates increase significantly, our net income from our Mexican operations may decline materially because construction activity may decrease, which may lead to a decrease in sales of cement and ready-mix concrete. The Mexican government does not currently restrict the ability of Mexicans or others to convert Pesos to Dollars, or vice versa. The Mexican Central Bank has consistently made foreign currency available to Mexican private sector entities to meet their foreign currency obligations. Nevertheless, if shortages of foreign currency occur, the Mexican Central Bank may not continue its practice of making foreign currency available to private sector companies, and we may not be able to purchase the foreign currency we need to service our foreign currency obligations without substantial additional cost.

As of and for the year ended December 31, 2004, we had operations in the United States (22% of net sales and 16% of total assets), Spain (16% of net sales and 12% of total assets), Venezuela (4% of net sales and 3% of total assets), Central America and the Caribbean (8% of net sales and 5% of total assets), Colombia (3% of net sales and 3% of total assets), the Philippines (2% of net sales and 3% of total assets), other Asian countries, including Thailand (2% of total assets), and Egypt (2% of net sales and 2% of total assets). With the recent acquisition of RMC, our geographic diversity has significantly increased. In addition to Spain and the United States, RMC has operations in 20 countries including the United Kingdom, France, Germany, Croatia, Poland and Latvia. As in the case of Mexico, adverse economic conditions in any of these countries may produce a negative impact on our net income from our operations in that country.

In recent years, Venezuela has experienced considerable volatility and depreciation of its currency, high interest rates, political instability and declining asset values. Additionally, Venezuela has experienced increased inflation, decreased gross domestic product and labor unrest, including a general strike. In response to this situation, and in an effort to shore up the economy and control inflation, Venezuelan authorities have imposed foreign exchange and price

controls on specified products, including cement. Although the political uncertainty in Venezuela has diminished since the August 2004 referendum on President Chavez's presidency, following which President Chavez has consolidated his majority in Congress and his control over the Supreme Court, these foreign exchange and price controls remain in place. These developments have had and may continue to have an impact on cement prices and an adverse effect on the construction sector in Venezuela, reducing demand for cement and ready-mix concrete, which may continue to affect our sales and net income adversely.

We believe that Egypt also represents an important market for our future growth. Rising instability in the Middle East, however, has resulted from, among other things, civil unrest, extremism, the continued deterioration of Israeli-Palestinian relations and the recent war in Iraq. There can be no assurance that political turbulence in the Middle East will abate at any time in the near future or that neighboring countries, including Egypt, will not be drawn into the conflict. In Egypt, extremists have engaged in a sometimes violent campaign against the government in recent years. There can be no assurance that extremists will not escalate their opposition in Egypt or that the government will continue to be successful in maintaining the prevailing levels of domestic order and stability. Since 2000, the Egyptian government devalued the pound four times, and in January 2003, it decided to let the pound trade as a freely floating currency. During 2003, the Egyptian pound depreciated approximately 35% against the Dollar; while during 2004, the Egyptian pound appreciated against the Dollar by approximately 1%. The potential impact of the floating exchange rate system and of measures by the Egyptian government aimed at improving Egypt's investment climate continues to be uncertain. Weakened investor confidence as a result of currency instability as well as any of the other foregoing circumstances could have a material adverse effect on the political and economic stability of Egypt and consequently on our Egyptian operations.

The September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon temporarily disrupted the trading markets in the United States and caused declines in major stock markets around the world. Since those attacks, there have been terrorist attacks in Indonesia and Spain and ongoing threats of future terrorist attacks in the United States and abroad. In response to these terrorist attacks and threats, the United States has instituted several anti-terrorism measures, most notably, the formation of the Office of Homeland Security, a formal declaration of war against terrorism and the ongoing armed conflicts in Iraq and Afghanistan. Although it is not possible at this time to determine the long-term effect of these terrorist threats and attacks and the consequent response by the United States, including the conflicts in Iraq and Afghanistan, there can be no assurance that there will not be other attacks or threats in the United States or abroad that will lead to economic contraction in the United States or any other of our major markets. In addition, current and projected United States budget deficits may have an adverse effect on the public construction sector. Economic contraction in the United States or any of our major markets could affect domestic demand for cement and have a material adverse effect on our operations.

PT Semen Gresik (Persero) Tbk., or Gresik, an Indonesian cement producer in which we own a 25.5% interest, has experienced ongoing difficulties at PT Semen Padang , or Semen Padang, the subsidiary of Gresik that owns and operates the Padang plant, including the effective loss of operational and financial control of Semen Padang, the inability to prepare consolidated financial statements that include Semen Padang's operations and the inability of its independent auditors to provide an unqualified audit opinion on such financial statements. After the failure of several attempts to reach a negotiated or mediated solution to these problems involving Gresik, on December 10, 2003, CEMEX Asia Holdings, Ltd., or CAH, our subsidiary through which we hold our interest in Gresik, filed a request for arbitration against the Republic of Indonesia and the Indonesian government before the International Centre for Settlement of Investment Disputes, or ICSID, based in Washington D.C. CAH is seeking, among other things, rescission of the purchase agreement entered into with the Republic of Indonesia in 1998, plus repayment of all costs and expenses, and compensatory damages. ICSID has accepted and registered CAH's request for arbitration and issued a formal notice of registration on January 27, 2004. On May 10, 2004, an Arbitral Tribunal was established to hear the dispute. The Indonesian government has objected to the Tribunal's jurisdiction over the claims asserted in CAH's request for arbitration, and a hearing to resolve these jurisdictional objections is expected to take place during 2005. We cannot predict what effect, if any, this action will have on our investment in Gresik, how the Tribunal will rule on the Indonesian government's jurisdictional objections or the merits of the dispute, or the time-frame in which the Tribunal will rule. See Item 4 -- "Information on the Company -- Europe, Asia and Africa -- Our Asian Operations -- Our Indonesian Equity Investment" and "-- Regulatory Matters and Legal Proceedings -- Other Legal Proceedings."

You may be unable to enforce judgments against us.

You may be unable to enforce judgments against us. We are a stock corporation with variable capital, or sociedad anonima de capital variable, organized under the laws of Mexico. Substantially all our directors and officers and some of the experts named in this annual report reside in Mexico, and all or a significant portion of the assets of those persons may be, and the majority of our assets are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those persons or to enforce judgments against them or against us in U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. We have been advised by Lic. Ramiro G. Villarreal, General Counsel of CEMEX, that it may not be possible to enforce, in original actions in Mexican courts, liabilities predicated solely on the U.S. federal securities laws and it may not be possible to enforce, in Mexican courts, judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

Mexican Peso Exchange Rates

Mexico has had no exchange control system in place since the dual exchange control system was abolished on November 11, 1991. The Mexican Peso has floated freely in foreign exchange markets since December 1994, when the Mexican Central Bank (Banco de Mexico) abandoned its prior policy of having an official devaluation band. Since then, the Peso has been subject to substantial fluctuations in value. The Peso depreciated against the Dollar by 1.2% in 2000, appreciated against the Dollar by 4.7% in 2001, depreciated against the Dollar by 13% in 2002, depreciated against the Dollar by 8.3% in 2003 and appreciated against the Dollar by 0.9% in 2004. These percentages are based on the exchange rate that we use for accounting purposes, or the CEMEX accounting rate. The CEMEX accounting rate represents the average of three different exchange rates that are provided to us by Banco Nacional de Mexico, S.A., or Banamex. For any given date, the CEMEX accounting rate may differ from the noon buying rate for Pesos in New York City published by the U.S. Federal Reserve Bank of New York.

The following table sets forth, for the periods and dates indicated, the end-of-period, average and high and low points of the CEMEX accounting rate as well as the noon buying rate for Pesos, expressed in Pesos per U.S.$1.00.

	CEMEX Accounting Rate				Noo	
Year ended December 31,	End of Period	Average(1)	High	Low	End of Period	Avera
2000....................	9.62	9.46	10.10	9.19	9.62	
2001....................	9.17	9.33	9.99	8.95	9.16	
2002....................	10.38	9.76	10.35	9.02	10.43	
2003....................	11.24	10.84	11.39	10.10	11.24	1
2004....................	11.14	11.29	11.67	10.81	11.15	1
Monthly (2004-2005)						
October..............	11.54	--	11.54	11.24	11.54	
November.............	11.23	--	11.53	11.23	11.24	
December.............	11.14	--	11.35	11.11	11.15	
January..............	11.19	--	11.39	11.17	11.21	
February.............	11.10	--	11.21	11.08	11.09	
March................	11.16	--	11.31	10.99	11.18	
April................	11.06	--	11.25	11.04	11.08	

(1) The average of the CEMEX accounting rate or the noon buying rate for Pesos, as applicable, on the last day of each full month during the relevant period.

On April 29, 2005, the noon buying rate for Pesos was Ps11.08 to U.S.$1.00 and the CEMEX accounting rate was Ps11.06 to U.S.$1.00.

For a discussion of the financial treatment of our operations conducted in other currencies, see Item 3 -- "Key Information -- Selected Consolidated Financial Information."

Selected Consolidated Financial Information

The financial data set forth below as of and for each of the five years ended December 31, 2004 have been derived from our audited consolidated financial statements. The financial data set forth below as of December 31, 2004 and 2003 and for each of the three years ended December 31, 2004, have been derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements and the notes thereto included elsewhere in this annual report. These financial statements were approved by our shareholders at the 2004 annual general meeting, which took place on April 28, 2005.

Our consolidated financial statements included elsewhere in this annual report have been prepared in accordance with Mexican GAAP, which differs in significant respects from U.S. GAAP. We are required, pursuant to Mexican GAAP, to present our financial statements in constant Pesos representing the same purchasing power for each period presented. Accordingly, unless otherwise indicated, all financial data presented below and elsewhere in this annual report are stated in constant Pesos as of December 31, 2004. See note 24 to our consolidated financial statements included elsewhere in this annual report for a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us.

Non-Peso amounts included in the financial statements are first translated into Dollar amounts, in each case at a commercially available or an official government exchange rate for the relevant period or date, as applicable, and those Dollar amounts are then translated into Peso amounts at the CEMEX accounting rate, described under Item 3 -- "Key Information -- Mexican Peso Exchange Rates," as of the relevant period or date, as applicable.

Under Mexican GAAP, each time we report results for the most recently completed period, the Pesos previously reported in prior periods should be adjusted to Pesos of constant purchasing power as of the most recent balance sheet by multiplying the previously reported Pesos by a weighted average inflation index. This index is calculated based upon the inflation rates of the countries in which we operate and the changes in the exchange rates of each of these countries, weighted according to the proportion that our assets in each country represent of our total assets. The following table reflects the factors that have been used to restate the originally reported Pesos to Pesos of constant purchasing power as of December 31, 2004:

	Annual Weighted Average Factor	Cumulative Average Fa December
2000....................................	0.9900	1.26
2001....................................	1.0916	1.28
2002....................................	1.1049	1.17

2003....................................	1.0624	1.06

The Dollar amounts provided below and, unless otherwise indicated, elsewhere in this annual report are translations of constant Peso amounts at an exchange rate of Ps11.14 to U.S.$1.00, the CEMEX accounting rate as of December 31, 2004. However, in the case of transactions conducted in Dollars, we have presented the Dollar amount of the transaction and the corresponding Peso amount that is presented in our consolidated financial statements. These translations have been prepared solely for the convenience of the reader and should not be construed as representations that the Peso amounts actually represent those Dollar amounts or could be converted into Dollars at the rate indicated. The noon buying rate for Pesos on December 31, 2004 was Ps11.15 to U.S.$1.00 and on April 29, 2005 was Ps11.08 to U.S.$1.00. From December 31, 2004 through April 29, 2005, the Peso appreciated by approximately 0.6% against the Dollar, based on the noon buying rate for Pesos.

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CEMEX, S.A. DE C.V. AND SUBSIDIARIES
Selected Consolidated Financial Information

	As of and for the year ended			
	2000	2001	2002	2003
	(in millions of constant Pesos as of Dollars, except ratios and share an			
Income Statement Information:				
Net sales....................................	Ps 68,595	Ps 81,350	Ps 79,725	Ps 85,55
Cost of sales(1)............................	(38,329)	(45,758)	(44,541)	(49,31
Gross profit................................	30,266	35,592	35,184	36,23
Operating expenses..........................	(10,081)	(16,165)	(19,217)	(18,85
Operating income............................	20,185	19,427	15,967	17,37
Comprehensive financing income (cost), net(2)	(2,122)	3,110	(4,013)	(3,19
Other income (expense), net.................	(2,860)	(4,899)	(4,744)	(5,45
Income before income tax, business assets tax, employees' statutory profit sharing and equity in income of affiliates..........	15,203	17,638	7,210	8,72
Minority interest...........................	952	1,802	452	36
Majority interest net income................	12,195	13,840	6,339	7,50
Earnings per share(3)(4)....................	2.95	3.24	1.41	1.5
Dividends per share(3)(5)(6)................	0.77	0.82	0.85	0.8
Number of shares outstanding(3)(7)..........	4,169	4,379	4,562	4,86
Balance Sheet Information:				
Cash and temporary investments..............	3,760	5,034	4,400	3,47
Net working capital investment(8)...........	11,301	10,959	8,523	6,87
Property, machinery and equipment, net.......	110,247	105,051	109,212	110,64
Total assets................................	192,320	190,707	194,154	191,25
Short-term debt.............................	36,144	12,074	16,977	15,87
Long-term debt..............................	33,060	51,053	53,294	54,17
Minority interest(9)........................	29,261	23,211	14,704	6,35
Stockholders' equity (excluding minority				

interest)(10)..........................	64,082	72,577	69,992	74,44
Book value per share(3)(7)..................	15.36	16.57	15.34	15.3
Other Financial Information:				
Operating margin............................	29.4%	23.9%	20.0%	20.3
EBITDA(11)	24,769	26,505	23,359	25,17
Ratio of EBITDA to interest expense, capital securities dividends and preferred equity dividends..............................	4.00	4.39	5.23	5.2
Investment in property, machinery and equipment, net....................................	4,860	6,002	5,166	4,70
Depreciation and amortization................	5,968	9,314	9,324	9,85
Net resources provided by operating activities(12)..........................	21,237	27,733	20,271	18,70
Basic earnings per CPO(3)(4)................	8.85	9.72	4.23	4.7

	As of and for the year ended			
	2000	2001	2002	2003
	(in millions of constant Pesos as of December			
	per share amou			
US. GAAP (13):				
Income Statement Information:				
Majority net sales..........................	Ps 64,631	Ps 72,753	Ps 73,649	Ps 84,047
Operating income............................	15,731	11,629	11,904	14,340
Majority net income.........................	10,037	11,640	6,182	8,
Basic earnings per share....................	2.44	2.90	1.38	1
Diluted earnings per share..................	2.40	2.87	1.38	1
Balance Sheet Information:				
Total assets................................	190,718	178,789	185,611	196,
Total long-term debt........................	33,150	43,088	45,125	47,
Shares subject to mandatory redemption (14)..	--	--	--	
Minority interest...........................	7,811	8,783	5,689	5,
Other mezzanine items (14)..................	26,865	18,611	14,331	
Total majority stockholders' equity..........	50,436	53,788	56,591	74,

(footnotes

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(1) Cost of sales includes depreciation.

(2) Comprehensive financing income (cost), net, includes financial expenses, financial income, results from valuation and liquidation of financial instruments, including derivatives and marketable securities, foreign exchange result, net and monetary position result. See Item 5 "--"Operating and Financial Review and Prospects."

(3) Our capital stock consists of series A shares and series B shares. Each of our CPOs represents two Series A shares and one Series B share. As of December 31, 2004, approximately 96.6% of our outstanding share capital was represented by CPOs. On April 28, 2005, our shareholders approved a new stock split, which we expect to occur in July 2005. In connection with the stock split, each of our existing series A shares will be surrendered in exchange for two new series A shares, and each of our

existing series B shares will be surrendered in exchange for two new series B shares. Concurrent with this stock split, we authorized the amendment of the CPO trust agreement pursuant to which our CPOs are issued to provide for the substitution of two new CPOs for each of our existing CPOs, with each new CPO representing two new series A shares and one new series B share. The proportional equity interest participation of existing shareholders will not change as a result of the stock split. Although earnings per share, dividends per share, book value per share, earnings per CPO and the number of shares outstanding for the years ended December 31, 2000 through 2004 were not adjusted to give retroactive effect to the stock split, the following table presents such line items on a pro forma basis giving effect to the stock split.

	As of and for the year ended Decem				
	2000	2001	2002	2003	
	(in constant Pesos as of December 31, 2004 and D amounts)				
Pro forma per share information under Mexican GAAP:					
Earnings per share....................	Ps 1.48	Ps 1.62	Ps 0.71	Ps 0.79	P
Dividends per share...................	0.39	0.41	0.43	0.41	
Book value per share..................	7.68	8.29	7.67	7.66	
Basic earnings per CPO................	4.43	4.86	2.12	2.37	
Pro forma per share information under U.S. GAAP:					
Basic earnings per share..............	1.22	1.45	0.69	0.92	
Diluted earnings per share............	1.20	1.44	0.69	0.90	
Pro forma number of shares:					
Number of shares outstanding..........	8,338	8,758	9,124	9,722	

(4) Earnings per share are calculated based upon the weighted average number of shares outstanding during the year, as described in note 21 to the consolidated financial statements included elsewhere in this annual report. Basic earnings per CPO is determined by multiplying each year's basic earnings per share by three (the number of shares underlying each CPO). Basic earnings per CPO is presented solely for the convenience of the reader and does not represent a measure under Mexican GAAP.

(5) Dividends declared at each year's annual shareholders' meeting are reflected as dividends of the preceding year.

(6) In recent years, our board of directors has proposed, and our shareholders have approved, dividend proposals, whereby our shareholders have had a choice between stock dividends or cash dividends declared in respect of the prior year's results, with the stock issuable to shareholders who elect the stock dividend over the cash dividend being issued at a 20% discount from then current market prices. The dividends declared per share or per CPO in these years, expressed in constant Pesos as of December 31, 2004, were as follows: 2001, Ps2.31 per CPO (or Ps0.77 per share); 2002, Ps2.46 per CPO (or Ps0.82 per share); 2003, Ps2.55 per CPO (or Ps0.85 per share); and 2004, Ps2.46 per CPO (or Ps0.82 per share). As a result of dividend elections made by shareholders, in 2001, Ps99 million in cash was paid and approximately 70 million additional CPOs were issued in respect of dividends declared for the 2000 fiscal

year; in 2002, Ps273 million in cash was paid and approximately 64 million additional CPOs were issued in respect of dividends declared for the 2001 fiscal year; in 2003, Ps71 million in cash was paid and approximately 99 million additional CPOs were issued in respect of dividends declared for the 2002 fiscal year; and in 2004, Ps167 million in cash was paid and approximately 75 million additional CPOs were issued in respect of dividends declared for the 2003 fiscal year. For purposes of the table, dividends declared at each year's annual shareholders' meeting for each period are reflected as dividends for the preceding year. At our 2004 annual shareholders' meeting, which was held on April 28, 2005, our shareholders approved a dividend of Ps2.60 per CPO (Ps0.87 per share) for the 2004 fiscal year. Shareholders will be entitled to receive the dividend in either stock or cash consistent with our past practices.

(7) Based upon the total number of shares outstanding at the end of each period, expressed in millions of shares, and includes shares subject to financial derivative transactions, but does not include shares held by our subsidiaries.

(8) Net working capital investment equals trade receivables plus inventories less trade payables.

(9) In connection with a preferred equity transaction relating to the financing of our acquisition of Southdown, Inc., now named CEMEX, Inc., the balance sheet item minority interest at December 31, 2000, 2001 and 2002 includes a notional amount of U.S.$1.5 billion (Ps16.7 billion), U.S.$900 million (Ps10.0 billion) and U.S.$650 million (Ps7.2 billion), respectively, of preferred equity issued in November 2000 by our Dutch subsidiary. In October 2003, we redeemed all the U.S.$650 million of preferred equity outstanding. The balance sheet item minority interest at December 31, 2003 includes an aggregate liquidation amount of U.S.$66 million (Ps735 million) of 9.66% Putable Capital Securities, which were initially issued by one of our subsidiaries in May 1998 in an aggregate liquidation amount of U.S.$250 million. In April 2002, approximately U.S.$184 million in aggregate liquidation amount of these capital securities were tendered to, and accepted by, us in a tender offer. In November 2004, we exercised a purchase option and redeemed all the outstanding capital securities. Until January 1, 2004, for accounting purposes under Mexican GAAP, this transaction was recorded as minority interest in our balance sheet and dividends paid on the capital securities were recorded as minority interest net income in our income statement. Accordingly, minority interest net income includes capital securities dividends in the amount of approximately U.S.$17 million (Ps207.4 million) in 2000, U.S.$76.1 million (Ps913.8 million) in 2001, U.S.$23.2 million (Ps275.9 million) in 2002 and U.S.$12.5 million (Ps153.6 million) in 2003. As of January 1, 2004, as a result of new accounting pronouncements under Mexican GAAP, this transaction was recorded as debt in our balance sheet and dividends paid on the capital securities during 2004, which amounted to approximately U.S.$5.6 million (Ps66.1 million), were recorded as part of financial expenses in our income statement.

(10) In December 1999, we entered into forward contracts with a number of banks covering 21,000,000 ADSs. In December 2002, we agreed with the banks to settle those forward contracts for cash and simultaneously entered into new forward contracts with the same banks on similar terms to the original forward transactions. Under the new forward contracts the banks retained the ADSs underlying the original forward contracts, which had increased to 25,457,378 ADSs as a result of stock dividends through June 2003. As a result of this net settlement, we recognized in December

2002 a decrease of approximately U.S.$98.3 million (Ps1,095.1 million) in our stockholders' equity, arising from changes in the valuation of the ADSs. In October 2003, in connection with an offering of all the ADSs underlying those forward contracts, we agreed with the banks to settle those forward contracts for cash. As a result of the final settlement in October 2003, we recognized an increase of approximately U.S.$18.1 million (Ps201.6 million) in our stockholders' equity, arising from changes in the valuation of the ADSs from December 2002 through October 2003. During the life of these forward contracts, the underlying ADSs were considered to have been owned by the banks and the forward contracts were treated as equity transactions, and, therefore, changes in the fair value of the ADSs were not recorded until settlement of the forward contracts.

(11) EBITDA equals operating income before amortization expense and depreciation. Under Mexican GAAP, amortization of goodwill is not included in operating income, but instead is recorded in other income (expense). EBITDA and the ratio of EBITDA to interest expense, capital securities dividends and preferred equity dividends are presented herein because we believe that they are widely accepted as financial indicators of the our ability to internally fund capital expenditures and service or incur debt and preferred equity. EBITDA and such ratios should not be considered as indicators of our financial performance, as alternatives to cash flow, as measures of liquidity or as being comparable to other similarly titled measures of other companies. EBITDA is reconciled below to operating income, which we consider to be the most comparable measure as determined under Mexican GAAP. We are not required to prepare a statement of cash flows under Mexican GAAP and therefore do not have such Mexican GAAP cash flow measures to present as comparable to EBITDA.

	For the year ended Decembe			
	2000	2001	2002	2003
	(in millions of constant Pesos as of Decembe			
Reconciliation of EBITDA to operating income				
EBITDA......................................	Ps 24,769	Ps 26,505	Ps 23,359	Ps 25,17
Less:				
Depreciation and amortization expense....	4,584	7,078	7,392	7,79
Operating income............................	20,185	19,427	15,967	17,37

(12) Net resources provided by operating activities equals majority interest net income plus items not affecting cash flow plus investment in working capital excluding effects from acquisitions.

(13) We have restated the information at and for the years ended December 31, 2000, 2001, 2002 and 2003 under U.S. GAAP using the inflation factor derived from the national consumer price index, or NCPI, in Mexico, as required by Regulation S-X under the Exchange Act, instead of using the weighted average restatement factors used by us according to Mexican GAAP and applied to the information presented under Mexican GAAP of prior years. See note 24 to our consolidated financial statements included elsewhere in this annual report for a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to CEMEX.

(14) For financial reporting under U.S. GAAP, until December 31, 2002, elements that did not meet either the definition of equity, or the definition of debt, were presented under a third group, commonly referred to as "mezzanine items." As of December 31, 2002, these elements, as they relate to us, included our preferred equity and our putable capital

securities described in note 9 above and our obligation under the forward contracts described in note 10 above. As of December 31, 2003, as a result of the adoption of SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," these elements were presented as a separate line item within liabilities. For a more detailed description of these elements, as they related to us, see notes 15(E), 15(F) and 24(m) to our consolidated financial statements included elsewhere in this annual report.

Item 4 - Information on the Company

Unless otherwise indicated, references in this annual report to our sales and assets, including percentages, for a country or region are calculated before eliminations resulting from consolidation, and thus include intercompany balances between countries and regions. These intercompany balances are eliminated when calculated on a consolidated basis.

Business Overview

We are a stock corporation with variable capital, or sociedad anonima de capital variable, organized under the laws of the United Mexican States ("Mexico") with our principal executive offices in Av. Ricardo Margain Zozaya #325, Colonia Valle del Campestre, Garza Garcia, Nuevo Leon, Mexico 66265. Our main phone number is (011-5281) 8888-8888. CEMEX's agent for service, exclusively for actions brought by the Securities and Exchange Commission pursuant to the requirements of the United States Federal securities laws, is CEMEX, Inc., located at 840 Gessner Road, Suite 1400, Houston, Texas 77024.

CEMEX was founded in 1906 and was registered with the Mercantile Section of the Public Register of Property and Commerce in Monterrey, N.L., Mexico, on June 11, 1920 for a period of 99 years. At the 2002 annual shareholders' meeting, this period was extended to the year 2100. CEMEX's full legal and commercial name is CEMEX, Sociedad Anonima de Capital Variable.

CEMEX is the third largest cement company in the world, based on installed capacity as of December 31, 2004 of approximately 81.7 million tons. We are one of the world's largest traders of cement and clinker, having traded over 10 million tons of cement and clinker in 2004. We are a holding company primarily engaged, through our operating subsidiaries, in the production, distribution, marketing and sale of cement, ready-mix concrete, aggregates and clinker. We are a global cement manufacturer with operations in North, Central and South America, Europe, the Caribbean, Asia and Africa. Following the March 2005 acquisition of RMC, based on year-end 2004 numbers, CEMEX had an installed capacity of approximately 98.7 million tons of cement, enhancing its position as the third largest cement company in the world. CEMEX, with RMC, is now the largest ready-mix concrete company in the world with an annual production in 2004 of of 75 million cubic meters of ready-mix concrete and is the fourth largest aggregates company in the world with an annual production in 2004 of 170 million tons of aggregates. As of December 31, 2004, we had worldwide assets of approximately Ps193.6 billion (U.S.$17.4 billion) (without giving effect to the RMC acquisition or the recent sale of several U.S. assets described below). On April 29, 2005, we had an equity market capitalization of approximately Ps135.2 billion (U.S.$12.2 billion).

As of December 31, 2004, our main cement production facilities were located in Mexico, Spain, Venezuela, Colombia, the United States, Egypt, the Philippines, Thailand, Costa Rica, the Dominican Republic, Panama, Nicaragua and Puerto Rico. As of December 31, 2004, our assets, cement plants and installed capacity, on an unconsolidated basis, were as set forth below. Installed cement capacity, which refers to theoretical annual cement production capacity, represents gray cement equivalent capacity, which counts each ton of white cement capacity as approximately two tons of gray cement capacity. It also includes, generally, our proportional interest in the installed capacity of companies in which we hold a minority interest, but does not include our proportional interest in installed capacity derived from our 18.8% interest in RMC as of December 31, 2004.

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	As of Decemb	
	Assets (in billions of constant Pesos)	Numb Cement
North America		
Mexico	Ps 64.4	
United States	44.8	
Europe, Asia and Africa		
Spain	32.8	
Asia	12.2	
Egypt	6.0	
South America, Central America and the Caribbean		
Venezuela	8.5	
Colombia	9.2	
Central America and the Caribbean	13.6	
Cement and Clinker Trading Assets and Other Operations	83.5	

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(1) The information in the table does not give effect to the following transactions, which described below: (i) the acquisition of RMC that was completed on March 1, 2005, (ii) the sale of U.S. assets completed on March 31, 2005 and (iii) the sale of our 11.92% interest in Cementos Bio Bio, S.A. announced on April 26, 2005.

In the above table, "Asia" includes our Asian subsidiaries, and, for purposes of the columns labeled "Assets" and "Installed Capacity," includes our 25.5% interest, as of December 31, 2004, in Gresik. As of December 31, 2004, in addition to the four cement plants owned by our Asian subsidiaries, Gresik operated four cement plants with an installed capacity of 17.3 million tons. In the above table, "Central America and the Caribbean" includes our subsidiaries in Costa Rica, the Dominican Republic, Panama, Nicaragua, Puerto Rico and other assets in the Caribbean region. In the above table, "Cement and Clinker Trading Assets and Other Operations" includes our 11.9% interest as of December 31, 2004 in Cementos Bio Bio, S.A., a Chilean cement producer having three cement plants with an installed capacity of approximately 2.25 million tons, and intercompany accounts receivable of CEMEX (the parent company only) in the amount of Ps33.8 billion, which are eliminated in consolidation.

During the last 15 years, we embarked on a major geographic expansion program to diversify our cash flows and enter markets whose economic cycles within the cement industry largely operate independently from that of Mexico and which offer long-term growth potential. We have built an extensive network of marine and land-based distribution centers and terminals that give us marketing access around the world. The following have been our most significant acquisitions over the last five years:

- On September 27, 2004, in connection with a public offer to purchase RMC's outstanding shares, CEMEX UK Limited, our indirect wholly-owned subsidiary, acquired 50 million shares of RMC for approximately (pound)432 million (U.S.$786 million, based on a Pound/Dollar exchange rate of (pound)0.5496 to U.S.$1.00 on September 27, 2004), which represented approximately 18.8% of RMC's outstanding shares. On March 1, 2005, following board and shareholder approval and clearance from applicable regulators, CEMEX UK Limited purchased the remaining 81.2% of RMC's outstanding shares and completed our acquisition of RMC. The transaction value of this acquisition, including our assumption of approximately U.S.$1.7 billion of RMC's debt, was approximately U.S.$5.8 billion.

- In August and September 2003, we acquired 100% of the outstanding shares of Mineral Resource Technologies Inc., and the cement assets of Dixon-Marquette Cement for a combined purchase price of approximately U.S.$99.7 million. Located in Dixon, Illinois, the single cement plant has an annual production capacity of 560,000 tons. This cement plant was sold on March 31, 2005 as part of the U.S. asset sale described below.

- In July and August 2002, through a tender offer and subsequent merger, we acquired 100% of the outstanding shares of Puerto Rican Cement Company, Inc., or PRCC. The aggregate value of the transaction was approximately U.S.$281.0 million, including approximately U.S.$100.8 million of assumed net debt.

- In July 2002, we increased our equity interest in CEMEX Asia Holdings, Ltd., or CAH, a subsidiary originally created to co-invest with institutional investors in Asian cement operations, to 77.7%. Through quarterly share exchanges (CAH shares for CEMEX CPOs) with CAH investors in 2003 and 2004, we further increased our equity interest in CAH to 92.3%. In August 2004, we acquired an additional 6.83% interest in CAH for approximately U.S.$70 million, thereby increasing our total equity interest in CAH to 99.1%.

- In July 2002, we purchased, through a wholly-owned indirect subsidiary, the remaining 30% economic interest that was not previously acquired by CAH in the Phillipine cement company Solid Cement Corporation, or Solid, for approximately U.S.$95 million.

- In May 2001, we acquired, through CAH, a 100% economic interest in Saraburi Cement Company Ltd., a cement company based in Thailand with an installed capacity of approximately 700,000 tons, for a total consideration of approximately U.S.$73 million. In July 2002, Saraburi Cement Company changed its legal name to CEMEX (Thailand) Co. Ltd., or CEMEX (Thailand).

- In November 2000, through a tender offer and subsequent merger, we acquired 100% of the outstanding shares of common stock of Southdown, Inc., or Southdown, a U.S. cement producer. The total cost of the acquisition of Southdown was approximately U.S.$2.8 billion. In March 2001, through a corporate restructuring, we integrated the Southdown operations with our other U.S. operations and "Southdown" changed its legal name to CEMEX, Inc.

As part of our strategy, we periodically review and reconfigure our operations in implementing our post-merger integration process, and we sometimes divest assets that we believe are less important to our strategic objectives.

On March 31, 2005, we sold our Charlevoix, Michigan and Dixon, Illinois cement plants and several distribution terminals located in the Great Lakes region to Votorantim Participacoes S.A, a cement company in Brazil, for an aggregate purchase price of approximately U.S.$389 million. The combined capacity of the two cement plants sold was approximately two million tons per year and the operations of these plants represented approximately 10% of our U.S. operations' operating cash flow for the year ended December 31, 2004.

On April 26, 2005, we announced the divestiture of our 11.92% interest in Cementos Bio Bio, S.A., a cement company in Chile, for approximately U.S.$65 million. The proceeds from the sale will be applied to reduce debt.

For the year ended December 31, 2004, our net sales, before eliminations resulting from consolidation, were divided among the countries in which we operate as follows:

[GRAPHIC OMITTED]

For a description of a breakdown of total revenues by geographic markets for each of the years ended December 31, 2002, 2003 and 2004, please see Item 5 -- "Operating and Financial Review and Prospects."

RMC Business Overview

RMC is a leading international producer and supplier of materials, products and services used primarily in the construction industry. It has operating units in 22 countries, primarily in Europe and the United States, and it employs over 26,000 people worldwide. The geographic distribution of RMC's cement operations is shown in the following table.

	As of December 31, 2	
	Number of Cement Plants	Inst Cap (mill tons pe

North America	
United States	1
Europe, Asia and Africa	
United Kingdom	3
Germany	3
Croatia	3
Latvia	1
Poland	2
Lithuania(1)	--
Total	13

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(1) Includes our proportional interest in a cement plant (34.5%).

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RMC is one of Europe's largest producers of cement and one of the world's largest suppliers of ready-mix concrete and aggregates. In 2004, it sold 14.4 million tons of cement, 51.4 million cubic meters of ready-mix concrete and 131.6 million tons of aggregates.

RMC's cement assets include 13 cement plants and 8 cement grinding mills. The cement plants are located in Croatia, Germany, Latvia, Poland, the U.K. and the U.S. RMC's total cement capacity is 17 million tons.

CEMEX and RMC both have operations in the U.S. and Spain. In the U.S., RMC's primary businesses are in California (aggregates, cement and concrete), the Carolinas and Georgia (concrete), Florida (aggregates and concrete) and the southwest states of Arizona, New Mexico and Texas (aggregates and concrete). In Spain (aggregates and concrete), the business is predominantly located around Madrid, Barcelona, Valencia and Alicante.

The revenue information set forth below with respect to RMC's operations for the year ended December 31, 2004 has been derived from RMC's audited annual financial statements for 2004. RMC's financial statements were prepared by RMC in accordance with U.K. GAAP, which differs in significant respects from Mexican GAAP.

For the year ended December 31, 2004, RMC's revenues from continuing operations, before revenues from unconsolidated joint ventures and associated entities of approximately (pound)351.7 million, were approximately (pound)4,121.1 million and were divided by geographic region as follows:

[GRAPHIC OMITTED]

For further description of RMC's operations, see "--Description of RMC Operations."

Our Production Processes

Cement is a binding agent, which, when mixed with sand, stone or other aggregates and water, produces either ready-mix concrete or mortar. Mortar is the mixture of cement with finely ground limestone used in some construction applications. Ready-mix concrete is the mixture of cement, aggregates such as sand and gravel and water.||

Aggregates are naturally occurring sand and gravel or crushed stone such as granite, limestone and sandstone and are used in the production of ready-mixed concrete, roadstone, concrete products, lime, cement and mortar in the construction industry. Aggregates are obtained either from land based sources such as sand and gravel pits and rock quarries or by dredging marine deposits.

Cement Production Process

We manufacture cement through a closely controlled chemical process, which begins with the mining and crushing of limestone and clay, and, in some instances, other raw materials. The clay and limestone are then pre-homogenized, a process which consists of combining different types of clay and limestone in different proportions in a large storage area. The mix is usually dried by the application of heat in order to remove humidity acquired in the quarry. The crushed raw materials are fed in pre-established proportions, which vary depending on the type of cement to be produced, into a grinding process, which mixes the various materials more thoroughly and reduces them further in size in preparation for the kiln. In the kiln, the raw materials are calcined, or processed, at a very high temperature, to produce clinker. Clinker is the intermediate product used in the manufacture of cement obtained from the mixture of limestone and clay with iron oxide.

There are two primary processes used to manufacture cement, the dry process and the wet process. The dry process is more fuel efficient. As of December 31, 2004, 47 of our 54 operative production plants used the dry process, five used the wet process and two used both processes. Three of the seven production plants that use the wet process are located in Venezuela. The remaining four production plants that use the wet process are located in Colombia, Nicaragua, and the Philippines. In addition, nine of RMC's cement plants used the dry process, and four used the wet process. In the wet process, the raw materials are mixed with water to form slurry which is fed into the kiln. Fuel costs are greater in the wet process than in the dry process because the water that is added to the raw materials to form slurry must be evaporated during the clinker manufacturing process. In the dry process, the addition of water and the formation of slurry are eliminated, and clinker is formed by calcining the dry raw materials. In the most modern application of this dry process technology, the raw materials are first blended in a homogenizing silo and processed through a pre-heater tower that utilizes exhaust heat generated by the kiln to pre-calcine the raw materials before they are calcined to produce clinker. Finally, clinker and gypsum are fed in pre-established proportions into a cement grinding mill where they are ground into an extremely fine powder to produce finished cement.

Ready-Mix Concrete Production Process

The production of ready-mix concrete is made of cement, with fine and coarse aggregate, water and admixtures (which control properties of the concrete including plasticity, pumpability, freeze-thaw resistance, strength and setting time). The hardening of concrete occurs due to the chemical reaction of hydration -- the addition of water fills the voids in the mixture, turning it into a solid mass.

User Base

In most of the markets in which we compete, cement is the primary building material in the industrial and residential construction sectors. The lack of available cement substitutes further enhances the marketability of our product. The primary end-users of cement in each region in which we operate vary but usually include, among others, wholesalers, ready-mix concrete producers, industrial customers and contractors in bulk.

Our Business Strategy

We seek to continue to strengthen our global leadership by growing profitably through integrated positions along the cement value chain and maximizing our overall performance by employing the following strategies:

Focus on our core business of cement, ready-mix and aggregates

Subject to economic conditions that may affect our ability to complete acquisitions, we intend to continue adding assets to our existing portfolio.

We intend to continue to geographically diversify our cement, ready-mix and aggregates operations and to vertically integrate in new and existing markets by investing in, acquiring and developing complementary operations along the cement value chain. We believe that managing our cement, ready-mix and aggregates operations as an integrated business can make them more efficient and more profitable than if they were run separately.

By selectively participating in markets that have long-term growth potential, and by purchasing operations that benefit from our management and turnaround expertise and assets that further integrate our existing portfolio, in most cases, we have been able to increase our cash flow and return on capital employed.

We normally consider opportunities for, and routinely engage in preliminary discussions concerning, acquisitions.

Allocate capital effectively

We evaluate potential acquisitions in light of our three primary investment principles:

- The potential for increasing the acquired entity's value should be principally driven by factors that we can influence, particularly the application of our management and turnaround expertise;
- The acquisition should not compromise our financial strength; and

- The acquisition should offer a higher long-term return on our investment than our cost of capital and should offer a minimum return on capital employed of at least ten percent.

In order to minimize our capital commitments and maximize our return on capital, we will continue to analyze potential capital raising sources available in connection with acquisitions, including sources of local financing and possible joint ventures.

Leverage platforms to achieve optimal operating standards and quickly integrate acquisitions

By continuing to produce cement at low cost, we believe that we will continue to generate cash flows sufficient to support our present and future growth. We strive to reduce our overall cement production related costs and corporate overhead through strict cost management policies and through improving efficiencies. We have implemented several worldwide standard platforms as part of this process. These platforms were designed to develop efficiencies and better practices, and we believe they will further reduce our costs, streamline our processes and extract synergies from our global operations. In addition, we have implemented centralized management information systems throughout our operations, including administrative, accounting, purchasing, customer management, budget preparation and control systems, which are expected to assist us in lowering costs.

With each international acquisition, we have refined the implementation of both the technological and managerial processes required to rapidly integrate acquisitions into our existing corporate structure. The implementation of the aforementioned platforms has allowed us to integrate our acquisitions more rapidly and efficiently.

We plan to continue to eliminate redundancies at all levels, streamline corporate structures and centralize administrative functions to increase our efficiency and lower costs. In addition, in the last few years, we have implemented various procedures to improve the environmental impact of our activities as well as our overall product quality.

Through a worldwide import and export strategy, we will continue to optimize capacity utilization and maximize profitability by directing our products from countries experiencing downturns in their respective economies to target export markets where demand may be greater. Our global trading system enables us to coordinate our export activities globally and to take advantage of demand opportunities and price movements worldwide.

Provide the best value proposition to our customers

We believe that by pursuing our objective of integrating our business along the cement value chain we can improve and broaden the value proposition that we provide to our customers. We believe that by offering integrated solutions we can provide our customers more reliable sourcing as well as higher quality services and products.

We continue to focus on developing new competitive advantages that will differentiate us from our competitors. In addition, we are strengthening our commercial and corporate brands in an effort to further enhance the value of our products and our services for our customers. Our lower cost combined with our higher quality service has allowed us to make significant inroads in these areas.

We believe our Construrama branding and our other marketing strategies in Mexico will strengthen our distribution network, foster greater loyalty among distributors and further fortify our commercial network. With Construrama, we are enhancing the operating and service standards of our distributors, providing them with training, a standard image and national publicity. Our other strategy, which we call "Multiproductos," helps our distributors offer a wider array of construction materials and reinforces the subjective value of our products in their customers.

In Spain, we have implemented several initiatives to increase the value of our services to our clients such as mobile access to account information, 24-hour bulk cement dispatch capability, night delivery of ready-mix cement, and a customer loyalty incentive program.

Strengthen our financial structure

We believe our strategy of cost-cutting initiatives, increased value proposition and geographic expansion will translate into growing operating cash flows. Our objective is to strengthen our financial structure by:

- Optimizing our borrowing costs and debt maturities;
- Increasing our access to various capital sources; and
- Maintaining the financial flexibility needed to pursue future growth opportunities.

We intend to continue monitoring our credit risk while maintaining the flexibility to support our business strategy.

Focus on attracting, retaining and developing a diverse, experienced and motivated management team

We will continue to focus on recruiting and retaining motivated and knowledgeable professional managers. Our senior management encourages managers to continually review our processes and practices, and to identify innovative management and business approaches to improve our operations. By rotating our managers from one country to another and from one area of our operations to another, we increase their diversity of experience.

We provide our senior management with ongoing training throughout their careers. In addition, through our stock-based compensation program, our senior management has a stake in our financial success.

The implementation of our business strategy demands effective dynamics within our organization. Our corporate infrastructure is based on internal collaboration and global management platforms. We will continue to strengthen and develop this infrastructure to effectively support our strategy.

Our Corporate Structure

We are a holding company and operate our business through subsidiaries that, in turn, hold interests in our cement and ready-mix concrete operating companies, as well as other businesses. The following chart summarizes our corporate structure as of December 31, 2004. The chart also shows, for each company, our approximate direct or indirect percentage equity or economic ownership interest. The chart has been simplified to show only our major holding companies in the principal countries in which we operate and does not include our intermediary holding companies and our operating company subsidiaries.|

[OBJECT OMITTED]

North America

As of and for the year ended December 31, 2004, North America, which includes our operations in Mexico and the United States, represented approximately 55% of our net sales, 50% of our total installed capacity and 39% of our total assets.

Our Mexican Operations

Overview

Our Mexican operations represented approximately 33% of our net sales in 2004.

At December 31, 2004, we owned 100% of the outstanding capital stock of CEMEX Mexico. CEMEX Mexico is a direct subsidiary of CEMEX and is both a holding company for some of our operating companies in Mexico and an operating company involved in the manufacturing and marketing of cement, plaster, gypsum, groundstone and other construction materials and cement by-products in Mexico. CEMEX Mexico, indirectly, is also the holding company for our international operations.

At December 31, 2004, CEMEX Mexico owned approximately 100% of the outstanding capital stock of Empresas Tolteca de Mexico. Empresas Tolteca de Mexico is a holding company for some of our operating companies in Mexico.

CEMEX Mexico and Empresas Tolteca de Mexico, together with their subsidiaries, account for substantially all the revenues and operating income of our Mexican operations.

Since the early 1970s, we have pursued a growth strategy designed to strengthen our core operations and to expand our activities beyond our traditional market in northeastern Mexico. This strategy has transformed our Mexican operations from a regional participant into the leading Mexican cement manufacturer. The process was largely completed with our acquisition of Cementos Tolteca, S.A. de C.V. in 1989, which increased our installed capacity for cement production by 6.5 million tons. Since the Cementos Tolteca acquisition, we have added 7.0 million tons of installed capacity in Mexico through acquisitions, expansion, modernization and the construction of new plants. Our largest new construction project in Mexico in the 1990s was the Tepeaca plant, which began operations in 1995 and had an installed capacity as of December 31, 2004 of 3.3 million tons. During the second quarter of 2002, the production operations at our oldest plant (Hidalgo) were halted and remain suspended due to concerns about cost effectiveness. We do not anticipate resuming production operations at this plant in 2005. We do not presently anticipate any significant capacity expansion in our Mexican operations in 2005.

In 2001, we launched the Construrama program, a registered brand name for construction material stores. Through the Construrama program, we offer to an exclusive group of our Mexican distributors the opportunity to sell a variety of products under the Construrama brand name, a concept that includes the standardization of stores, image, marketing, products and services. By the end of 2004, 700 independent concessionaries with close to 2,100 stores were integrated into the Construrama program in more than 610 towns and cities throughout Mexico. By the end of 2005, we expect to have approximately 2,250 stores under the Construrama program.

The Mexican Cement Industry

Cement in Mexico is sold principally through distributors, with the remaining balance sold through ready-mix concrete producers, manufacturers of pre-cast concrete products and construction contractors. Cement sold through distributors is mixed with aggregates and water by the end user at the construction site to form concrete. Ready-mix concrete producers mix the ingredients of concrete in plants and deliver it to local construction sites in mixer trucks, which pour the concrete. Unlike more developed economies, where purchases of cement are concentrated in the commercial and industrial sectors, retail sales of cement through distributors in 2004 accounted for around 74% of Mexico's demand. Individuals who purchase bags of cement for self-construction and other basic construction needs are a significant component of the retail sector. We estimate that as much as 50% of total demand in Mexico comes from individuals who address their own construction needs. We believe that this large retail sales base is a factor that significantly contributes to the overall performance of the Mexican cement market.

Competition

In the early 1970s, the Mexican cement industry was regionally fragmented. However, over the last 30 years, the Mexican cement industry has consolidated into a national market, thus becoming increasingly competitive. As of December 31, 2004, according to publicly available information, the major cement producers in Mexico are CEMEX; Holcim Apasco, an affiliate of Holcim; Sociedad Cooperativa Cruz Azul, a Mexican operator; Cementos Moctezuma, an associate of Ciments Molins; and Lafarge.

Potential entrants into the Mexican cement market face various impediments to entry including:

- the time-consuming and expensive process of establishing a retail distribution network and developing the brand identification necessary to succeed in the retail market, which represents the bulk of the domestic market;

- the lack of port infrastructure and the high inland transportation costs resulting from the low value-to-weight ratio of cement;

- the distance from ports to major consumption centers and the presence of significant natural barriers, such as mountain ranges, which border Mexico's east and west coasts;

- the extensive capital investment requirements; and

- the length of time required for construction of new plants, which is approximately two years.

Our Mexican Operating Network

[GRAPHIC OMITTED]

(1) In 2002, production operations at the Hidalgo cement plant were halted and remain suspended. We do not anticipate resuming production operations at this plant in 2005.

Currently, we operate 14 plants (not including Hidalgo) and 78 distribution centers (70 land terminals and 8 marine terminals) located throughout Mexico. We operate modern plants on Mexico's Atlantic and Pacific coasts, allowing us to take advantage of low-cost maritime transportation to the Asian, Caribbean, Central and South American and U.S. markets.

We believe that geographic diversification in Mexico is important because:

- it decreases the effect of regional cyclicality on total demand for our Mexican operations' products;

- it places our Mexican operations in physical proximity to customers in each major region of Mexico, allowing more cost-effective distribution; and

- it allows us to optimize production processes by shifting output to those facilities better suited to service the areas with the highest demand.

Products and Distribution Channels

Our domestic cement sales represented approximately 97% in 2002, 97% in 2003 and 96% in 2004 of our total Mexican cement sales revenues.

Cement. As a result of the retail nature of the Mexican market, our Mexican operations are not dependent on a limited number of large customers. In 2004, our Mexican operations sold approximately 74% of their cement sales volume through more than 6,000 distributors throughout the country, most of whom work on a regional basis. The five most important distributors in the aggregate accounted for approximately 4% of our Mexican operations' total sales by volume for 2004.

The retail nature of the Mexican cement market also enables us to foster brand loyalty, which distinguishes us from other worldwide producers selling primarily in bulk in the commodity market. We own the registered trademarks for our major brands in Mexico, such as "Monterrey," "Tolteca" and "Anahuac." We believe that these brand names are important in Mexico since cement is principally sold in bags to retail customers who may develop brand loyalty based on differences in quality and service. Our domestic cement sales volumes increased 4% in 2002, 4% in 2003 and 2% in 2004. In addition, we own the registered trademark for the "Construrama" brand name for construction material stores.

Ready-Mix Concrete. Ready-mix concrete sales volumes by our Mexican operations increased 10% in 2002, 13% in 2003 and 16% in 2004. For the year ended December 31, 2004, ready-mix concrete sales represented 23% of our Mexican operations' total cement sales volume.

Demand for ready-mix concrete in Mexico depends on various factors over which we have no control. These include the overall rate of growth of the Mexican economy and plans of the Mexican government regarding major infrastructure and housing projects.

Exports. Our Mexican operations export a portion of their cement production. Exports of cement and clinker by our Mexican operations decreased 25% in 2002 and 24% in 2003 and increased 37% in 2004. In 2004, approximately 79% of our exports from Mexico were to the United States, 20% to Central America and the Caribbean and 1% to South America.

Our Mexican operations' cement and clinker exports to the U.S. are marketed through wholly-owned subsidiaries of CEMEX Corp., the holding company of CEMEX, Inc. All transactions between CEMEX and the subsidiaries of CEMEX Corp., which act as our U.S. importers, are conducted on an arm's-length basis. Imports of cement and clinker into the U.S. from Mexico are subject to anti-dumping duties. See "Regulatory Matters and Legal Proceedings -- U.S. Anti-Dumping Rulings -- Mexico" below.

Production Costs

Our Mexican operations' cement plants primarily utilize petcoke, but several are designed to switch to fuel oil and natural gas with minimum downtime. We have entered into two 20-year contracts with Petruleos Mexicanos, or PEMEX, pursuant to which PEMEX agreed to supply us with 1,750,000 tons of petcoke per year, 850,000 tons per year coming from PEMEX's refinery in Madero commencing in 2002 with respect to the first contract and 900,000 tons per year coming from PEMEX's Cadereyta refinery commencing in 2003 with respect to the second contract. Petcoke is petroleum coke, a solid or fixed carbon substance that remains after the distillation of hydrocarbons in petroleum and

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that may be used as fuel in the production of cement. We expect the PEMEX petcoke contracts to reduce the volatility of our fuel costs and provide us with a consistent source of petcoke throughout their 20-year terms. In addition, since 1992, our Mexican operations have begun to use alternate fuels, to further reduce the consumption of residual fuel oil and natural gas.

These alternate fuels represented almost 2% (based on a yearly average) of the total fuel consumption for our Mexican operations in 2004, and we expect to increase this percentage to around 3% during 2005.

In 1999, we reached an agreement with ABB Alstom Power and Sithe Energies, Inc. requiring Alstom and Sithe to finance, build and operate "Termoelectrica del Golfo," a 230 megawatt energy plant in Tamuin, San Luis Potosi, Mexico and to supply electricity to us for a period of 20 years. We entered into this agreement in order to reduce the volatility of our energy costs. The total cost of the project was approximately U.S.$360 million. The power plant commenced commercial operations on May 1, 2004. As of December 31, 2004, after eight months of operation, the power plant has supplied electricity to 10 of our cement plants in Mexico covering 83% of their needs for electricity and has represented an approximate 21% decrease in the cost of electricity.

We have from time to time purchased hedges from third parties to reduce the effect of volatility in energy prices in Mexico. See Item 5 -- "Operating and Financial Review and Prospects -- Liquidity and Capital Resources."

Description of Properties, Plants and Equipment

As of December 31, 2004, we operated 14 wholly-owned cement plants (not including Hidalgo) located throughout Mexico, with a total installed capacity of 27.2 million tons per year. Our Mexican operations' most significant gray cement plants are the Huichapan, Tepeaca and Barrientos plants, which serve the central region of Mexico, the Monterrey, Valles and Torreon plants, which serve the northern region of Mexico, and the Guadalajara and Yaqui plants, which serve the Pacific region of Mexico. We have exclusive access to limestone quarries and clay remaining reserves near each of our plant sites in Mexico. We estimate that these limestone and clay reserves have an average remaining life of more than 60 years, assuming 2004 production levels. As of December 31, 2004, all our production plants in Mexico utilized the dry process.

As of December 31, 2004, we had a network of 70 land distribution centers in Mexico, which are supplied through a fleet of our own trucks and rail cars, as well as leased trucks and rail facilities and eight marine terminals. In addition, we had 237 ready-mix concrete plants throughout 79 cities in Mexico and 1,701 ready-mix concrete delivery trucks.

Capital Investments

We made capital expenditures of approximately U.S.$94.8 million in 2002, U.S.$109.4 million in 2003 and U.S.$90.3 million in 2004 in our Mexican operations. We currently expect to make capital expenditures of approximately U.S.$74.7 million in our Mexican operations during 2005.

Our U.S. Operations

Overview

As of December 31, 2004, we held 100% of CEMEX, Inc., our operating subsidiary in the United States.

Our U.S. operations represented approximately 22% of our net sales in 2004. As of December 31, 2004, we had a cement manufacturing capacity of approximately 14.3 million tons per year in our United States operations, including nearly 0.7 million tons in proportional interests through minority holdings. RMC's U.S. operations, which are being incorporated into our U.S. operations following our acquisition of RMC in March 2005, are described below.

As of December 31, 2004, we operated a geographically diverse base of 13 cement plants located in Alabama, California, Colorado, Florida, Georgia, Illinois, Kentucky, Michigan, Ohio, Tennessee and Texas. As of that date, we also had 53 rail or water served active cement distribution terminals in the United States and one in Canada. We also market ready-mix concrete products in four of our largest cement markets, California, Arizona, Texas, and Florida, and mine, process and sell construction aggregates in these four states as well. In addition, with the acquisition of Mineral Resource Technologies, Inc. in August 2003, CEMEX, Inc. has achieved a competitive position in the growing fly ash

market. Fly ash has the properties of cement and may be used in the production of more durable concrete. Mineral Resource Technologies, Inc. is one of the four largest fly ash companies in the United States, providing fly ash to customers in 25 states.

On March 31, 2005, CEMEX, Inc. sold its Charlevoix, Michigan and Dixon, Illinois cement plants and several distribution terminals located in the Great Lakes region to Votorantim Participacoes S.A., or Votorantim, a cement company in Brazil, for an aggregate purchase price of approximately U.S.$389 million. The distribution terminals sold to Votorantim are located in Green Bay, Manitowoc and Milwaukee, Wisconsin; Chicago, Illinois; Ferrysburg, Michigan; Cleveland and Toledo, Ohio; and Owen Sound, Ontario, Canada. The combined capacity of the two cement plants sold to Votorantim was approximately two million tons per year, and the operations of these plants represented approximately 10% of CEMEX, Inc.'s operating cash flow for the year ended December 31, 2004.

RMC operates one cement plant in Davenport, California as well as two nearby terminals in northern California, one of them in a port facility. It has more than 200 ready-mix plants located in the Carolinas, Florida, Georgia, Texas, New Mexico, Nevada, Arizona and northern California and aggregates facilities in the Carolinas, Arizona, California, Florida, Georgia, Missouri, New Mexico, Nevada and Texas. RMC owns regional pipe and precast businesses, along with block and paver plants in the Carolinas, Georgia and Florida. CEMEX believes that by combining the acquired assets of RMC with its installed cement capacity in the United States, it will be the largest cement and ready-mix supplier in the United States, based on volumes sold, and an important supplier of aggregates.

For the year ended December 31, 2004, RMC's operations in the United States generated revenues of approximately (pound)935 million.

The Cement Industry in the United States

Competition. As a result of the lack of product differentiation and the commodity nature of cement, the cement industry in the U.S. is highly competitive. We compete with national and regional cement producers in the U.S. CEMEX, Inc.'s principal competitors in the United States are Holcim, Lafarge, Buzzi-Unicem, Heidelberg Cement and Ash Grove Cement.

The independent U.S. ready-mix concrete industry is highly fragmented, and few producers other than vertically integrated producers have annual sales in excess of U.S.$6 million or have a fleet of more than 20 mixers. Given that the concrete industry has historically consumed approximately 70% of all cement produced annually in the U.S., many cement companies choose to be vertically integrated.

Aggregates are widely used throughout the U.S. for all types of construction because they are the most basic materials for building activity. The U.S. aggregates industry is highly fragmented and geographically dispersed. According to the 2004 U.S. Geological Survey, approximately 4,000 companies operated approximately 6,500 quarries and pits.

Our United States Cement Operating Network

[GRAPHIC OMITTED]

The map reflects our cement plants and cement terminals as of the date of this annual report, after giving effect to the acquisition of RMC and the sale of assets in the Great Lakes region.

Products and Distribution Channels

CEMEX, Inc. delivers a substantial portion of cement by rail. Occasionally, these rail shipments go directly to customers. Otherwise, shipments go to distribution terminals where customers pick up the product by truck or CEMEX, Inc. delivers the product by truck. The majority of our cement sales are made directly to users of gray Portland and masonry cements, generally within a radius of approximately 200 miles of each plant. As discussed below, cement demand in the United States has become less dependent upon the more cyclical residential and commercial sectors since the mid 1980s as the public sector has grown significantly. Because of the distribution of operations across the U.S., we are able to achieve stability of cash flows should market conditions deteriorate in any one region of the U.S.

Cement. Our cement operations represented approximately 62% of our 2004 U.S. operations revenues. Our U.S. operations sales volumes decreased 5.3% in 2002 due to the economic downturn in the United States, increased 2% in 2003 and increased 9% in 2004 due to strong demand from the residential sector, increased demand from the public sector and a recovery in industrial and commercial construction.

Demand for cement is derived from the demand for ready-mix concrete and concrete products which, in turn, is dependent on the demand for construction. The construction industry is composed of three major sectors, namely, the residential, industrial and commercial and public sectors. The public sector is the most cement intensive sector, particularly for infrastructure projects such as streets, highways and bridges.

Since the early 1990s, cement demand has become less vulnerable to recessionary pressures than in previous cycles, due to the growing importance of the counter-cyclical public sector, particularly cement-intensive public infrastructure spending. In 2004, according to our estimates, public sector spending accounted for approximately 52% of the total cement consumption in the U.S. Strong cement demand over the past decade has driven industry capacity utilization up to maximum levels. According to the Portland Cement Association, domestic capacity utilization has been over 90% in the last 3 years.

Ready-Mix Concrete. Concrete operations represented approximately 27% of our 2004 revenues in the U.S. We have ready-mix operations in California, Arizona, Texas and Florida. Our concrete operations in those states purchase most of their cement requirements from our cement operations in the U.S.

Aggregates. Our aggregates operations include mining, processing and selling construction aggregates in California, Arizona, Texas and Florida. Aggregates operations represented approximately 6% of our 2004 U.S. revenues. At 2004 production levels, it is anticipated that over 80% of our construction aggregates reserves in the U.S. will last for 10 years or more.

Production Costs

The largest cost components of our plants are electricity and fuel, which accounted for approximately 36% of CEMEX, Inc.'s total production costs in 2004. CEMEX, Inc. is currently implementing an alternative fuels program to gradually replace coal with more economic fuels such as petcoke and tires, which has resulted in reduced energy costs. By retrofitting our cement plants to handle alternative energy fuels, we have gained more flexibility in supplying our energy needs and have become less vulnerable to potential price spikes. In 2004, the use of alternative fuels offset the effect on our fuel costs of a significant increase in coal prices. Power costs in 2004 represented approximately 18% of Cemex, Inc.'s cash manufacturing cost, which represents production cost before depreciation. We have improved the efficiency of CEMEX, Inc.'s electricity usage, concentrating our manufacturing activities in off-peak hours and negotiating lower rates with electricity suppliers.

Description of Properties, Plants and Equipment

As of December 31, 2004, we operated 13 cement manufacturing plants in the U.S., with a total installed capacity of 14.3 million tons per year, including nearly 0.7 million tons in proportional interests through minority holdings. All our cement production facilities are wholly owned except for the Balcones plant, which is leased, and the Louisville plant, which is owned by Kosmos Cement Company, a joint venture in which CEMEX, Inc. owns a 75% interest and a subsidiary of Dyckerhoff AG owns a 25% interest.

As of the date of this annual report, after giving effect to the acquisition of RMC and the sale of assets in the Great Lakes region, we operated 12 cement plants in the U.S., with a total installed capacity of approximately 13.2 million tons per year.

As of December 31, 2004, we operated a distribution network of 97 ready-mix concrete plants, 54 cement terminals, six of which are deep-water terminals, and 24 aggregate locations throughout the U.S. Also, we distributed fly ash through 20 terminals and 13 third-party-owned utility plants, which operate both as sources of fly ash and distribution terminals.

Capital Investments

We made capital expenditures of approximately U.S.$95.9 million in 2002, U.S.$96.6 million in 2003 and U.S.$111.1 million in 2004 in our U.S. operations. We currently expect to make capital expenditures of approximately U.S.$96.5 million in our U.S. operations during 2005, excluding those related to RMC's U.S. operations.

Europe, Asia and Africa

As of December 31, 2004, our business in Europe, Asia and Africa, which included our majority-owned operations in Spain, the Philippines, Thailand and Egypt, as well as our minority interests in Indonesia and other Asian investments, represented approximately 20% of our net sales, 33% of our total installed capacity and 19% of our total assets.

Our Spanish Operations

Overview

As of December 31, 2004, we held 99.7% of CEMEX Espana, S.A., or CEMEX Espana. Our Spanish operations represented approximately 16% of our net sales in 2004. We conduct our Spanish operations through our operating subsidiary CEMEX Espana, S.A. or CEMEX Espana. CEMEX Espana is also a holding company for most of our international operations. Our cement activities in Spain are conducted by CEMEX Espana itself and Cementos Especiales de las Islas, S.A. a joint venture 50% owned by Cemex Espana. Our ready-mix concrete activities in Spain are conducted by Hormicemex, S.A., a subsidiary of CEMEX Espana, and our aggregates activities in Spain are conducted by Aricemex S.A., a subsidiary of CEMEX Espana. This does not include the aggregates and ready-mix concrete activities of RMC's subsidiaries.

The Spanish Cement Industry

In 2004, the construction sector of the Spanish economy grew 4.4%, primarily as a result of the growth of construction in the residential sector of the Spanish economy. Cement consumption in Spain increased 4.7% in 2002, 4.4% in 2003 and 3.9% in 2004. Our domestic cement and clinker sales volumes in Spain increased approximately 2.5% in 2002, 4.5% in 2003 and 3.3% in 2004.

During the past several years, the level of cement imports into Spain has been influenced by the strength of domestic demand. Cement imports increased 5.5% in 2002, decreased 25% in 2003 and decreased 14.6% in 2004. Clinker imports have demonstrated an intense dynamism, with increases of 18.2% in 2002, 25.6% in 2003 and 6.3% in 2004. In any case, imports primarily had an impact on coastal zones, since transportation costs make it less profitable to sell imported cement in inland markets. Nonetheless, sales from imports have been increasing in the center of Spain.

In the past, Spain has traditionally been one of the leading exporters of cement in the world exporting up to 6 million tons per year. Nevertheless, exports of producers in Spain have been reduced in recent years to 1.5 million tons in 2004 to meet strong domestic demand. Our Spanish operations' cement and clinker export volumes increased 5% in 2002, decreased 21% in 2003 and decreased 23% in 2004.

Competition

According to the Asociaciun de Fabricantes de Cemento de Espana, or OFICEMEN, the Spanish cement trade organization, as of December 31, 2004, approximately 60% of installed capacity for production of cement in Spain was owned by five multinational groups, including CEMEX.

Competition in the ready-mix concrete industry is particularly intense in large urban areas. Our subsidiary Hormicemex has achieved a sizable market presence in areas such as Baleares, Canarias, Levante and Aragon. In other areas, such as the central and Cataluna regions, our market share is smaller due to greater competition in the relatively larger urban areas. The overall high degree of competition in the Spanish ready-mix concrete industry has in the past led to weak pricing. The distribution of ready-mix concrete remains a key component of CEMEX Espana's business strategy.

OFICEMEN reported that, based on 2004 sales, CEMEX Espana had a market share of 21.8% in gray and white cement, making us the leader in the Spanish cement industry. We believe that we maintain this leading market position because of our customer service and our geographic diversification, which includes extensive distribution channels that enable us to cope with downturns in demand more effectively than many of our competitors because we are able to shift our production to serve areas with the strongest demand and prices.

Our Spanish Operating Network (Including RMC Assets)

[GRAPHIC OMITTED]

Products and Distribution Channels. CEMEX Espana offers various types of cement, targeting specific products to specific markets and users. In 2004, approximately 20% of CEMEX Espana's domestic sales volumes consisted of bagged cement through distributors, and the remainder of CEMEX Espana's domestic sales volumes consisted of bulk cement, primarily to ready-mix concrete operators, which include CEMEX Espana's own subsidiaries, as well as industrial customers that use cement in their production processes and construction companies.

Exports. In general, despite increases in domestic demand in recent years, we have been able to export excess capacity through collaboration between CEMEX Espana and our trading network. Export prices, however, are usually lower than domestic market prices, and costs are usually higher for export sales. Of our total exports from Spain in 2004, 91.4% consisted of white cement and 8.6% consisted of gray cement. In 2004, 71% of our exports from Spain were to the United States, 15% to Europe and 14% to Africa.

Production Costs

We have improved the profitability of our Spanish operations by introducing technological improvements that have significantly reduced our energy costs, including the use of alternative fuels, in accordance with our cost reduction policy. Additionally, the increased capacity in 2002 of the San Vicente plant (approximately 400,000 tons) has allowed us to reduce the clinker transportation costs between plants and the need for imported clinker.

In 2004, we burned meal flour, organic waste and tires as fuel, achieving in 2004 a 2.1% substitution rate for petcoke. During 2005, we expect to increase the quantity of those alternative fuels and initiated the burning of rice husks and plastics.

Description of Properties, Plants and Equipment

As of December 31, 2004, our Spanish operations operated eight plants located in Spain, with a cement equivalent capacity of 11.0 million tons, including 860,000 tons of white cement. We also operated 77 ready-mix concrete plants, including 16 aggregate and 10 mortar plants. CEMEX Espana also owns two cement mills, one of

which is operated through a joint venture 50%-owned by CEMEX Espana, and 31 distribution centers, including 11 land and 19 marine terminals.

As of December 31, 2004, CEMEX Espana owned 8 limestone quarries located in close proximity to its plants, which have useful lives ranging from 10 to 30 years, assuming 2004 production levels. Additionally, we have rights to expand those reserves to 50 years of limestone reserves, assuming 2004 production levels.

RMC has ready-mix concrete and aggregates operations in Spain through a joint-venture association with another producer. The joint venture operates a network of 121 ready-mix concrete plants and 12 aggregates quarries, which are predominantly located around Madrid, Barcelona, Valencia and Alicante.

Capital Investments

We made capital expenditures of approximately U.S.$61.1 million in 2002, U.S.$53.9 million in 2003 and U.S.$54.5 million in 2004 in our Spanish operations. We currently expect to make capital expenditures of approximately U.S.$48.2 million in our Spanish operations during 2005, excluding those related to RMC's Spanish operations.

Our Asian Operations

As of December 31, 2004, our business in Asia, which includes our operations in the Philippines and Thailand, as well as our minority interests in Indonesia and other assets in Asia, represented approximately 2% of our net sales, 13% of our total installed capacity and 4% of our total assets.

Our Philippine Operations

As of December 31, 2004, we held through CAH, 99.1% of the economic benefits of our two operating subsidiaries in the Philippines, Solid, and APO Cement Corporation, or APO.

During 2004, cement consumption in the Philippine market, which is primarily retail, totaled 12.4 million tons. Although the Philippines has largely recovered from the 1997 Asian economic recession, industry demand for cement decreased by 2.1% in 2004 compared to 2003.

As of December 31, 2004, the Philippine cement industry had a total of 20 cement plants and three cement grinding mills. Annual installed capacity is 26.8 million tons, according to the Cement Manufacturers' Association of the Philippines. Major global cement producers own approximately 88% of this capacity. Our major competitors in the Philippine cement market are Holcim, which has interests in seven local cement plants, and Lafarge, which has interests in eight local cement plants.

Our Philippine operations include three plants with a total capacity of 5.8 million tons per year and two marine distribution terminals. Our cement plants include two Solid plants, with five wet process production lines and one dry process production line and an installed capacity of 2.8 million tons, serving the Manila metropolitan region; and the APO plant, with two dry process production lines and a jetty terminal for local and export markets with installed capacity of 3.0 million tons, serving the Visayas, North Mindanao and South of Luzon regions.

We made capital expenditures of approximately U.S.$12.1 million in 2002, U.S.$1.7 million in 2003 and U.S.$2.4 million in 2004 in our Philippine operations. We currently expect to make capital expenditures of approximately U.S.$4.7 million in our Philippine operations during 2005.

Our Indonesian Equity Investment

As of December 31, 2004, our proportionate economic interest through CAH in Gresik, Indonesia's largest cement producer, was approximately 25.5%. The Republic of Indonesia has a 51% interest in Gresik. Currently, we hold two seats on both the board of directors and the board of commissioners of Gresik, as well as the right to approve Gresik's business plan jointly with the Indonesian government.

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On October 31, 2001, certain individuals purporting to represent the people of the Indonesian province of West Sumatra, in which the Padang plant of Gresik is located, issued a declaration which stated that, commencing November 1, 2001, PT Semen Padang, or Semen Padang, the 99.99%-owned subsidiary of Gresik that owns and operates the Padang plant, was placed under the temporary control of the people of West Sumatra. The declaration ordered the management of Semen Padang to report to the local government of the West Sumatra Province, under the supervision of the People's Representative Assembly of West Sumatra, pending a "spin-off" of the Semen Padang subsidiary. On November 1, 2001, the People's Representative Assembly of West Sumatra issued a decision approving this declaration. We believe the provincial administration lacks legal authority to direct or interfere with the affairs of Semen Padang. Since the attempt by the West Sumatra provincial administration in November 2001 to arrogate to itself the management of Semen Padang, several groups opposed to any further sale of Indonesia's stock ownership in Gresik have threatened strikes and other actions that would affect our Indonesian operations. Further attempts to reassume control at Semen Padang, including shareholder-approved changes in management, have been met with resistance and lawsuits by various interest groups. The former management of Semen Padang refused to relinquish control until September 2003 when the newly-appointed management was finally permitted to enter the Padang Facility and assume control of Semen Padang. However, we believe that the newly-appointed management was admitted on condition that it encourage a spin-off of Semen Padang, and in October 2003, it explicitly agreed to do so.

Gresik has experienced other ongoing difficulties at Semen Padang, including the effective loss of operational and financial control of Semen Padang, the inability to prepare consolidated financial statements that include Semen Padang's operations and the inability of its independent auditors to provide an unqualified audit opinion on such financial statements. As a result of these difficulties, we have not been able to independently verify certain information with respect to Semen Padang's facilities and operations and thus, the overall description of Gresik's facilities and operations below assumes the validity and accuracy of the information provided by Semen Padang's management.

For a description of legal proceedings relating to Gresik, please see "Regulatory Matters and Legal Proceedings -- Other Legal Proceedings."

The Indonesian cement industry was the largest in South East Asia in 2004, accounting for about 24% of the approximately 126 million tons of cement consumed in South East Asia in 2004, according to our estimates. Indonesian domestic cement demand increased approximately 6.8% in 2002, 1.0% in 2003 and 9.8% in 2004. As of December 31, 2004, the Indonesian cement industry had 13 cement plants, including the four plants owned by Gresik, with a combined installed capacity of approximately 47.5 million tons. Gresik, with an installed capacity of 17.3 million tons, is Indonesia's largest cement producer.

As of December 31, 2004, Gresik had four cement plants, 25 land distribution centers and 10 marine terminals. Gresik's cement plants include the Padang plant, with one production line that utilizes the wet process and four production lines that utilize the dry process and an installed capacity of 5.6 million tons; the Gresik plant, which has two production lines that utilize the dry process and an installed capacity of 1.3 million tons; the Tuban plant, which has three production lines that utilize the dry process and an installed capacity of 6.9 million tons; and the Tonasa plant, which has three production lines that utilize the dry process and an installed capacity of 3.5 million tons. As of December 31, 2004, Gresik was operating at approximately 91% capacity utilization, including export sales. During 2004, Gresik exported approximately 14% of its total sales volume, mainly through its own efforts and, to a lesser extent, through CEMEX's trading operations. Gresik exports mainly to Bangladesh and Africa.

Despite the continuing economic and political problems experienced by Indonesia and the difficulties involving Gresik described above, the Indonesian cement market has been important to our Asian expansion strategy due to its strategic location, size, potential as an anchor for our South East Asian trading network and the significant growth potential of the Indonesian economy.

Our Thai Operations

According to our estimates, at December 31, 2004, the cement industry in Thailand had a total of 13 cement plants, with an aggregate annual installed capacity of approximately 54.5 million tons. We estimate that there are five major cement producers in Thailand, four of which represent 99% of installed capacity and 97% of the market. Our major competitors in the Thailand market, which have a significantly larger presence than CEMEX (Thailand), are Siam Cement, Holcim, TPI Polene and Italcementi.

CEMEX (Thailand) owns one dry process cement plant located north of Bangkok which has been operating at full capacity. As of December 31, 2004, CEMEX (Thailand) had an installed capacity of approximately 720,000 tons.

We made capital expenditures of approximately U.S.$7.1 million in 2002, U.S.$1.72 million in 2003 and U.S.$2.7 million in 2004 in our Thai operations. We currently expect to make capital expenditures of approximately U.S.$3.6 million in our Thai operations during 2005.

Other Asian Investments

Since April 2001, we have been operating a grinding mill with cement milling production capacity of 520,000 tons per year near Dhaka, Bangladesh. A majority of the supply of clinker for the mill is produced by our operations in the region.

Our Egyptian Operations

Overview

As of December 31, 2004, we had a 95.8% interest in Assiut, which has an installed capacity of approximately 4.9 million tons.

The Egyptian Cement Industry

The Egyptian cement market consumed approximately 23.6 million tons of cement during 2004. Cement consumption decreased by 8.4% in 2004, despite the beginning of an economic recovery.

Competition. As of December 31, 2004, the Egyptian cement industry had a total of ten cement producers, with an aggregate annual installed cement capacity of approximately 39 million tons. According to the Egyptian Cement Council, during 2004, Holcim (Egyptian Cement Company), Lafarge (Alexandria Portland Cement and Beni Suef Cement) and CEMEX (Assiut Cement Company), the three largest cement producers in the world, constituted approximately 40% of the total cement sales in Egypt. Other significant competitors in the Egyptian market are Suez and Tourah Cement Companies (Italcementi), and Helwan Portland Cement Company, Ameriyah (Cimpor), National, Sinai, Misr Beni Suef and Misr Quena Cement Companies.

Products and Distribution Channels

We have followed a diversification strategy that focuses on manufacturing cement products with higher margins and have invested in building our brand. As part of our brand strategy, we have had success selling value-added cement products for specialized use.

As a result of the retail nature of the Egyptian market, over 90% of our cement sales volumes are typically sold in bags. Through our commercial strategy we have been able to serve retail customers throughout the country directly without having to depend on wholesalers and distributors.

Description of Properties, Plant and Equipment

As of December 31, 2004, Assiut operated one cement plant with an installed capacity of approximately 4.9 million tons with three dry process production lines. The plant is located approximately 200 miles south of Cairo. Assiut's cement plant serves the upper Nile region of Egypt, as well as Cairo and the delta region, Egypt's main cement market.

Capital Investments

We made capital expenditures of approximately U.S.$27.2 million in 2002, U.S.$14.1 million in 2003 and U.S.$8.5 million in 2004 in our Egyptian operations. We currently expect to make capital expenditures of approximately U.S.$10.7 million in our Egyptian operations during 2005.

South America, Central America and the Caribbean

As of December 31, 2004, our business in South America, Central America and the Caribbean, which includes our operations in Venezuela, Colombia, Costa Rica, the Dominican Republic, Panama, Nicaragua and Puerto Rico, as well as other assets in the Caribbean, represented approximately 15% of our net sales, 17% of our total installed capacity and 11% of our total assets.

Our Venezuelan Operations

Overview

Our Venezuelan operations represented approximately 4% of our net sales in 2004. As of December 31, 2004, we held a 75.7% interest in CEMEX Venezuela, S.A.C.A., or CEMEX Venezuela, a company listed on the Caracas Stock Exchange. CEMEX Venezuela also serves as the holding company for our interests in the Dominican Republic, Panama and Trinidad. CEMEX Venezuela is the largest cement producer in Venezuela, based on an installed capacity of 4.6 million tons as of December 31, 2004.

The Venezuelan Cement Industry

Cement consumption in Venezuela grew 31.3% in 2004 compared to 2003 according to the Venezuelan Cement Producer Association as the Venezuelan economy began to recover from Venezuela's political and economic turmoil during 2003. A nation-wide general strike that began in December 2002 caused a significant reduction in oil production and had a material adverse effect on Venezuela's oil-dependent economy in 2003. In 2004, average inflation in Venezuela reached 19.2%, the Venezuelan Bolivar depreciated 20% against the Dollar and gross domestic product (GDP) increased 17.3%. In February 2003, Venezuelan authorities imposed foreign exchange controls and implemented price controls on many products, including cement.

Competition. As of December 31, 2004, the Venezuelan cement industry included five cement producers, with a total installed capacity of approximately 10.1 million tons, according to our estimates. We estimate that CEMEX Venezuela's installed capacity in 2004 represented approximately 46% of that total, almost twice that of its next largest competitor. Our global competitors, Holcim and Lafarge, own controlling interests in Venezuela's second and third largest cement producers, respectively.

In 2004, the ready-mix concrete market accounted for only about 11% of cement consumption in Venezuela, according to our estimates. We believe that Venezuela's construction companies, which typically prefer to install their own ready-mix concrete plants on-site, are the most significant barrier to penetration of the ready-mix concrete sector, with the result that on-site ready-mix concrete mixing represents a high percentage of total ready-mix concrete production.

Other than CEMEX Venezuela, the ready-mix concrete market in Venezuela is concentrated in two companies, Premezclado Caribe, which is owned by Holcim, and Premex, which is owned by Lafarge. The rest of the ready-mix concrete sector in Venezuela is highly fragmented.

Our Venezuelan Operating Network

As shown below, CEMEX Venezuela's three cement plants and one grinding facility are located near the major population centers and the coast of Venezuela.|

[GRAPHIC OMITTED]

As of December 31, 2004, CEMEX Venezuela was the leading Venezuelan domestic supplier of cement, based on our estimates of sales of gray and white cement in Venezuela. In addition, CEMEX Venezuela was the leading domestic supplier of ready-mix concrete in 2004 with 30 ready-mix production plants throughout Venezuela.

Distribution Channels

Transport by land is handled partially by CEMEX Venezuela. During 2004, approximately 33% of CEMEX Venezuela's total domestic sales were transported through its own fleet of trucks. CEMEX Venezuela also serves a significant number of its retail customers directly through its wholly-owned distribution centers.

Exports

During 2004, exports from Venezuela represented approximately 30% of CEMEX Venezuela's net sales. CEMEX Venezuela's main export markets historically have been the Caribbean and the east coast of the United States. In 2004, 75% of our exports from Venezuela were to the United States, and 25% were to the Caribbean.

Description of Properties, Plants and Equipment

As of December 31, 2004, CEMEX Venezuela operated three wholly-owned cement plants, Lara, Mara and Pertigalete, with a combined installed cement capacity of approximately 4.6 million tons. CEMEX Venezuela also operates the Guayana grinding facility with a cement capacity of 375,000 tons. All the plants are strategically located to serve both domestic areas with the highest levels of cement consumption and export markets. CEMEX Venezuela also owns 30 ready-mix concrete production facilities, one mortar plant and 12 distribution centers. CEMEX Venezuela owns four limestone quarries with reserves sufficient for over 100 years at 2004 production levels.

The Lara and Mara plants and one production line at the Pertigalete plant use the wet process; the other production line at the Pertigalete plant uses the dry process. All the plants use natural gas as fuel. CEMEX Venezuela has its own electricity generating facilities, which are powered by natural gas and diesel fuel.

As of December 31, 2004, CEMEX Venezuela owned and operated four port facilities, three marine terminals and one river terminal. One port facility is located at the Pertigalete plant, one at the Mara plant, one at the Catia La Mar terminal on the Caribbean Sea near Caracas, and one at the Guayana Plant on the Orinoco River in the Guayana Region. CEMEX Venezuela's cement is transported either in bulk or in bags.

Capital Investments

We made capital expenditures of approximately U.S.$13.6 million in 2002, U.S.$10.8 million in 2003 and U.S.$13.6 million in 2004 in our Venezuelan operations. We currently expect to make capital expenditures of approximately U.S.$12.9 million in our Venezuelan operations during 2005.

Our Colombian Operations

Overview

As of December 31, 2004, we owned approximately 99.6% of the ordinary shares of CEMEX Colombia, S.A., or CEMEX Colombia. Our Colombian operations represented approximately 3% of our net sales in 2004.

As of December 31, 2004, CEMEX Colombia was the second-largest cement producer in Colombia, based on installed capacity of 4.8 million tons, according to the Colombian Institute of Cement Producers.

CEMEX Colombia has a significant market share in the cement and ready-mix concrete market in the "Urban Triangle" of Colombia comprising the cities of Bogota, Medellin and Cali. During 2004, these three metropolitan areas accounted for approximately 50% of Colombia's cement consumption. CEMEX Colombia's Ibague plant, which uses the dry process and is strategically located between Bogota, Cali and Medellin, is Colombia's largest and had an installed capacity of 2.5 million tons as of December 31, 2004. CEMEX Colombia, through its Bucaramanga and Cucuta plants, is also an active participant in Colombia's northeastern market. CEMEX Colombia's strong position in the Bogota ready-mix concrete market is largely due to its access to a ready supply of aggregate deposits in the Bogota area.

The Colombian Cement Industry

Competition. The Sindicato Antioqueno, or Argos, which either owns or has interests in eight of Colombia's eighteen cement plants, has dominated the Colombian cement industry. Argos has established a leading position in the Colombian coastal markets through Cementos Caribe in Barranquilla, Compania Colclinker in Cartagena and Tolcemento in Sincelejo. The other principal cement producer is Cementos Boyaca, an affiliate of Holcim.

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Our Colombian Operating Network

[GRAPHIC OMITTED]

CEMEX Colombia owns quarries with minimum reserves sufficient for over 100 years at 2004 production levels. In addition to mining its own raw materials, CEMEX Colombia also purchases raw materials from third parties. The majority of CEMEX Colombia's cement is distributed through independent distributors.

CEMEX Colombia's principal concrete product is ready-mix concrete, produced to client specifications and delivered directly to job sites. CEMEX Colombia also produces other specialized cement-based building materials.

CEMEX Colombia operates its ready-mix concrete business through 22 ready-mix plants. CEMEX Colombia also uses 11 portable ready-mix plants, which allow concrete to be mixed at major building sites, reducing transportation costs and eliminating the need to acquire additional permanent ready-mix concrete sites.

Description of Properties, Plants and Equipment

As of December 31, 2004, CEMEX Colombia owned five cement plants, one clinker facility, and one grinding mill, having a total installed capacity of 4.8 million tons per year. Two of these plants and the clinker facility utilize the wet process and three plants utilize the dry process. The Ibague plant serves the Urban Triangle, while Cucuta and Bucaramanga plants, located in the northeastern part of the country, serve local and coastal markets. The La Esperanza cement plant and the Santa Rosa clinker mill are close to Bogota. CEMEX Colombia also has an internal electricity generating capacity of 24.7 megawatts through a leased facility. In addition, CEMEX Colombia owns two land distribution centers, one mortar plant, 22 ready-mix concrete plants, one concrete products plant, eight aggregate mines and six aggregates operations.

Capital Investments

We made capital expenditures of approximately U.S.$5.2 million in 2002, U.S.$6.0 million in 2003 and U.S.$9.3 million in 2004 in our Colombian operations. We currently expect to make capital investments of approximately U.S.$6.7 million in our Colombian operations during 2005.

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Other South American Investments

Our Equity Investment in Chile

As of December 31, 2004, we held an 11.9% interest in Cementos Bio Bio, S.A., or Cementos Bio Bio, with an installed capacity of approximately 2.3 million tons. On April 26, 2005, we announced the sale of our interest in Cementos Bio Bio. Cementos Bio Bio owns and operates three cement plants and has 24 ready-mix concrete plants.

Central America and the Caribbean

As of and for the year ended December 31, 2004, Central America and the Caribbean, which includes our operations in Costa Rica, the Dominican Republic, Panama, Nicaragua, Puerto Rico and other assets in the Caribbean, represented approximately 8% of our net sales, 5% of our total installed capacity and 5% of our total assets.

Through our investments in Costa Rica, Panama and Nicaragua, we have established a strategic presence in the mainland markets of Central America.

Our Costa Rican Operations

As of December 31, 2004, we owned a 98.7% interest in CEMEX (Costa Rica), S.A., or CEMEX (Costa Rica). Approximately 1.1 million tons of cement were sold in Costa Rica during 2004, according to Camara de la Construccion de Costa Rica, the Costa Rican construction industry association. The Costa Rican cement market is a predominantly retail market, and we estimate that over three quarters of cement sold is bagged cement.

The Costa Rican cement industry includes two producers, CEMEX (Costa Rica) and Industria Nacional de Cemento, an affiliate of Holcim. We estimate that the two companies control roughly equal proportions of the market.

Our Costa Rican operations' cement plant has one dry process production line with an installed capacity of 850,000 tons. Our grinding mill in northwest Costa Rica has a grinding capacity of 657,000 tons. Our second grinding mill in San Jose has a capacity of 163,000 tons. During 2004, exports of cement by our Costa Rican operations represented approximately 31% of our total cement production in Costa Rica. In 2004, 45% of our exports from Costa Rica were to Nicaragua, 28% to El Salvador, and 27% to Guatemala.

We made capital expenditures of approximately U.S.$5.2 million in 2002, U.S.$7.1 million in 2003 and U.S.$3.1 million in 2004 in our Costa Rican operations. We currently expect to make capital expenditures of approximately U.S.$3.6 million in our Costa Rican operations during 2005.

Our Dominican Republic Operations

As of December 31, 2004, we owned 99.9% of Cementos Nacionales, a cement producer in the Dominican Republic with an installed capacity of 2.4 million tons of cement, seven distribution centers and seven ready-mix concrete plants. We also have a 25 year lease arrangement with the Dominican Republic government related to the mining of gypsum, which enables us to supply all local and regional gypsum requirements.

In June 2003, Cementos Nacionales announced a U.S.$130 million investment plan to install a new kiln for producing clinker with an annual capacity of 1.6 million tons of clinker. This new kiln, which would increase our total clinker production capacity in the Dominican Republic to 2.2 million tons per year, is expected to begin operations by the end of 2005. As of December 31, 2004, we have invested approximately U.S.$52 million in this project, and we expect to invest the remaining U.S.$78 million during 2005.

In 2004, Dominican Republic cement consumption reached 2.9 million tons, and some cement imports were necessary to fulfill domestic demand. Cementos Nacionales serves the cement market throughout the Dominican Republic. Its principal competitors are Cementos Cibao, a local competitor, Cemento Colon, an affiliate of Holcim, Cenentos Andinos, a competitor of Colombian origin and Domicen, a competitor of Italian origin.

As of December 31, 2004, Cementos Nacionales was the leading cement producer in the Dominican Republic, based on installed capacity as reported by International Cement Review in the Global Cement Report. Cementos Nacionales' sales network covers the country's main consumption areas, which are Santo Domingo, Santiago de los Caballeros, La Vega, San Pedro de Macoris, Azua and Bavaro.

Cementos Nacionales currently owns one dry process cement plant in San Pedro de Macoris with an installed capacity of 0.7 million tons per year of clinker, in addition to seven ready-mix concrete production plants, three grinding mills with an installed capacity of 2.4 million tons per year, 7 distribution centers located throughout the country and two marine terminals. During 2004, our Dominican Republic clinker production facilities operated at full capacity and our grinding mills operated at 75% capacity.

We made capital expenditures of approximately U.S.$9.0 million in 2002, U.S.$13.4 million in 2003 and U.S.$56.3 million in 2004 in our Dominican Republic operations. We currently expect to make capital investments of approximately U.S.$85.8 million in our Dominican Republic operations during 2005.

Our Panamanian Operations

As of December 31, 2004, we owned a 99.3% interest in Cemento Bayano.

Approximately one million cubic meters of ready-mix concrete were sold in Panama during 2004, according to the General Comptroller of the Republic of Panama (Contraloria General de la Republica de Panama). Panamanian cement consumption increased 17% in 2004, according to our estimates. The Panamanian cement industry includes two cement producers, Cemento Bayano and Cemento Panama, an affiliate of Holcim and Cementos del Caribe.

Our operations in Panama include one dry production process cement plant, with an installed capacity for cement production of approximately 402,000 tons per year. In addition, Cemento Bayano owns and operates eleven ready-mix concrete plants located in Panama City, Colon, Aguadulce, Arraijan and in Chiriqui. In December 2003, Cemento Bayano acquired a new quarry to supply aggregates for its ready-mix operations for approximately U.S.$4 million.

We made capital expenditures of approximately U.S.$3.9 million in 2002, U.S.$7.6 million in 2003 and U.S.$6.3 million in 2004 in our Panamanian operations. We currently expect to make capital expenditures of approximately U.S.$8.5 million in our Panamanian operations during 2005.

Our Nicaragua Operations

CEMEX Nicaragua leases and operates one cement plant with five kilns utilizing the wet production process and an installed milling capacity of 470,000 tons. Since March 2003, we have leased a 100,000 ton milling plant in Managua, which has been used exclusively for pet-coke milling.

According to our estimates, Nicaraguan cement production during 2004 grew 16.9% compared to 2003. The increase was a result of increased public sector investment and increased private investment attributable to an improvement in the perceived business climate.

According to our estimates, approximately 600,000 tons of cement were sold in Nicaragua during 2004. Two market participants compete in the Nicaraguan cement industry: CEMEX Nicaragua and Holcim.

We made capital expenditures of approximately U.S.$3.9 million in 2002, U.S.$4.6 million in 2003 and U.S.$2.8 million in 2004 in our Nicaraguan operations. We currently expect to make capital expenditures of approximately U.S.$8.2 million in our Nicaraguan operations during 2005.

Our Puerto Rico Operations

Our Puerto Rican operations represented approximately 20.7% of our cement sales volumes in the Caribbean region in 2004. As of December 31, 2004, we owned 100% of Puerto Rican Cement Company, Inc., or PRCC.

In 2004, Puerto Rican cement consumption reached 1.8 million tons. PRCC serves the cement market throughout Puerto Rico. The Puerto Rican cement industry in 2004 was comprised of two cement producers, PRCC, and San Juan Cement Co., an affiliate of Italcementi.

Our operations in Puerto Rico include one cement plant utilizing the dry production process, with an installed cement capacity of approximately 1.1 million tons per year. In addition, PRCC owns and operates ten ready-mix concrete facilities, mainly serving the sector of the Puerto Rican market located on the eastern part of the island.

We made capital expenditures of approximately U.S.$14.8 million in 2002, U.S.$26.0 million in 2003 and U.S.$8.3 million in 2004 in our Puerto Rican operations. We currently expect to make capital investments of approximately U.S.$9.2 million in our Puerto Rican operations during 2005.

Our Other Caribbean Operations

We believe that the Caribbean region holds considerable strategic importance because of its geographic location. Our network of seven marine terminals in the region facilitates exports from our operations in several countries, including Mexico, Venezuela, Costa Rica, Puerto Rico, Spain, Colombia and Panama. Three of our marine terminals are located in the main cities of Haiti, two are in the Bahamas, one is in Bermuda and one is in the Cayman Islands.

Our Trading Operations

We traded more than 10 million tons of cement and clinker in 2004. Approximately 60% of this amount consisted of exports from our operations in Venezuela, Mexico, Egypt, Philippines, Costa Rica, Spain, Puerto Rico and Nicaragua. Approximately 40% was purchased from third parties in countries such as South Korea, China, Turkey, Egypt, Israel, Thailand, Venezuela, Cyprus, Indonesia, Portugal, Spain, Colombia and Tunisia. During 2004, we conducted trading activities in 75 countries.

To enhance our trading operations in the Mediterranean region, we are currently building three grinding mills in Italy, two of which will have an installed capacity of approximately 750 thousand tons per year and the third of which will have an installed capacity of 450 thousand tons per year. Two mills [are expected to begin] operating during the second quarter of 2005, while the third mill, with an installed capacity of 450 thousand tons per year, is expected to start operating in 2006. With respect to these operations, we made capital investments of approximately U.S.$13 million during 2003 and approximately U.S.$33 million during 2004. We currently expect to make capital investments of approximately U.S.$44 million in Italy during 2005.

Our trading network enables us to maximize the capacity utilization of our facilities worldwide while reducing our exposure to the inherent cyclicality of the cement industry. We are able to distribute excess capacity to regions around the world where there is demand. In addition, our worldwide network of strategically located marine terminals allows us to coordinate maritime logistics on a global basis and minimize transportation expenses. Our trading operations also enable us to explore new markets without significant initial capital investment.

RMC traded around 3 million tons of cement and clinker during 2004. Approximately 60% of this amount was traded among its subsidiaries and the remaining 40% was purchased from third parties not affiliated with RMC or CEMEX.

Description of RMC Operations

Set forth below is a brief description of RMC's world-wide operations, which include significant operations in the United Kingdom, the United States, Germany and France, as well as operations in other countries in Europe and the rest of the world. As described above, we completed our acquisition of RMC on March 1, 2005, and we are currently involved in the post-merger integration process for these operations.

The revenue information set forth below with respect to RMC's operations for the year ended December 31, 2004 has been derived from RMC's audited annual financial statements for 2004. RMC's financial statements were prepared by RMC in accordance with U.K. GAAP, which differs in significant respects from Mexican GAAP.

For the year ended December 31, 2004, RMC's revenues from continuing operations, before revenues from unconsolidated joint ventures and associated entities of approximately (pound)351.7 million, were (pound)4,121.1 million.

As of the date of this annual report, we have not finalized our budget for capital expenditures related to RMC's operations for 2005. However, we do not expect RMC-related capital expenditures to exceed U.S. $450 million in 2005.

United Kingdom

Overview

RMC is a leading provider of building materials in the United Kingdom with vertically integrated cement, ready-mix concrete and aggregates operations. RMC is also an important asphalt producer in the United Kingdom, with a significant share of the roof tile, concrete-block paving, and concrete-block segments.

For the year ended December 31, 2004, RMC's operations in the United Kingdom generated revenues of approximately (pound)1,071 million.

The U.K. Cement Industry

According to Cembureau, the representative organization of the cement industry in Europe, total construction output in the U.K. grew 3.5% in 2004 compared to 2003. The increase in total construction output in 2004 was primarily driven by an increase in residential construction. In addition, total cement consumption remained flat at approximately 13.6 million tons.

Competition

RMC's primary competitors in the U.K. are Lafarge, Castle, Hanson, Tarmac and Aggregate Industries, each with varying regional and product strengths. The high-volume south-eastern market is well-served by RMC's raw-material sources and manufacturing plants.

RMC's U.K. Operating Network

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Description of Properties, Plants and Equipment

As of December 31, 2004, RMC operated three cement plants located in the United Kingdom, with an installed cement capacity of 2.7 million tons per year. RMC also operated 323 ready-mix concrete plants and 134 aggregate quarries in the United Kingdom. RMC also owns a grinding mill and six marine import terminals in the United Kingdom. In addition, RMC has operating units dedicated to the asphalt, block, tile and paving businesses in the United Kingdom.

United States

For a description of RMC's operations in the United States, please see "-- North America -- Our U.S. Operations" above.

Germany

Overview

RMC is a leading provider of building materials in Germany, with vertically integrated cement, ready-mix concrete and aggregates operations. RMC maintains a nationwide network for ready-mix concrete and aggregates in Germany. RMC's German operations provide its customers with high-quality raw materials, versatile concrete products, and intelligent building solutions.

For the year ended December 31, 2004, RMC's operations in Germany generated revenues of approximately (pound)570 million.

The German Cement Industry

According to Cembureau, total construction in Germany declined 17% in 2004 compared to 2003. The decrease was primarily driven by a decrease in non-residential construction. Total cement consumption in 2004 was 28 million tons, a decline of 3% compared to 2003.

Competition

RMC's primary competitors in the German cement market are Heidelberg, Dyckerhoff (a subsidiary of Buzzi-Unicem), Lafarge, Holcim and Schwenk, a local German competitor. The ready-mix concrete and aggregates markets in Germany are more fragmented, with more participation of local competitors.

RMC's German Operating Network

[GRAPHIC OMITTED]

Description of Properties, Plants and Equipment

As of December 31, 2004, RMC operated three cement plants in Germany, with an installed cement capacity of 6.4 million tons per year. RMC also operated three cement grinding mills, 182 ready-mix concrete plants, 44 aggregate quarries and two land terminals in Germany.

France

Overview

RMC is a leading ready-mix concrete producer in France. RMC is also a leading producer of aggregates in France and transports a significant quantity of materials by waterway.

For the year ended December 31, 2004, RMC's operations in France generated revenues of approximately (pound)432 million.

The French Cement Industry

According to Cembureau, total construction output in France grew by 3.3% in 2004 compared to 2003. The increase was primarily driven by an increase in residential construction. Cement consumption grew 3.0% to 21.3 million tons compared to the prior year.

Competition

RMC's main competitors in the ready-mix market in France include Lafarge, Holcim, Italcementi and Vicat. RMC's main competitors in the aggregates market in France include Lafarge, Italcementi, Colas and Eurovia. Many of RMC's major competitors benefit from manufacturing their own supply of cement within France, while RMC must rely on third party cement producers in France.

Description of Properties, Plants and Equipment

As of December 31, 2004, RMC operated 223 ready-mix concrete plants in France, one maritime cement terminal located in LeHavre, on the northern coast of France, and 48 aggregates quarries.

Rest of Europe

For the year ended December 31, 2004, RMC's operations in the rest of Europe, which consist of its operations in 13 European countries other than the U.K., Germany and France, generated revenues of approximately (pound)918 million.

In Austria, RMC is a leading participant in the concrete, pumping, aggregates and pre-cast concrete markets and also produces ready-mix concrete and admixtures. RMC operates 38 ready-mix concrete plants and 26 aggregate quarries in Austria.

RMC is the largest cement producer in Croatia based on installed capacity. Its three cement plants, with an installed capacity of 2.6 million tons per year, and six cement terminals serve predominantly the coastal and the central northwest region of the country. RMC's ready-mix concrete operations in Croatia are located in the western part of the country with two ready-mix facilities and an aggregates quarry.

RMC is a leading provider of building materials in Poland serving the cement, ready-mix concrete and aggregates markets. RMC operates two cement plants in Poland, with a total installed cement capacity of 3.1 million tons per year. RMC operates two grinding mills, three aggregates quarries, and 28 ready-mix concrete plants in Poland.

RMC is Latvia's only cement producer and operates one cement plant with an installed cement capacity of 0.4 million tons per year. RMC is a leading ready-mix producer and supplier in Latvia with three ready-mix concrete plants. RMC's Latvian operations also produce other concrete products and limestone flour.

RMC is a leading producer of ready-mix concrete and aggregates markets in the Czech Republic where it operates 46 ready-mix concrete plants and seven aggregates quarries. RMC also distributes cement in the Czech Republic and operates two cement grinding mills, with an installed milling cement capacity of 336 thousand tons per year, and one cement terminal.

RMC's operations in Ireland produce and deliver sand, stone and gravel as well as ready-mix concrete, mortar, and concrete products. RMC owns 44 ready-mix concrete plants and 23 aggregate quarries in Ireland. RMC is also involved in the production and distribution of pre-cast, pre-stressed and architectural pre-cast products for distribution throughout Ireland. In addition, RMC is involved in waste management in Northern Ireland and owns three maritime cement terminals for cement importation and distribution for Northern Ireland and the Isle of Man.

RMC has aggregates and ready-mix concrete operations in Spain, Hungary and Portugal. In addition, RMC operates 18 ready-mix concrete plants in Denmark. In Finland, Norway and Sweden, RMC, through Embra, a leading bulk-cement importer in the Nordic region, operates 11 maritime cement terminals.

Rest of the World

For the year ended December 31, 2004, RMC's operations outside the United Kingdom, the United States and Europe, generated revenues of approximately (pound)195 million.

RMC is a leading producer and supplier of raw materials for the construction industry in Israel. In addition to ready-mix concrete products, RMC produces a diverse range of building materials and infrastructure products in Israel. RMC operates 62 ready-mix concrete plants and 13 aggregates quarries in Israel.

In the United Arab Emirates (UAE), RMC operates 16 ready-mix concrete plants serving the markets of Dubai, Abu Dhabi, Ras Al Khaimah and Sharjah. In addition, RMC operates an aggregates quarry in the UAE.

RMC is a leading ready-mix concrete producer in Malaysia, with a significant share in the country's major urban hubs. RMC operates 26 ready-mix concrete plants and five aggregates quarries in Malaysia.

RMC's ready-mix concrete operations in Argentina, consist of three ready-mix concrete plants. In Jamaica, RMC has operations related to the production of calcined lime.

Regulatory Matters and Legal Proceedings

A description of material regulatory and legal matters affecting us is provided below.

Tariffs

Mexican tariffs on imported goods vary by product and have been as high as 100%. In recent years, import tariffs have been substantially reduced and currently range from none at all for raw materials to over 20% for finished products, with an average weighted tariff of approximately 3.7%. As a result of the North American Free Trade Agreement, or NAFTA, as of January 1, 1998, the tariff on cement imported into Mexico from the United States or Canada was eliminated. However, a tariff in the range of 13% ad valorem will continue to be imposed on cement produced in all other countries unless tariff reduction treaties are implemented or the Mexican government unilaterally reduces that tariff. While the reduction in tariffs could lead to increased competition from imports in our Mexican markets, we anticipate that the cost of transportation from most producers outside Mexico to central Mexico, the region of highest demand, will remain an effective barrier to entry.

Spain, as a member of the European Union, is subject to the uniform European Union commercial policy. There is no tariff on cement imported into Spain from another European Union country or on cement exported from Spain to another member country. For cement imported into a member country from a non-member country, the tariff is currently 1.7% of the customs value. Any country with preferential treatment with the European Union is subject to the same tariffs as members of the European Union. Most Eastern European producers who export cement into Spain currently pay no tariff.

Environmental Matters

We use processes that are designed to protect the environment throughout all the production stages in all our operations worldwide. We believe that we are in substantial compliance with all material environmental laws applicable to us.

European Union directives imposing stricter environmental standards are expected to be implemented in Spain by 2007. For the purpose of adopting the directives, on July 3, 2002, Spain promulgated Law 16/2002, which establishes mechanisms for the prevention and integrated control of pollution. The new law requires that factories operating in Spain receive an integrated environmental authorization from the relevant regulatory body at the autonomous region level, generally the department of the environment. This new law came into force on July 3, 2002; however, due to a transitional period, existing industries need not comply until October 30, 2007. In anticipation of our compliance by this date, one of our eight plants in Spain has already received the required authorization. With respect to our other plants, we already comply or believe that we would be able to comply with the requisite standards, if necessary, without significant expenditures. In addition, we are not aware of any material environmental liabilities with respect to our Spanish operations. We are currently evaluating the impact of the European Union directives on RMC's European operations.

CEMEX Venezuela's cement production plants are subject to and comply with Venezuelan environmental regulations. The Ministerio del Ambiente y los Recursos Naturales, or Ministry of the Environment and Natural Resources, is the regulatory body in Venezuela with jurisdiction over environmental matters. CEMEX Venezuela has decreased the emission levels of cement dust, through dust extraction equipment installed in all its cement plants.

We were one of the first industrial groups in Mexico to sign an agreement with the Secretaria del Medio Ambiente y Recursos Naturales, or SEMARNAT, the Mexican government's environmental ministry, to carry out voluntary environmental audits in our 15 Mexican cement plants, including our Hidalgo plant, which temporarily halted operations in 2002, under a government-run program. In 2001, the Mexican environmental protection agency in charge of the voluntary environmental auditing program, the Procuraduria Federal de Proteccion al Ambiente, or PROFEPA, which is part of SEMARNAT, completed auditing our 15 cement plants and awarded all our plants, including our Hidalgo plant, a Certificado de Industria Limpia, Clean Industry Certificate, certifying that our plants are in compliance with environmental laws. The Clean Industry Certificates are strictly renewed every two years. As of the date of this annual report, 14 of the cement plants have a Clean Indusrty Certificate. The Certificates for Atotonilco, Huichapan, Merida, Yaqui, Hermosillo, Tamuin, Valles and Zaptoltic were renewed in 2004; the Certificates for Barrientos, Torreon

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and Guadalajara are scheduled to be renewed in 2005; and the Certificates for Monterrey, Ensenada and Tepeaca are scheduled to be renewed in 2006. The Certificate of the Hildalgo plant has expired, and since the plant is no longer in operation, the Certificate will not be renewed. For over a decade, the technology for recycling used tires into an energy source has been employed in our Ensenada and Huichapan plants. Our Monterrey and Hermosillo plants started using tires as an energy source in September 2002 and November 2003, respectively. In 2004, our Yaqui, Tamuin, Guadalajara and Barrientos plants also started using tires as an energy source. Municipal collection centers in Tijuana, Mexicali, Ensenada, Mexico City, Reynosa, Nuevo Laredo and Guadalajara currently enable us to recycle an estimated 10,000 tons of tires per year. During 2004, the Ensenada, Yaqui, Hermosillo, Guadalajara, Zapotiltic, Merida, Monterrey, Torreon, Valles, Tamuin, Barrientos, Atotonilco, Tepeaca and Huichapan plants substituted with alternative fuels approximately 5.76%, 3.43%, 2.65%, 0.74%, 0.03%, 2.56%, 1.34%, 6.02%, 0.02%, 1.26%, 4.75%, 0.58%, 0.01% and 3.90%, respectively, of their total fuel used. Overall, approximately 1.98% of the total fuel used in the 14 cement plants was comprised of alternative substituted fuels.

Between 1999 and 2004, our Mexican operations have invested in the acquisition of environmental protection equipment and the implementation of the ISO 14001 environmental management standards of the International Organization for Standardization, or ISO. Currently, our 14 operating cement plants in Mexico and an aggregates plant in Monterrey have the ISO 14001 certification for environmental management systems.

As of December 31, 2004, our eight cement plants in Spain and our cement mill in Tenerife, Spain have received the ISO 14001 certification for environmental management systems.

CEMEX, Inc. is subject to a wide range of U.S. Federal, state and local laws, regulations and ordinances dealing with the protection of human health and the environment. These laws are strictly enforced and can lead to significant monetary penalties for noncompliance. These laws regulate water discharges, noise, and air emissions, including dust, as well as the handling, use and disposal of hazardous and non-hazardous waste materials. These laws also create a shared liability by responsible parties for the cost of cleaning up or correcting releases to the environment of designated hazardous substances. We therefore may have to remove or mitigate the environmental effects of the disposal or release of these substances at CEMEX, Inc.'s various operating facilities or elsewhere. We believe that our current procedures and practices for handling and managing materials are generally consistent with the industry standards and legal and regulatory requirements and that we take appropriate precautions to protect employees and others from harmful exposure to hazardous materials.

Several of CEMEX, Inc.'s previously owned and currently owned facilities have become the subject of various local, state or Federal environmental proceedings and inquiries in the past. While some of these matters have been settled, others are in their preliminary stages and may not be resolved for years. The information developed to date on these matters is not complete. CEMEX, Inc. does not believe it will be required to spend significantly more on these matters than the amounts already recorded in our consolidated financial statements included elsewhere in this annual report. However, it is impossible for CEMEX, Inc. to determine the ultimate cost that it might incur in connection with such environmental matters until all environmental studies and investigations, remediation work, negotiations with other parties that may be responsible, and litigation against other potential sources of recovery have been completed. With respect to known environmental contingencies, CEMEX, Inc. has recorded provisions for estimated probable liabilities and does not believe that the ultimate resolution of such matters will have a material adverse effect on our financial results.

U.S. Anti-Dumping Sunset Reviews

Under the U.S. anti-dumping and countervailing duty laws, the Commerce Department and the International Trade Commission, or ITC, are required to conduct "sunset reviews" of outstanding anti-dumping and countervailing duty orders and suspension agreements every five years. At the conclusion of these reviews, the Commerce Department is required to terminate the order or suspension agreement unless the agencies have found that termination is likely to lead to continuation or recurrence of dumping, or a subsidy in the case of countervailing duty orders, and material injury. Under special transition rules, the first sunset reviews commenced in August 1999 for cases involving gray Portland cement and clinker from Mexico and Venezuela (described below), which had orders and agreements issued before 1995, and were concluded by the Commerce Department in July 2000 and by the ITC in October 2000.

In July 2000, the Commerce Department determined not to revoke the anti-dumping order on imports from Mexico. On October 5, 2000, the ITC found likelihood of injury to the U.S. industry and determined not to revoke this anti-dumping order. Thus, the order remains in place. On September 19, 2001, CEMEX filed a petition for a "changed circumstances" review. The ITC decided in December 2001 not to initiate such a review. CEMEX has appealed the ITC's decision in the "sunset review" and the "changed circumstances" review to NAFTA. In January 2005, a NAFTA Panel was formed to review the ITC's sunset review determination. On April 7, 2005, the NAFTA Panel heard oral arguments, but had not issued its determination as of the date of this annual report.

On May 21, 1991, U.S. producers of gray cement and clinker filed petitions with the Department of Commerce and the ITC claiming that imports of gray cement and clinker from Venezuela were subsidized by the Venezuelan government and were being dumped into the U.S. market. The producers asked the U.S. government to impose anti-dumping and countervailing duties on these imports. The Commerce Department initially found that CEMEX Venezuela had a dumping margin of 49.2%. Rather than proceeding with the final Commerce Department and ITC determinations, CEMEX Venezuela and the Commerce Department entered into an Anti-Dumping Suspension Agreement on February 11, 1992. Under the Anti-Dumping Suspension Agreement, CEMEX Venezuela agreed not to sell gray cement or clinker in the United States at a price less than the "foreign market value." On October 5, 2000, the ITC determined that terminating the Anti-Dumping Suspension Agreement involving imports from Venezuela would not likely lead to a continuation or recurrence of injury to the U.S. market, and voted to terminate such agreement. Consequently, on November 8, 2000, the Commerce Department issued a notice terminating the Anti-Dumping Suspension Agreement covering imports of cement from Venezuela. On July 28, 2003, the United States Court of International Trade, or CIT, upheld the Commerce Department's decision to terminate the Suspension Agreement. The U.S. cement industry appealed the decision of the Court of International Trade to the Court of Appeals for the Federal Circuit. On December 14, 2004, the Court of Appeals for the Federal Circuit upheld the CIT's decision affirming the Commerce Department's termination of the Suspension Agreement. Thus, all litigation involving the Venezuelan Suspension Agreement has been completed and imports of cement from Venezuela are free of all antidumping restrictions.

U.S. Anti-Dumping Rulings--Mexico

Our exports of Mexican gray cement from Mexico to the United States are subject to an anti-dumping order that was imposed by the Commerce Department on August 30, 1990. Pursuant to this order, firms that import gray Portland cement from our Mexican operations in the United States must make cash deposits with the U.S. Customs Service to guarantee the eventual payment of anti-dumping duties.

Mexican importers' deposits are being liquidated in stages, as appeals are exhausted for each annual review period. When the final anti-dumping rate for any review period causes the amount due to exceed the amount that was deposited, the Mexican importers are required to pay the difference with interest. When the final anti-dumping rate for any review period is lower than the amount that was deposited, the U.S. Customs Service refunds the difference, with interest, to the Mexican importers.

As of December 31, 2004, CEMEX Corp., as the parent company of our U.S. subsidiaries that import Mexican cement into the United States, had accrued liabilities of U.S.$103.6 million, including accrued interest, for the difference between the amount of anti-dumping duties paid on imports and the latest findings by the Commerce Department in its administrative reviews.

The Commerce Department has published its final dumping determinations for the first, second, third, fourth, fifth and seventh review periods. The Commerce Department's final results of its final determinations for the sixth, eighth, ninth, tenth, eleventh, twelfth and thirteenth review periods have also been published, but have been suspended pending review by NAFTA panels.

On October 20, 2003, the NAFTA Extraordinary Challenge Committee upheld the NAFTA Panel reviewing the final results of the fifth administrative review, covering the period August 1, 1994 -- July 1, 1995. The NAFTA Panel upheld the Commerce Department's remand results which lowered the antidumping duty margin for imports during the fifth review period to 44.9% ad valorem. The Customs Service has completed liquidating entries of cement from Mexico made during the fifth review period.

On November 25, 2003, the NAFTA Panel reviewing the final results of the seventh review period upheld the Commerce Department's remand results of the seventh review period. The remand results lowered the antidumping margin for imports made during the seventh review period to 37.3% ad valorem. The Customs Service has begun liquidating all entries of cement from Mexico made during the seventh review period.

On September 16, 2003, the Commerce Department issued its final determination covering the twelfth review period, commencing on August 1, 2001 and ending on July 31, 2002. The Commerce Department determined that the antidumping margin was 80.75% ad valorem. The final results for the twelfth review period established a cash deposit rate for imports of gray Portland cement and cement clinker from Mexico made on or after September 16, 2003. The cash deposit rate was established at $52.41 per ton, which remained in effect until the final results of the thirteenth review period were published.

The latest final determination by the Commerce Department covering the thirteenth review period, commencing on August 1, 2002 and ending on July 31, 2003, was issued on December 29, 2004. The Commerce Department determined that the antidumping margin was 54.97% ad valorem. The final results for the thirteenth review period set the cash deposit rate for imports of gray Portland cement and cement clinker from Mexico made on or after December 29, 2004. The cash deposit rate was set at $32.85 per ton, which will remain in effect until the final results of the fourteenth review period are published.

The status of each period still under review or appeal is as follows:

Period	Cash Deposits	Status
8/1/95-7/31/96	61.85% (effective 5/5/1997)	37.49% determined by the Commerce Departme Liquidation suspended pending NAFTA panel
8/1/97-7/31/98	73.69%, 35.88% and 37.49% (effective 5/4/1998)	45.98% determined by the Commerce Departme Liquidation suspended pending NAFTA panel
8/1/98-7/31/99	37.49%, 49.58% (effective 3/17/1999)	38.65% determined by the Commerce Departme Liquidation suspended pending NAFTA panel
8/1/99-7/31/00	49.58%, 45.98% (effective 3/16/2000)	50.98% determined by the Commerce Departme Liquidation suspended pending appeal to NA
8/1/00-7/31/01	49.58%, 38.65% (effective 5/14/2001)	73.74% determined by the Commerce Departme Liquidation suspended pending appeal to NA
8/1/01-7/31/02	38.65%, 50.98% (effective 3/19/2002)	80.75% determined by the Commerce Departme Liquidation suspended pending appeal to NA
8/1/02 - 7/31/03	50.98%, 73.74% (effective 1/14/2003)	54.97% determined by the Commerce Departme Liquidation suspended pending appeal to NA
8/1/03 - 7/31/04	73.74%, U.S.$52.41 per ton (effective 10/15/2003)	Subject to review by the Commerce Departme
8/01/04 - to date	U.S.$52.41 per ton, U.S.$32.85 per ton (effective 12/29/2004)	Subject to review by the Commerce Departme

Anti-Dumping in Taiwan

Five Taiwanese cement producers -- Asia Cement Corporation, Taiwan Cement Corporation, Lucky Cement Corporation, Hsing Ta Cement Corporation and China Rebar -- filed before the Tariff Commission under the Ministry of Finance (MOF) of Taiwan an anti-dumping case involving imported gray Portland cement and clinker from the Philippines and Korea.

In July 2001, the MOF informed the petitioners and the respondent producers in exporting countries that a formal investigation had been initiated. Among the respondents in the petition are APO, Rizal and Solid, indirect subsidiaries of CEMEX.

In June 2002, the International Trade Commission under the Ministry of Economic Affairs (ITC-MOEA) notified respondent producers that its final injury investigation concluded that the imports from South Korea and the Philippines have caused material injury to the domestic industry in Taiwan.

In July 2002, the MOF notified the respondent producers that a dumping duty would be imposed on Portland cement and clinker imports from the Philippines and South Korea commencing from July 19, 2002. The duty rate imposed on imports from APO, Rizal and Solid was 42%.

In September 2002, APO, Rizal and Solid filed before the Taipei High Administrative Court an appeal in opposition to the anti-dumping duty imposed by the MOF. In August 2004, we received a copy of the decision of the Taipei Administrative High Court, which was adverse to our appeal. The decision has since become final.

Tax Matters

As of December 31, 2004, we and some of our Mexican subsidiaries have been notified of several tax assessments determined by the Mexican tax office with respect to the tax years from 1992 through 1996 in a total amount of Ps3,638.6 million. The tax assessments are based primarily on: (i) recalculations of the inflationary tax deduction, since the tax authorities claim that "Advance Payments to Suppliers" and "Guaranty Deposits" are not by their nature credits, (ii) disallowed restatement of tax loss carryforwards in the same period in which they occurred, (iii) disallowed determination of tax loss carryforwards, and (iv) disallowed amounts of business asset tax, commonly referred to as BAT, creditable against the controlling entity's income tax liability on the grounds that the creditable amount should be in proportion to the equity interest that the controlling entity has in its relevant controlled entities. We have filed an appeal for each of these tax claims before the Mexican federal tax court, and the appeals are pending resolution.

As of December 31, 2004, the Philippine Bureau of Internal Revenue, or BIR, assessed APO and Solid, our operating subsidiaries in Philippines, for deficiencies in the amount of income tax paid in prior tax years amounting to a total of approximately PhP3,069.1 million (approximately U.S.$54.8 million as of December 31, 2004, based on an exchange rate of PhP56.702 to U.S.$1.00, which was the Philippine Peso/Dollar exchange rate on December 31, 2004 as published by the Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines). The tax assessments result primarily from: (i) the disallowance of APO's income tax holiday related income from 1998 to 2001; and (ii) deficiencies in national taxes paid by APO for the 1999 tax year and by

Solid for the 2000 tax year. In the first case, we have contested the BIR's assessment with the Court of Tax Appeal, or CTA. In the second case, both APO and Solid continue to submit relevant evidence to the BIR to contest these assessments and intend to contest these assessments with the CTA in case the BIR issues a final collection letter. In addition, Solid's 1998 tax year and APO's 1997 and 1998 tax years are under preliminary review by the BIR for deficiency in the payment of taxes. As of the date of this annual report, the finalization of these assessments was held in abeyance by the BIR as APO and Solid continue to present evidence to dispute its findings. We believe that these assessments will not have a material adverse effect on us. However, an adverse resolution of these assessments could have a material adverse effect on our results of operations in the Philippines.

Other Legal Proceedings

In May 1999, several companies filed a civil liability suit in the civil court of the circuit of Ibague, Colombia, against two of our Colombian subsidiaries, alleging that these subsidiaries were responsible for deterioration of the rice production capacity of the land of the plaintiffs caused by pollution from our cement plants located in Ibague, Colombia. On January 13, 2004, CEMEX Colombia was notified of the judgment the court entered against CEMEX Colombia which awarded damages to the plaintiffs in the amount of CoP21,114 million (U.S.$9.09 million as of February 28, 2005, based on an exchange rate of CoP2,323.77 to U.S.$1.00, which was the Colombian Peso/Dollar exchange rate on February 28, 2005 as published by the Banco de la Republica de Colombia, the central bank of Colombia). On January 15, 2004 CEMEX Colombia, appealed the judgment. The appeal was admitted and the case was sent to the Tribunal Superior de Ibague, where CEMEX Colombia filed, on March 23, 2004, a statement of the arguments supporting its

appeal. The case is currently under review by the appellate court. We expect this proceeding to continue for several years before final resolution.

In March 2001, 42 transporters filed a civil liability suit in the civil court of Ibague, Colombia, against three of our Colombian subsidiaries. The plaintiffs content that these subsidiaries are responsible for alleged damages caused by breach of raw material transportation contracts. The plaintiffs asked for relief in the amount of CoP127,242 million (U.S.$54.76 million as of February 28, 2005). This proceeding has reached the evidentiary stage. Typically, proceedings of this nature continue for several years before final resolution.

As of December 31, 2004, CEMEX, Inc. had accrued liabilities specifically relating to environmental matters in the aggregate amount of U.S.$28.3 million. The environmental matters relate to (i) the disposal of various materials in accordance with past industry practice, which might be categorized as hazardous substances or wastes, and (ii) the cleanup of sites used or operated by CEMEX, Inc., including discontinued operations, in regard to the disposal of hazardous substances or wastes, either individually or jointly with other parties. Most of the proceedings are in the preliminary stage, and a final resolution might take several years. For purposes of recording the provision, CEMEX, Inc. considers that it is probable that a liability has been incurred and the amount of the liability is reasonably estimable, whether or not claims have been asserted, and without giving effect to any possible future recoveries. Based on information developed to date, CEMEX, Inc. does not believe it will be required to spend significant sums on these matters in excess of the amounts previously recorded. Until all environmental studies, investigations, remediation work, and negotiations with or litigation against potential sources of recovery have been completed, the ultimate cost that might be incurred to resolve these environmental issues cannot be assured.

In March 2003, a lawsuit was filed in the Indonesian province of West Sumatra in the Padang District Court against (i) Gresik, an Indonesian cement producer in which we own a 25.5% interest through CAH and the Republic of Indonesia owns a 51% interest, (ii) Semen Padang, a 99.9%-owned subsidiary of Gresik that owns and operates Gresik's Padang cement plant, and (iii) several Indonesian government agencies. The lawsuit, which was filed by a foundation purporting to act in the interest of the people of West Sumatra, challenged the validity of the sale of Semen Padang by the Indonesian government to Gresik in 1995 on the grounds that the Indonesian government did not obtain the necessary approvals for such sale. On May 9, 2003, the Padang District Court issued an interim decision suspending Gresik's rights as a shareholder in Semen Padang on the grounds that ownership of Semen Padang was an issue in dispute. On March 31, 2004, the Padang District Court announced its final decision in favor of the foundation. On April 12, 2004, Gresik filed an appeal of this decision with the Padang District Court, which will in turn forward the appeal to the High Court of the West Sumatra province.

In addition to the case outlined in the preceding paragraph, there are two other formal legal proceedings relating to the change of management at PT Semen Padang in May 2003. In one case, filed by the Employees' Cooperative of PT Semen Padang, the District Court of Padang ruled that the replacement of management at PT Semen Padang was legally valid. An appeal of that decision by the former management is currently pending before the High Court for West Sumatra. In the other proceeding, certain members of the former management of PT Semen Padang have filed a request for consideration with the Supreme Court in regard to its decision in March 2003 to permit the general meeting of shareholders of PT Semen Padang which led to the replacement of the former management. This request is still pending.

After the failure of several attempts to reach a negotiated or mediated solution to these problems involving Gresik, on December 10, 2003, CAH filed a request for arbitration against the Republic of Indonesia and the Indonesian government before the International Centre for Settlement of Investment Disputes, or ICSID, based in Washington D.C. CAH is seeking, among other things, rescission of the purchase agreement entered into with the Republic of Indonesia in 1998, plus repayment of all costs and expenses, and compensatory damages. ICSID has accepted and registered CAH's request for arbitration and issued a formal notice of registration on January 27, 2004. On May 10, 2004, an Arbitral Tribunal was established to hear the dispute. The Indonesian government has objected to the Tribunal's jurisdiction over the claims asserted in CAH's request for arbitration, and a hearing to resolve these jurisdictional objections is expected to take place during 2005. We cannot predict what effect, if any, this action will have on our investment in Gresik, how the Tribunal will rule on the Indonesian government's jurisdictional objections or the merits of the dispute, or the time-frame in which the Tribunal will rule. For a more detailed description of our investment in Gresik and the ongoing difficulties with Semen Padang, please see "Europe, Asia and Africa -- Our Asian Operations -- Our Indonesian Equity Investment" above.

During 2004, four lawsuits filed in protection of the public interest, which include a subsidiary of CEMEX Colombia as a codefendant, were filed; the first was filed on April 14 and the last was filed on December 16. The plaintiffs argue that the use of a base material sold by the ready-mix industry resulted in premature distress of the roads built for the mass public transportation system of Bogota. The lawsuits allege that the base material supplied by CEMEX Colombia and the other suppliers failed to meet technical standards offered by the producers (quality deficiencies) and/or that they provided insufficient or inaccurate information in connection with the product. The four lawsuits seek the repair of the road in a manner which guarantees its service during the 20-year period for which it was originally designed. However, the lawsuits do not estimate the alleged damages, in this case, cost of repairs. CEMEX Colombia has vigorously defended itself and will continue to do so. One of the lawsuits was dismissed based on arguments presented to the court by CEMEX Colombia; each of the others are in the initial stage of proceedings. CEMEX Colombia has timely contested each of the lawsuits of which have been notified. At this early stage it is not possible to estimate the potential damages or the portion thereof which could be borne by CEMEX Colombia. Typically, proceedings of this nature continue for several years before final resolution.

As of the date of this annual report, we are involved in various legal proceedings involving product warranty claims, environmental claims, indemnification claims relating to acquisitions and similar types of claims brought against RMC that have arisen in the ordinary course of business. We believe we have made adequate provisions to cover both current or contemplated general and specific litigation risks, and we believe these matters will be resolved without any significant effect on our operations, financial position or results of operations.

Item 5 - Operating and Financial Review and Prospects

Cautionary Statement Regarding Forward Looking Statements

This annual report contains forward-looking statements that reflect our current expectations and projections about future events based on our knowledge of present facts and circumstances and assumptions about future events. In this annual report, the words "expects," "believes," "anticipates," "estimates," "intends," "plans," "probable" and variations of such words and similar expressions are intended to identify forward-looking statements. Such statements necessarily involve risks and uncertainties that could cause actual results to differ materially from those anticipated. Some of the risks, uncertainties and other important factors that could cause results to differ, or that otherwise could impact us or our subsidiaries, include:

- the cyclical activity of the construction sector;
- competition;
- general political, economic and business conditions;
- weather and climatic conditions;
- national disasters and other unforeseen events; and
- the other risks and uncertainties described under Item 3 "-- Key Information -- Risk Factors" and elsewhere in this annual report.

Readers are urged to read this entire annual report and carefully consider the risks, uncertainties and other factors that affect our business. The information contained in this annual report is subject to change without notice, and we are not obligated to publicly update or revise forward-looking statements. Readers should review future reports filed by us with the Securties and Exchange Commission.

This annual report also includes statistical data regarding the production, distribution, marketing and sale of cement, ready-mix concrete and clinker. We generated some of these data internally, and some were obtained from independent industry publications and reports that we believe to be reliable sources. We have not independently verified these data nor sought the consent of any organizations to refer to their reports in this annual report.

Overview

The following discussion should be read in conjunction with our consolidated financial statements included elsewhere in this annual report. These financial statements do not reflect the consolidation of RMC, which occurred on March 1, 2005, or asset sales subsequent to December 31, 2004. Our financial statements have been prepared in accordance with Mexican GAAP, which differ in significant respects from U.S. GAAP. See note 24 to our consolidated financial statements, included elsewhere in this annual report, for a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us.

Mexico experienced annual inflation rates of 5.6% in 2002, 3.9% in 2003 and 5.4% in 2004. Mexican GAAP requires that our consolidated financial statements recognize the effects of inflation. Consequently, financial data for all periods in our consolidated financial statements and throughout this annual report, except as otherwise noted, have been restated in constant Mexican Pesos as of December 31, 2004. They have been restated using the CEMEX weighted average inflation factors, as explained in note 3B to our consolidated financial statements included elsewhere in this annual report.

The percentage changes in cement sales volumes described in this annual report for our operations in a particular country include the number of s of cement sold to our operations in other countries. Likewise, unless otherwise indicated, the net sales financial information presented in this annual report for our operations in each country

include the Mexican Peso amount of sales derived from sales of cement to our operations in other countries, which have been eliminated in the preparation of our consolidated financial statements included elsewhere in this annual report.

The following table sets forth selected financial information as of and for each of the three years ended December 31, 2002, 2003, and 2004 by principal geographic area expressed as an approximate percentage of our total consolidated group before eliminations resulting from consolidation. We operate in countries with economies in different stages of development and structural reform, with different levels of fluctuation in exchange rates, inflation and interest rates. These economic factors may affect our results of operations and financial condition depending upon the depreciation or appreciation of the exchange rate of each country in which we operate compared to the Mexican Peso and the rate of inflation of each of these countries. The variations in (1) the exchange rates used in the translation of the local currency to Mexican Pesos, and (2) the rates of inflation used for the restatement of our financial information to constant Mexican Pesos, as of the latest balance sheet presented, may affect the comparability of our results of operations and consolidated financial position from period to period.

	% Mexico	% United States	% Spain	% Venezuela	% Colombia	% Egypt	% Philippines	Central America and the Caribbean	% Others
			(in millions of constant Mexican Pesos as of December 31, 200						
Net Sales For the Period Ended:									
December 31, 2002	34%	24%	14%	4%	3%	2%	2%	7%	10%
December 31, 2003	34%	22%	16%	4%	3%	2%	2%	8%	9%
December 31, 2004	33%	22%	16%	4%	3%	2%	2%	8%	10%
Operating Income For the Period Ended:									
December 31, 2002	72%	21%	18%	8%	6%	1%	--	7%	-33%
December 31, 2003	70%	14%	18%	7%	6%	2%	--	7%	-24%
December 31, 2004	60%	16%	18%	6%	6%	3%	1%	9%	-16%
Total Assets at:									
December 31, 2002	24%	19%	9%	3%	3%	2%	4%	5%	31%
December 31, 2003	22%	18%	14%	3%	3%	2%	3%	5%	30%
December 31, 2004	23%	16%	12%	3%	3%	2%	3%	5%	33%

Critical Accounting Policies

We have identified below the accounting policies we have applied under Mexican GAAP that are critical to understanding our overall financial reporting.

Income Taxes

Our operations are subject to taxation in many different jurisdictions throughout the world. Under Mexican GAAP, we recognize deferred tax assets and liabilities using a balance sheet methodology, which requires a determination of the permanent and temporary differences between the financial statements carrying amounts and the tax basis of assets and liabilities. Our worldwide tax position is highly complex and subject to numerous laws that require interpretation and application and that are not consistent among the countries in which we operate. Our overall strategy is to structure our worldwide operations to take greatest advantage of opportunities provided under the tax laws of the various jurisdictions to minimize or defer the payment of income taxes on a consolidated basis.

Many of the activities we undertake in pursuing this tax reduction strategy are highly complex and involve interpretations of tax laws and regulations in multiple jurisdictions and are subject to review by the relevant taxing authorities. It is possible that the taxing authorities could challenge our application of these regulations to our operations and transactions. The taxing authorities have in the past challenged interpretations that we have made and have assessed additional taxes. Although we have from time to time paid some of these additional assessments, in general we believe that these assessments have not been material and that we have been successful in sustaining our positions. No assurance can be given, however, that we will continue to be as successful as we have been in the past or that pending appeals of

current tax assessments will be judged in our favor. Significant judgment is required to appropriately assess the amounts of tax assets. We record tax assets when we believe that the recoverability of the asset is determined to be more likely than not in accordance with established accounting principles. If this determination cannot be made, a valuation allowance is established to reduce the carrying value of the asset.

Recognition of the effects of inflation

Under Mexican GAAP, the financial statements of each subsidiary are restated to reflect the loss of purchasing power (inflation) of its functional currency. The inflation effects arising from holding monetary assets and liabilities are reflected in the income statements as monetary position result. Inventories, fixed assets and deferred charges, with the exception of fixed assets of foreign origin and the equity accounts, are restated to account for inflation using the consumer price index applicable in each country. The result is reflected as an increase in the carrying value of each item. Fixed assets of foreign origin are restated using the inflation index of the assets' origin country and the variation in the foreign exchange rate between the country of origin currency and the functional currency. The difference between the inflation of the country and the factor utilized to restate a fixed asset of foreign origin is presented in consolidated stockholders' equity in the line item Effects from Holding Non-Monetary Assets. Income statement accounts are also restated for inflation into constant Mexican Pesos as of the reporting date.

In the event of a sudden increase in the rate of inflation in Mexico, the adjustment that the market makes in the exchange rate of the Mexican Peso against other currencies resulting from such inflation is not immediate and may take several months, if it occurs at all. In this situation, the value expressed in the consolidated financial statements for fixed assets of foreign origin will be understated in terms of Mexican inflation, given that the restatement factor arising from the inflation of the assets' origin country and the variation in the foreign exchange rate between the country of origin currency and the Mexican Peso will not offset the Mexican inflation.

A sudden increase in inflation could also occur in other countries in which we operate.

Foreign currency translation

As mentioned above, the financial statements of consolidated foreign subsidiaries are restated for inflation in their functional currency based on the subsidiary country's inflation rate. Subsequently, the restated financial statements are translated into Mexican Pesos using the foreign exchange rate at the end of the corresponding reporting period for balance sheet and income statement accounts.

In the event of an abrupt and deep depreciation of the Mexican Peso against the U.S. Dollar, which would not be aligned with a corresponding inflation of the same magnitude, the carrying amounts of the Mexican assets, when presented in convenience translation into U.S. Dollars, will show a decrease in value, in terms of Dollars, by the difference between the rate of depreciation against the U.S. Dollar and the Mexican inflation rate.

Derivative financial instruments

As mentioned in note 3N to our consolidated financial statements included elsewhere in this annual report, in compliance with the guidelines established by our risk management committee, we use derivative financial instruments such as interest rate and currency swaps, currency and stock forward contracts, options and futures, in order to change the risk profile associated with changes in interest rates and foreign exchange rates of debt agreements and as a vehicle to reduce financing costs, as well as: (i) hedges of contractual cash flows and forecasted transactions, (ii) hedges of CEMEX's net investments in foreign subsidiaries, and (iii) hedges of the future exercise of options under our stock option programs. These instruments have been negotiated with institutions with significant financial capacity; therefore, we consider the risk of non-compliance with the obligations agreed to by such counterparties to be minimal. Some of these instruments have been designated as hedges of our debt or equity instruments. In other cases, although some derivatives complement our financial strategy, they have not been designated as hedge instruments because accounting hedge requirements were not met.

Effective January 1, 2001, in accordance with Bulletin C-2 "Financial Instruments", we recognize all derivative financial instruments as assets or liabilities in the balance sheet at their estimated fair value and the changes in such values in the income statement for the period in which they occurred. There are several exemptions to the general rule

for transactions that we designate and that meet several hedging requirements (see note 3N to our consolidated financial statements included elsewhere in this annual report). Premiums paid or received on hedge derivative instruments are deferred and amortized over the life of the underlying hedged instrument or immediately when they are settled; in other cases, premiums are recorded in the income statement, at the time that they are received or paid. See notes 12 and 17 to our consolidated financial statements included elsewhere in this annual report.

Pursuant to the accounting principles established by Bulletin C-2, our balance sheets and income statements are subject to volatility arising from variations in interest rates, exchange rates, share prices and other conditions established in our derivative instruments. The estimated fair value represents a valuation effect at the reporting date, and the final cash inflows or outflows that we will receive or make to our counterparties will not be known until settlement of the derivative instruments occurs. The estimated fair values of derivative instruments determined for us and used by us for recognition and disclosure purposes in the financial statements and their notes, are supported by confirmations of these values received from the counterparties to these financial instruments; nonetheless, significant judgment is required to account appropriately for the effects of derivative financial instruments in the financial statements.

The estimated fair values of derivative financial instruments may fluctuate over time, and are based on estimated settlement costs or quoted market prices. These values should be viewed in relation to the fair values of the underlying instruments or transactions, and as part of our overall exposure to fluctuations in foreign exchange rates, interest rates and prices of shares. The notional amounts of derivative instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure through our use of derivatives. The amounts exchanged are determined on the basis of the notional amounts and other items included in the derivative instruments.

Impairment of long-lived assets

Our balance sheet reflects significant amounts of long-lived assets (mainly fixed assets and goodwill) associated with our operations throughout the world. Many of these amounts have resulted from past acquisitions, which have required us to reflect these assets at their fair market values at the dates of acquisition. We assess the recoverability of our long-lived assets periodically or whenever events or circumstances arise that we believe trigger a requirement to review such carrying values. This determination requires substantial judgment and is highly complex when considering the myriad of countries in which we operate, each of which has its own economic circumstances that have to be monitored. Additionally, we monitor the lives assigned to these long-lived assets for purposes of depreciation and amortization, when applicable. This determination is subjective and is integral to the determination of whether an impairment has occurred.

Valuation reserves on accounts receivable and inventories

On a periodic basis, we analyze the recoverability of our accounts receivable and our inventories (supplies, raw materials, work-in-process and finished goods), in order to determine if due to credit risk or other factors in the case of our receivables and due to weather or other conditions in the case of our inventories, some receivables may not be recovered or certain materials in our inventories may not be utilizable in the production process or for sale purposes. If we determine such a situation exists, book values related to the non-recoverable assets are adjusted and charged to the income statement through an increase in the doubtful accounts reserve or the inventory obsolescence reserve, as appropriate. These determinations require substantial management judgment and are highly complex when considering the various countries in which we have operations, each having its own economic circumstances that require continuous monitoring, and our numerous plants, deposits, warehouses and quarries. As a result, final losses from doubtful accounts or inventory obsolescence could differ from our estimated reserves.

Transactions in our own stock

We have entered into various transactions involving our own stock. These transactions have been designed to achieve various financial goals but were primarily executed to give us a means of satisfying future transactions that may require us to deliver significant numbers of shares of our own stock. These transactions are described in detail in the notes to our consolidated financial statements included elsewhere in this annual report. We view these transactions as hedges against future exposure even though they do not meet the definition of hedges under accounting principles. There is significant judgment necessary to properly account for these transactions. Also, in some cases, the obligations

underlying the related transactions are required to be reflected at market value, with the changes in such value reflected in our income statement. There is the possibility that we could be required to reflect losses on the transactions in our own shares without having a converse reflection of gains on the transactions under which we would deliver such shares to others.

Results of Operations

Consolidation of Our Results of Operations

Our consolidated financial statements, included elsewhere in this annual report, include those subsidiaries in which we hold a majority interest or which we otherwise control. All significant intercompany balances and transactions have been eliminated in consolidation.

For the periods ended December 31, 2002, 2003 and 2004, our consolidated results reflect the following transactions:

- On September 27, 2004, in connection with a public offer to purchase RMC's outstanding shares, CEMEX UK Limited, our indirect wholly-owned subsidiary, acquired 50 million shares of RMC for approximately (pound)432 million (U.S.$786 million, based on a Pound/Dollar exchange rate of (pound)0.5496 to U.S.$1.00 on September 27, 2004), which represented approximately 18.8% of RMC's outstanding shares. The acquisition of the remaining 81.2% of RMC, which as of December 31, 2004 was subject to clearances by several regulatory agencies, was consummated on March 1, 2005.

- In August 2004, we acquired 6.83% (695,065 shares) of equity in CEMEX Asia Holdings, Ltd., or CAH, a subsidiary originally created to co-invest with institutional investors in Asian cement operations for approximately U.S.$70 million. In addition, in 2004, 1,398,602 CAH shares were exchanged for 27,850,713 CPOs with an approximate value of U.S.$172 million (Ps1,916.0 million). In 2003, 84,763 CAH shares were exchanged for 1,683,822 CPOs, with an approximate value of U.S.$7.8 million (Ps93.2 million). In July 2002, we increased our equity interest in CAH to 77.7%. Exchanges during 2003 and 2004 resulted from agreements entered into on July 12, 2002, through which, in 2003, 1,483,365 CAH shares were acquired by a forward exchange requiring delivery of 28,195,213 CPOs. In April 2003, the original settlement date was modified regarding 1,398,602 CAH shares which were acquired during 2004. In 2002, 25,429 CAH shares were acquired for U.S.$2.3 million. For accounting purposes, the 1,483,365 CAH shares have been consolidated since July 2002, recognizing an account payable of U.S.$140 million, equivalent to the price of 28,195,213 CPOs as of the date of the exchange agreements. In 2004, we recorded a loss in stockholders' equity of approximately Ps1,000.4 million representing the excess in the price paid over the book value of the CAH shares held by minority interests. Through the transactions mentioned above, our stake in CAH increased to 99.1%.

- In August and September 2003, we acquired 100% of the outstanding shares of Mineral Resource Technologies Inc., and the cement assets of Dixon-Marquette Cement for a combined purchase price of approximately U.S.$99.7 million. Located in Dixon, Illinois, the single cement facility has an annual production capacity of 560,000 tons. This cement plant was sold on March 31, 2005 as part of the U.S. asset sale described elsewhere in this document.

- In July and August 2002, through a tender offer and subsequent merger, we acquired 100% of the outstanding shares of PRCC. The aggregate value of the transaction was approximately U.S.$281.0 million, including approximately U.S.$100.8 million of assumed net debt.

- In July 2002, we purchased, through a wholly-owned indirect subsidiary, the remaining 30% economic interest that was not previously acquired by CAH in Solid, for approximately U.S.$95 million.

Selected Consolidated Income Statement Data

The following table sets forth selected consolidated income statement data for CEMEX for each of the three years ended December 31, 2002, 2003, and 2004 expressed as a percentage of net sales.

	Year Ended
	2002
Net sales	100.0
Cost of sales	(55.9)
Gross profit	44.1
Operating expenses:	
Administrative	(12.6)
Selling	(11.5)
Total operating expenses	(24.1)
Operating income	20.0
Net comprehensive financing income (cost):	
Financial expense	(5.1)
Financial income	0.7
Foreign exchange gain (loss), net	(1.2)
Gain (loss) on valuation of marketable securities and other Investments	(4.8)
Monetary position gain	5.4
Net comprehensive financing income (cost)	(5.0)
Other expenses, net	(5.9)
Income before income tax, business assets tax, employees' Statutory profit sharing and equity in income of affiliates	9.1
Income tax and business assets tax, net	(0.8)
Employees' statutory profit sharing	(0.2)
Total income taxes, business assets tax and employees' statutory Profit sharing	(1.0)
Income before equity in income of affiliates	8.1

Equity in income of affiliates......................................	0.5
Consolidated net income...	8.6
Minority interest net income..	0.6
Majority interest net income..	8.0

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Overview

Summarized in the table below are the percentage (%) increases (+) and decreases (-) in 2004 compared to 2003 in our net sales, before eliminations resulting from consolidation, sales volumes and prices for the major countries in which we have operations. Variations in net sales determined on the basis of constant Mexican Pesos include the appreciation or depreciation which occurred during the period between the country's local currency vis-a-vis the Mexican Peso, as well as the effects of inflation as applied to the Mexican Peso amounts using our weighted average inflation factor; therefore, such variations differ substantially from those based solely on the country's local currency:

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	Net Sales					
				Domestic Sales Volumes		Export Sales Volume
Country	Variations in local currency	Approximate currency fluctuations, net of inflation effects	Variations in constant Mexican Pesos	Cement	Ready-Mix	Cemen
Mexico	+4.5%	-0.9%	+3.6%	+2%	+16%	+37%
United States	+14.0%	-7.6%	+6.4%	+9%	+8%	N/A
Spain	+5.6%	+0.4%	+6.0%	+3%	+2%	-23%
Venezuela	+10.6%	-8.1%	+2.5%	+20%	+13%	+26%
Colombia	+11.7%	-8.1%	+3.6%	+8%	+13%	N/A
Central America and the Caribbean	+4.7%	+3.6%	+8.3%	Flat	-1%	N/A
Philippines	+19.8%	-14.5%	+5.3%	-2%	-95%	-49%
Egypt	+42.3%	-10.8%	+31.5%	-6%	+86%	+173

N/A = Not Applicable

On a consolidated basis, our cement sales volumes increased approximately 2%, from 64.7 million tons in 2003 to 65.8 million tons in 2004, and our ready-mix concrete sales volumes increased approximately 10%, from 21.7 million cubic meters in 2003 to 23.9 million cubic meters in 2004. Our net sales increased approximately 6% from Ps85,553 million in 2003 to Ps90,784 million in 2004, and our operating income increased approximately 19% from Ps17,377 million in 2003 to Ps20,628 million in 2004.

Net Sales

Our net sales increase of 6% during 2004 was primarily attributable to higher sales volumes in most of our markets, which were partially offset by a decrease in domestic cement sales volumes in the Philippines and Egypt and lower domestic cement prices in Mexico, Venezuela and Colombia. Of our consolidated net sales in 2003 and 2004, approximately 73% and 71%, respectively, were derived from sales of cement, approximately 22% and 24%, respectively, from sales of ready-mix concrete and approximately 5% and 5%, respectively, from sales of other construction materials and services.

Additionally, set forth below is a quantitative and qualitative analysis of the effects of the various factors affecting our net sales on a country-by-country basis.

Mexico

Our Mexican operations' domestic gray cement sales volumes increased approximately 2% in 2004 compared to 2003, and ready-mix concrete sales volumes increased approximately 16% during the same period. The increases in sales volumes resulted primarily from increased demand in the public sector, particularly from infrastructure projects and low- and middle-income housing, as compared to flat self-construction sector during the year. Our Mexican operations' cement export volumes, which represented 7% of our Mexican cement sales volumes in 2004, increased approximately 37% in 2004 compared to 2003, due mainly to an increase in public sector spending. Of our Mexican operations' cement export volumes during 2004, 79% was shipped to the United States, 20% to Central America and the Caribbean and 1% to South America. The average cement price in Mexico decreased approximately 3% in constant Peso terms in 2004 compared to 2003, and the average ready-mix concrete price decreased approximately 1% in constant Peso terms over the same period (these prices increased 2% and 4%, respectively, in nominal Peso terms). For the year ended December 31, 2004, sales of ready-mix concrete in Mexico represented approximately 25% of our Mexican operations' total net sales.

As a result of the increases in cement and ready-mix concrete sales volumes and the increase in cement export volumes, partially offset by decreases in average cement and ready-mix prices, net sales in Mexico, in constant Peso terms, increased approximately 4% in 2004 compared to 2003.

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United States

Our United States operations' cement sales volumes, which include cement purchased from our other operations, increased approximately 9% in 2004 compared to 2003, and ready-mix concrete sales volumes increased approximately 8% over the same period. The increases in sales volumes are primarily attributable to strong demand from the residential sector due to a low interest rate environment and from the cement-intensive public works sector, as well as favorable weather conditions during December. The industrial and commercial sectors, which declined in 2003, made a strong recovery and grew in 2004. The average sales price of cement increased approximately 5% in Dollar terms during 2004 compared to 2003, and the average price of ready-mix concrete increased approximately 11% during the same period. For the year ended December 31, 2004, sales of ready-mix concrete in the U.S. represented approximately 27% of our U.S. operations' total net sales.

As a result of the increases in cement and ready-mix concrete sales volumes and the increases in average cement and ready-mix prices, net sales in the United States, in U.S. Dollar terms, increased approximately 14% in 2004 compared to 2003.

Spain

Our Spanish operations' domestic cement sales volumes increased approximately 3% in 2004 compared to 2003, and ready-mix concrete sales volumes increased approximately 2% during the same period. The increases in sales volumes were primarily driven by strong residential construction activity due to a favorable mortgage environment and by increased spending in public works due to Spain's infrastructure program, as well as favorable weather conditions during November and December. Our Spanish operations' cement export volumes, which represented 2% of our Spanish cement sales volumes in 2004, decreased approximately 23% in 2004 compared to 2003 primarily due to increased domestic demand. Of our Spanish operations' total cement export volumes during 2004, 71% was shipped to the United States, 15% to Europe and 14% to Africa. The average sales price of cement increased approximately 3% in Euro terms during 2004 compared to 2003, and the average price of ready-mix concrete increased approximately 5% in Euro terms over the same period. For the year ended December 31, 2004, sales of ready-mix concrete in Spain represented approximately 25% of our Spanish operations' total net sales.

As a result of the increases in cement and ready-mix concrete sales volumes and the increases in average cement and ready-mix prices, net sales in Spain, in Euro terms, increased approximately 6% in 2004 compared to 2003, despite the decline in cement export volumes.

Venezuela

Our Venezuelan operations' domestic cement sales volumes increased approximately 20% in 2004 compared to 2003, while ready-mix concrete sales volumes also increased approximately 13% during the same period. The increases in sales volumes and ready-mix concrete sales volumes were mainly driven by the self-construction and commercial sectors, while government spending remained stable. Construction in the private sector is increasing as confidence in the economy recovers.

Our Venezuelan operations' cement export volumes, which represented 56% of our Venezuelan cement sales volumes in 2004, increased approximately 26% in 2004 compared to 2003. The increase in cement export volumes was due to increases in sales to the United States, Guadalupe, Haiti, Martinique and Panama. Of our Venezuelan operations' total cement export volumes during 2004, 74.6% was shipped to the United States and 25.4% to the Caribbean and South America. For the year ended December 31, 2004, sales of ready-mix concrete in Venezuela represented approximately 20% of our Venezuelan operations' total net sales.

Our Venezuelan operations' average domestic sales price of cement decreased approximately 12% in Bolivar terms in 2004 compared to 2003, while the average domestic sales price of ready-mix concrete decreased approximately 2% in Bolivar terms over the same period.

As a result of the growth in domestic cement and ready-mix sales volumes, net sales in Venezuela, in Bolivar terms, increased approximately 11% in 2004 compared to 2003.

Colombia

Our Colombian operations' domestic cement sales volumes increased approximately 8% in 2004 compared to 2003, and ready-mix concrete sales volumes increased approximately 13% during the same period. The increases in sales volumes were primarily a result of increased demand from the commercial sector and, to a lesser extent, from the residential sector. Our Colombian operations' average sales price of cement decreased 8% in Colombian Peso terms in 2004 compared to 2003, while the average domestic sales price of ready-mix concrete increased approximately 8% in Colombian Peso terms over the same period. For the year ended December 31, 2004, sales of ready-mix concrete in Colombia represented approximately 36% of our Colombian operations' total net sales.

As a result of the increases in domestic cement and ready-mix concrete sales volumes and the increase in the average sales price of ready-mix concrete, partially offset by the decrease in the average sales price of cement, net sales in Colombia, in Colombian Peso terms, increased approximately 12% in 2004 compared to 2003.

Central America and the Caribbean

Our Central American and Caribbean operations consist of our operations in Costa Rica, the Dominican Republic, Panama, Nicaragua and Puerto Rico, as well as several cement terminals in other Caribbean countries and our trading operations in the Caribbean region. Most of these trading operations consist of the resale in the Caribbean region of cement produced by our operations in Venezuela and Mexico. Our Central American and Caribbean operations' domestic cement sales volumes remained flat in 2004 compared to 2003. Our Caribbean region trading operations' cement sales volumes increased approximately 7% in 2004 compared to 2003, primarily as a result of sales to Panama and Guadaloupe. Our Central American and Caribbean operations' ready-mix concrete sales volumes decreased approximately 1% in 2004 compared to 2003, primarily due to a decrease in sales in the Dominican Republic. For the year ended December 31, 2004, sales of ready-mix concrete in Central America and the Caribbean represented approximately 16% of our Central American and Caribbean operations' total net sales.

Our Central American and Caribbean operations' average domestic cement sales price increased approximately 7% in Dollar terms in 2004 compared to 2003, while the average ready-mix concrete sales price increased approximately 5% in Dollar terms over the same period.

As a result of the increases in domestic cement and ready-mix concrete sales average price, net sales in our Central American and Caribbean region, in Dollar terms, increased approximately 5% in 2004 compared to 2003, due in part to the appreciation of the Dominican peso.

The Philippines

Our Philippine operations' domestic cement sales volumes decreased approximately 2% in 2004 compared to 2003, primarily as a result of decreased demand in the public works sector due to reductions in government spending on infrastructure, which was offset by a 35% increase, in Philippine Peso terms, in the average domestic sales price of cement over the same periods. Our ready-mix concrete sales volumes in the Philippines decreased approximately 95% in 2004 compared to 2003, while the average ready-mix concrete price decreased approximately 14% in Philippine Peso terms over the same periods. The decrease in ready-mix concrete sales volumes was primarily attributable to a decrease in public sector spending. Our Philippine operations' ready-mix concrete business, which began in 2001, is still under development and represents a relatively small portion of our overall Philippine operations. For the year ended December 31, 2004, sales of ready-mix concrete in the Philippines represented less than 1% of our Philippine operations' total net sales.

Primarily as a result of the increase in the average cement sales prices which were partially offset by the decrease in domestic cement volumes, net sales in the Philippines, in Philippine Peso terms, increased approximately 20% in 2004 compared to 2003.

Egypt

Our Egyptian operations' domestic cement sales volumes decreased approximately 6% in 2004 compared to 2003, primarily as a result of the decrease in cement volume resulting from a slowdown in government infrastructure

spending. However, this lower domestic volume was partially offset by a more than 173% increase in exports compared to 2003. Our Egyptian operations' export volumes represented 30% of their total volume in 2004. During 2004, 23% of our Egyptian exports were directed to Africa while 77% were sold to Europe. Furthermore, our Egyptian operations' ready-mix sales volumes increased 86% in 2004 compared to 2003, primarily due to increases in market share achieved by our ready-mix operations in the local market. For the year ended December 31, 2004, sales of ready-mix concrete in Egypt represented approximately 5% of our Egyptian operations' total net sales.

In 2004, net sales in Egyptian pound terms from our Egyptian operations increased 42% compared to 2003 net sales primarily due to a 32% increase in domestic prices, as well as an increase in exports and ready-mix sales.

Cost of Sales

Our cost of sales, including depreciation, increased 4% from Ps49,319 million in 2003 to Ps51,092 million in 2004 in constant Peso terms, primarily as a result of the increase in our net sales, primarily attributable to higher average prices in most of our markets, which more than offset higher worldwide energy costs. As a percentage of sales, cost of sales decreased 1.3% from 57.6% in 2003 to 56.3% in 2004.

Gross Profit

Our gross profit increased by 10% from Ps36,234 million in 2003 to Ps39,692 million in 2004 in constant Peso terms. Our gross margin increased from 42.4% in 2003 to 43.7% in 2004, as a result of higher average prices in most of our markets. The increase in our gross profit is primarily attributable to the 6% increase in our net sales in 2004 compared to 2003 and the increase of only 4% in our cost of sales in 2004 compared to 2003.

Operating Expenses

Our operating expenses increased 1% from Ps18,857 million in 2003 to Ps19,064 million in 2004 in constant Peso terms, primarily as a result of increased transportation costs due to higher worldwide energy costs, partially offset by our continuing cost-reduction efforts, including reductions in corporate overhead and travel expenses. As a percentage of sales, our operating expenses decreased from 22.1% in 2003 to 21.0% in 2004.

Operating Income

For the reasons mentioned above, our operating income increased 19% from Ps17,377 million in 2003 to Ps20,628 million in 2004.

Comprehensive Financing Income (Expense)

Pursuant to Mexican GAAP, the comprehensive financing result should measure the real cost (gain) of an entity's financing, net of the foreign currency fluctuations and the inflationary effects on monetary assets and liabilities. In periods of high inflation or currency depreciation, significant volatility may arise and is reflected under this caption. For presentation purposes, comprehensive financing income (expense) includes:

- financial or interest expense on borrowed funds;
- financial income on cash and temporary investments;
- appreciation or depreciation resulting from the valuation of financial instruments, including derivative instruments and marketable securities, as well as the realized gain or loss from the sale or liquidation of such instruments or securities;
- foreign exchange gains or losses associated with monetary assets and liabilities denominated in foreign currencies; and

- gains and losses resulting from having monetary liabilities or a