

3 INFORMATION ON LAFARGE

3.3 Business Description – Cement

Cement

Cement is a fine powder which is the principal strength-giving and property-controlling component of concrete. It is a high quality, cost-effective building material that is a key component of construction projects throughout the world, including the 50 countries in which our Cement Division has production facilities in 2008. Based on

INFORMATION ON LAFARGE

3.3 Business Description – Cement

both internal and external research, Lafarge believes that we are the world leader producer of cement taking into account sales, production capacity, geographical positions, technological development and quality of service. At year-end 2008, its consolidated businesses operated 125 cement, 33 clinker grinding and 8 slag grinding plants, with an annual production capacity of 205 million tonnes (total capacity of entities controlled by Lafarge). Consolidated sales for 2008 reached approximately 155 million tonnes.

Products

We produce and sell an extensive range of cements and hydraulic binders for the construction industry, including basic portland and masonry cements and a variety of other blended and specialty cements and binders. We offer our customers a broad line, which varies somewhat by market. Our cement products (all of which are referred to as “cement” in this report) include specialty cements suitable for use in a variety of environmental conditions (e.g. exposure to seawater, sulfates and other natural conditions hostile to concrete) and specific applications (e.g. white cement, oil-well cements, blended silica fume, blended fly-ash, blended pozzolana, blended slag cements and road surfacing hydraulic binders), natural lime hydraulic binders, masonry cements and ground blast furnace slag.

We design our cements to meet the varying needs of our customers, including high-performance applications for which enhanced durability and strength are required. We also offer our customers a number of extra services, such as technical support in connection with the use of our cements, ordering and logistical assistance to ensure timely delivery to the customers, plus documentation, demonstrations and training relating to the properties and appropriate use of our cements.

Production and Facilities Information

COMPOSITION AND PRODUCTION OF CEMENT

Cement is made by crushing and grinding calcium carbonate (limestone), silica (sand), alumina and iron ore in appropriate proportions and heating the resulting mixture in a kiln to approximately 1,500°C. In the more modern “dry process” used by around 85% of Lafarge’s plants, the ore mixture enters the kiln dry, as opposed to the older process in which it is mixed with water. Each process produces “clinker”, which is then finely ground with gypsum to make cement powder. A breakdown of the production cost of cement (before distribution and administrative costs) is approximately: energy 32%, raw materials and consumables 29%, production, labor and maintenance costs 28%, and depreciation 11%.

Raw materials for making cement (calcium carbonate, silica, alumina, and iron ore) are usually present in limestone, chalk, marl, shale and clay, and are available in most countries. Cement plants are normally built close to large deposits of these raw materials. For most of our cement plants, we obtain these materials from nearby land that we either own or over which we hold long-term quarrying rights. The quantity of proven and permitted reserves at our cement plants is believed to be adequate to operate the plants at their current levels for their planned service life.

Where technically available and economically viable, we may substitute ground blast furnace slag, pozzolan or fly ash for certain raw materials when making cement, or mix slag, pozzolan or fly ash with cement at the end of the process. Ground blast furnace slag is a by-product of steel manufacturing, and fly ash is a product of burning coal in electric utility plants. Whether and how they are used depends on the physical and chemical characteristics of the slag or ash and on the physical and chemical properties

required of the cement being produced. These materials help lower our capital costs per tonne of cement produced. Their use is environmentally friendly since it increases cement supplies by recycling post-industrial material that would otherwise be used as landfill. In 2008, the ratio of slag, fly ash and pozzolan we used to produce cement to total cement produced was 15% (16.5% and 15.0% in 2007 and 2006, respectively). Use of these materials is part of our long-term development strategy.

SOURCING AND USE OF FUEL OPTIMIZATION

Fuel is the largest expense item among the Group’s production costs (32% of total, excluding distribution and administrative costs). Wherever possible, we use advanced plant designs (such as preheaters to heat raw materials prior to entering the kiln) and less costly fuel waste materials (e.g. tires, used oils) to curb the use of more expensive fossil fuels. In 2008, fuel waste materials accounted for close to 11% of our worldwide cement manufacturing fuel consumption, with almost two-thirds of our cement plants using some form of fuel waste materials. The availability of fuel waste materials varies widely from region to region, and in particular between developed countries (where they are more abundant) and emerging markets (where they are less abundant). In addition, many of our plants can switch between several fuels with minimum disruption to production, allowing us to enjoy the benefit of lower cost fuels.

3 INFORMATION ON LAFARGE

3.3 Business Description – Cement

MANUFACTURING EXPERTISE

We have developed significant expertise in cement manufacturing through our experience of operating numerous cement production facilities worldwide for over 150 years. This expertise has been formally documented and is passed on via our seven technical centers, which employ over 600 engineers and technicians worldwide. We strive to share our collective knowledge throughout the Group to improve our asset utilization, lower our production costs and increase the efficiency of our products. Through this culture of knowledge-sharing, we also endeavor to disseminate best production practices and employ benchmarking tools worldwide to drive superior performance and unlock continuous operating improvements.

Customers

In each of the major regions in which we operate, we sell cement to several thousand customers, primarily concrete producers, precast concrete product manufacturers, contractors, builders and masons, as well as building materials wholesalers. Our cement is used in three major segments of the construction industry:

- civil engineering projects;
- residential and commercial construction;
- renovation;

and is used in a wide range of projects, such as offices, schools, hospitals, homes, dams, highways, tunnels, plants and airports.

Cement performance characteristics and the service requirements of our customers vary widely depending on the projects for which

our cement is used, as well as their experience and expertise. We strive to meet our customers' diverse demands and to deliver distinctive and targeted solutions enabling them to create more value in their businesses.

Our customers generally purchase cement from us through current orders in quantities sufficient to meet the needs of their building or renovation projects. Contracts are also signed with certain buyers (*i.e.* producers of pre-fabricated concrete products or wholesalers) to supply the requisite volume of cement over a lengthy period of time of a year or more.

Markets

CEMENT INDUSTRY

Historically, the global cement industry has been fragmented, with most markets served by local producers. Beginning in Europe in the 1970s, then continuing in the United States during the 1980s and later in Asia (outside China), the cement industry underwent significant worldwide consolidation. Today, there are just a handful of multinational cement companies, including Lafarge and our major worldwide competitors, *i.e.* Buzzi (Italy), Cemex (Mexico), Cimentos de Portugal SGPS, S.A. Cimpor (Portugal), HeidelbergCement (Germany), Holcim (Switzerland), Italcementi (Italy), Taiheiyo (Japan), and Votorantim (Brazil). These companies compete against local producers in various markets around the world. Cement production is capital intensive. To build a new dry process cement line producing 1 million tonnes annually costs between

50 million euros and 160 million euros depending on the country in which it is located.

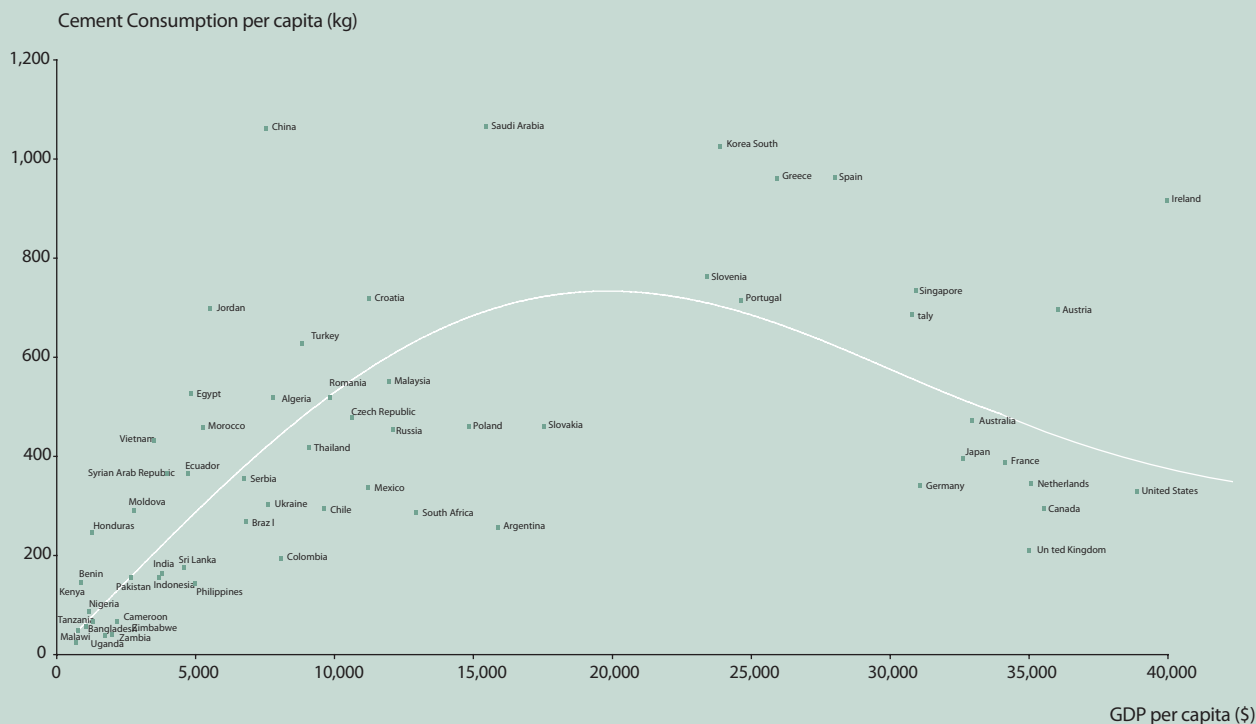
The cement industry is highly competitive in our major markets. Some countries or regions are more exposed during certain periods than others owing to factors such as the strength of demand, market access and raw materials reserves.

CEMENT MARKETS

Emerging markets (notably China, India Central & Eastern Europe and Africa) represent 70% of the worldwide market, with North America and Western Europe accounting for most of the remainder. We have substantial operations in each of these markets, along with other multinational cement companies and local cement producers.

A country's cement demand is generally related to growth in per capita income, which usually correlates with the country's industrialization. As emerging markets become industrialized, cement consumption tends to grow rapidly with increased expenditure on public works and housing. Owing to the growth potential they harbor Lafarge has invested (and will continue to consider further investment opportunities) in these markets in which we sold 7.4 billion euros of cement during 2008 compared to 5.4 billion euros in 2007 and 4.8 billion euros in 2006. These sales accounted for respectively 63%, 53% and 50% of our total cement sales for each such year.

CEMENT CONSUMPTION PER CAPITA IN 2008



On January 23, 2008, we completed the acquisition of Orascom Cement, the leading cement manufacturer in the Mediterranean Basin and Middle East. With its capacity of 35 million tonnes in 2008 which it intends to increase to 45 million tonnes in 2011, this acquisition represents an excellent opportunity to accelerate our strategy of profitable growth in these markets.

LOCATION OF CEMENT PLANTS AND OF CEMENT MARKETS

Cement is a product that is costly to transport over land. Consequently, the radius within which a typical cement plant is competitive extends for no more than 300 kilometers for the most common types of cement. However, cement can be shipped economically by sea and inland waterway over great distances, significantly extending the competitive radius of cement plants with access to waterborne shipping lanes. Thus, the location of a cement plant and the cost of transportation of the cement we produce through our distribution terminals significantly affect the

plant's competitiveness, the prices we can charge and ultimately our profitability.

CEMENT QUALITY AND SERVICES

The reliability of a producer's deliveries and the quality of our cement and our support services are also factors influencing a cement producer's competitiveness. Accordingly, the Group strives to deliver consistent cement quality over time, to maintain a high standard and quality of support service and to offer special-purpose cements to set ourselves apart from our competitors.

BREAKDOWN BY REGION

We produce and sell cement in the regions and countries listed in the tables below.

The following presentation shows each region's percentage contribution to our 2008 cement sales in euros, as well as the number of plants we operate, our cement production capacity and approximate market share in each country over the year ended December 31, 2008.

SALES BY DESTINATION 2008



Region	%
Western Europe	24
North America	14
Latin America	6
Africa	18
Asia	15
Middle East	11
Central and eastern Europe	12
TOTAL	100

In the following section, stated production capacities are reported on the basis of 100% of operating plants controlled by Lafarge in the indicated country. However, sales are reported on a Group contribution basis.

3 INFORMATION ON LAFARGE

3.3 Business Description – Cement

Following the Orascom Cement acquisition in the first quarter of 2008, the Group has adjusted the presentation of its geographical information for all periods presented:

Western Europe, North America, Central and Eastern Europe, Latin America and Asia remain unchanged.

The former Mediterranean Basin is transformed into a “Middle East” region after the reclassification of Algeria and

Morocco to the new “Africa” which replaces the former Sub-Saharan Africa.

The countries of the ex-Orascom Cement which are already operated will be classified as follows:

- Egypt, Iraq, UAE and Turkey in the Middle East;
- Algeria and Nigeria in Africa;
- North Korea and Pakistan in Asia;
- Spain in Western Europe.

Our approximate market share has been calculated per country based on information and estimates contained in the Construction & Building Materials Sector report published by JP Morgan in September 2008 (the “JP Morgan Report”).

WESTERN EUROPE (24% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
France	10	4	9.5	36
United Kingdom	6	-	5.9	41
Greece	3	-	9.8	53
Spain	3	3	6.7	10
Germany	3	-	3.4	10
Austria	2	-	2.0	28

Most Western European cement markets have reached maturity. The region as a whole consumed close to 207 million tonnes

of cement in 2008, according to the JP Morgan Report. We sold 30.8 million tonnes of cement in Western Europe

in 2008, 34.3 million tonnes in 2007 and 33.8 million tonnes in 2006.

NORTH AMERICA (14% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
United States	12	3	15.8	12.8
Canada	7	2	6.7	33

North America is also a mature cement market. Sales are seasonal in Canada and much of the east coast and mid west of the United States, because temperatures in the

winter fall below minimum setting temperatures for concrete. The region as a whole consumed close to 111 million tonnes of cement in 2008, according to the

JP Morgan Report. We sold 17.2 million tonnes of cement in North America in 2008, 19.3 million tonnes in 2007 and 20.7 million tonnes in 2006.

INFORMATION ON LAFARGE

3.3 Business Description – Cement

CENTRAL AND EASTERN EUROPE (12% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
Poland	2	-	4.8	20
Romania	2	1	4.5	32
Moldavia	1	-	1.4	54
Russia	2	-	4.1	7
Ukraine	1	-	1.3	9
Serbia	1	-	2.0	45
Slovenia	1	-	0.6	38
Czech Republic	1	-	1.2	9

We believe that the entry into the European Union of a number of countries in this region will positively influence their long-term growth prospects. The region as a whole

consumed 129 million tonnes of cement in 2008, according to the JP Morgan Report. We sold 16.2 million tonnes of cement in Central and Eastern Europe in 2008,

15.5 million tonnes in 2007 and 13.3 million tonnes in 2006.

MIDDLE EAST (11% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
Jordan	2	-	4.8	90
Turkey	2	1	2.0	4
Egypt	1	-	10.0	20
United Arab Emirates	1	-	3.0	10
Iraq	2	-	4.8	20

We believe that the emerging markets in this region have strong growth potential in the medium to long term as they become more industrialized and urbanized. Many Middle

Eastern cement markets have only recently opened up to competition after years of state ownership. The region as a whole consumed close to 170 million tonnes of cement

in 2008, according to the JP Morgan Report. We sold 20.0 million tonnes of cement in the Middle East in 2008, 7.6 million tonnes in 2007, 9.5 million tonnes in 2006.

LATIN AMERICA (6% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
Brazil	5	1	5.0	6
Chile	1	1	1.9	34
Ecuador	1	-	1.4	20
Honduras	1	1	1.3	55
Mexico	2	-	0.8	0.4
French West Indies/Guyana	-	3	1.0	100

3 INFORMATION ON LAFARGE

3.3 Business Description – Cement

Latin America as a whole consumed 136 million tonnes of cement in 2008, according to the JP Morgan Report. We sold 8.6 million tonnes of cement in Latin America in 2008, 8.5 million tonnes in 2007 and 7.6 million tonnes in 2006.

In addition, we still hold a 62.2% interest in Fabrica Nacional de Cemento, in Venezuela, which is under a nationalization process.

See Section 2.1.1 (Risks inherent to our operations – Risks inherent to our worldwide presence).

AFRICA (18% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
South Africa	1	1	2.7	20
Zambia	2	-	1.3	91
Malawi	-	1	0.2	75
Tanzania	1	-	0.3	38
Kenya	1	1	2.0	60
Uganda	1	-	0.4	56
Nigeria	3	-	3.5	30
Algeria	2	-	8.6	33
Morocco	3	1	6.0	41
Cameroon	1	1	1.7	95
Benin	1	-	0.7	34

Africa as a whole consumed close to 113 million tonnes of cement in 2008, according to the JP Morgan Report and our internal research. We sold 22.4 million

tonnes of cement in the countries in which we were present in 2008, 16.4 million tonnes in 2007 and 13.3 million tonnes in 2006.

In addition, we hold a 76.4% interest in Circle Cement in Zimbabwe, which operates one plant with a capacity of 400,000 tonnes.

ASIA (15% OF THE DIVISION'S 2008 SALES)

Countries	Number of		Cement production capacity (million tonnes)	Approximate market share (%)
	Cement plants	Grinding plants		
China	18	10	22.5	6 – 22 **
South Korea	2	1	9.6	10
India	2	2	6.5	24 ***
Pakistan	1	-	2.1	5
Malaysia	3	1	12.5	43
Philippines	6	1	6.5	32
Indonesia	1	-	0.0 *	3
Vietnam	-	1	0.5	1
Bangladesh	1	-	1.6	17

* The Banda Aceh plant in Indonesia was severely damaged during the 2004 tsunami and is under reconstruction.

** Depending on regions.

*** For the North East region.

INFORMATION ON LAFARGE

3.3 Business Description – Cement

We believe that the long-term growth prospects for Asia are very promising. The region as a whole consumed close to 1,900 million tonnes of cement in 2008, according to the JP Morgan Report. We sold 39.5 million tonnes of cement in the region in 2008, 34.8 million tonnes in 2007 and 31.1 million tonnes in 2006. Furthermore, in Japan, we hold a 39% indirect interest in Lafarge Aso Cement (accounted for by the equity method and therefore not included in the table above), which operates two plants with a combined capacity of 3 million tonnes.

In China, a market estimated at almost 1,500 million tonnes, the Group signed a joint venture in 2005 with Hong Kong based company Shui On. This joint venture is currently the market leader in southwest China (Sichuan, Chongqing, Guizhou and Yunnan) and also operates in Beijing.

CEMENT TRADING ACTIVITIES

The Group also manages worldwide cement trading activities, which helps us to meet fluctuations in demand in certain countries, without building plants that result in excess capacity. We conduct these activities primarily through our Cementia Trading and Marine Cement subsidiaries. During 2008, Cementia Trading purchased and sold approximately 10.6 million tonnes of cement and clinker. Marine Cement acts mainly as an importer and distributor of cement in the Reunion island, the Seychelles and the Red Sea countries. Marine Cement sold approximately 2.6 million tonnes of cement in 2008, which it purchased from our own subsidiaries as well as from third parties.