

# 3 INFORMATION ON LAFARGE

## 3.3 Business Description – Gypsum

### Gypsum

Gypsum wallboard (also known as “plaster-board”) and other gypsum-based products (e.g. plaster, plaster blocks, joint compounds

and related products such as metal studs and accessories) are used primarily to offer gypsum-based building solutions for constructing, finishing or decorating interior walls and ceilings in residential, commercial and institutional construction projects throughout the world, as well as for sound and thermal insulating partitions. Other gypsum-based products include industrial

plaster (used for special applications such as moldings or sculptures) and self-leveling floor-screeds.

We believe that we are the third-largest manufacturer of gypsum wallboard worldwide. At the end of 2008, we had production facilities in 29 countries. Our consolidated businesses operated 41 wallboard plants (with an annual production capacity of

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approximately 1,220 million m<sup>3</sup>) and 35 other plants which produced primarily plaster, plaster blocks or joint compounds as well as three wallboard paper plants.

## Products

### WALLBOARD

Our principal gypsum product is wallboard. We produce wallboard in a number of standard lengths, widths and thicknesses and with a variety of characteristics depending on the intended use of the board. We offer a full line of wallboard and finishing products: “standard” wallboard; wallboard designed for various decorative treatments; and wallboard for use in a variety of applications – e.g. sound and thermal insulating partitions, high humidity, fire retardant, water-resistant, sag-resistant, design and decoration and high traffic areas.

We regularly seek to expand and improve the range of our wallboard products. Following the recent launch of Synia®, a new generation wallboard with all four edges tapered, in 2008 we launched an exclusive and very high performance wet area board (WAB) in four countries with outstanding success with distributors and installers.

### OTHER PRODUCTS

We also produce gypsum plaster, plaster blocks, joint compounds, metal studs, anhydrite binders for self-leveling floor-screeds and industrial plasters, which are intended for the construction and decorating industries. Sales of such products accounted for approximately 33% of our Gypsum Division sales in 2008.

## Production and Facilities Information

Gypsum wallboard exploits the crystalline structure of gypsum (calcium sulfate dihydrate – a naturally occurring mineral common in sedimentary environments), within which water molecules are physically locked. Wallboard is made by grinding and heating gypsum to release the trapped water molecules, mixing the residue with water to form a slurry, extruding the slurry between two continuous sheets of paper, and then drying and cutting the resulting board into proper

sizes. When drying, the slurry rehydrates into gypsum crystals which interlock with each other and “grow” into the liner paper, giving the board its strength. We use both naturally occurring gypsum and synthetic gypsum to produce wallboard. Synthetic gypsum is produced as a by-product of certain chemical manufacturing and electrical power production operations.

At the end of 2008, our consolidated businesses operate and own 20 gypsum quarries worldwide, including 14 in Europe. Some of our plants have entered into long-term supply contracts with third parties to supply natural gypsum. Generally, we obtain synthetic gypsum under long-term contracts, most of which contain one or more options to renew. Occasionally, depending on supply needs and local market conditions, we enter into contracts for shorter periods. We believe our current supply of gypsum, both natural and synthetic, is adequate for current and foreseeable operating levels.

Paper and gypsum account for approximately 24% and 13% respectively, of our wallboard production costs. We produce about half of our wallboard paper at our own mills in France and Sweden, and at one mill in the United States operated through a joint venture. The major raw material for our paper is recycled paper fiber.

## Customers

We sell our gypsum wallboard products mostly to general building materials distributors, wallboard specialty dealers, lumber yards in the United States, decorating companies in growing markets and do-it-yourself home centers. In some markets, specifiers (such as architects) may influence which products are to be used to construct given projects. Our marketing efforts are focused not only on actual purchasers, but also on those who may indirectly determine which materials are used.

## Markets

### DESCRIPTION OF MARKETS AND OF OUR POSITION IN THESE MARKETS

We believe we share approximately 77% of today's worldwide wallboard market with six

other producers in a sector which is increasingly concentrated (Georgia Pacific, Knauf, National Gypsum, Saint-Gobain, U.S. Gypsum and Yoshino). These companies operate gypsum wallboard plants and usually own the gypsum reserves they use to produce their wallboard.

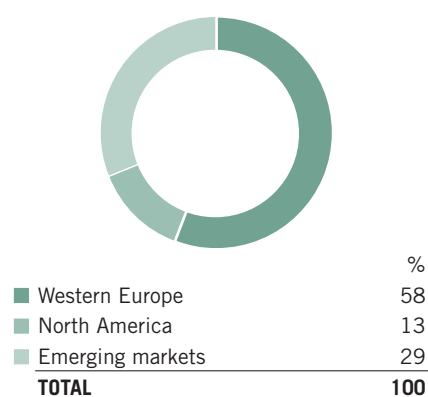
The gypsum wallboard industry is highly competitive. Because wallboard is expensive to transport and does not travel well in large quantities, producers compete on a regional basis, primarily based on price, product range, product quality, solution design, efficiency, flexibility and customer service. Our largest competitors in Western Europe are Knauf and Saint-Gobain, and in the United States National Gypsum, Saint-Gobain and US Gypsum.

The sector is highly competitive in Western and Central & eastern Europe and North America with production mostly concentrated among several national and international players.

### BREAKDOWN BY REGION

The following presentation shows the percentage contribution made by each of these regions to our 2008 Gypsum Division sales in euros.

### SALES BY DESTINATION 2008



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## 3.3 Business Description – Gypsum

### *Western Europe (58% of the Division's 2008 sales)*

Western Europe is the second largest worldwide regional wallboard market. The technical performance of products and systems plays a critical role in this market. The region as a whole consumed close to 1.2 billion m<sup>2</sup> of wallboard in 2007, based on our estimates. We sold 289 million m<sup>2</sup> of wallboard in Western Europe in 2008, 289 million m<sup>2</sup> in 2007 and 283 million m<sup>2</sup> in 2006.

In 2007, we started operating a new wallboard plant in the United Kingdom, with an annual capacity of 25 million m<sup>2</sup>. At the end of 2008 we mothballed our wallboard plant in Lübbenau, Germany. In Spain, we have a minority interest in a wallboard plant and three plaster plants.

### *North America (13% of the Division's 2008 sales)*

North America is the largest worldwide regional wallboard market. The region as a whole consumed close to 3.2 billion m<sup>2</sup> of wallboard in 2007, based on our estimates. We sold 195 million m<sup>2</sup> of wallboard in North America in 2008, 191 million m<sup>2</sup> in 2007 and 214 million m<sup>2</sup> in 2006.

In 2007, we expanded the capacity of our wallboard plant in Silver Grove, Kentucky, to 150 million m<sup>2</sup>. In July 2007, we closed our wallboard plant in Cornerbrook, Canada. In July 2008, we mothballed our wallboard plant in Newark, New Jersey.

### *Emerging markets (29% of the Division's 2008 sales)*

We also conduct wallboard and related operations in other markets. In Romania,

Lafarge tripled its plant's production capacity in 2007 to support the expansion of the market. In Ukraine, a plant with plasterboard capacity of 15 million m<sup>2</sup>, extendable to 30 million m<sup>2</sup>, was completed at the end of 2007.

In Turkey, we operate a wallboard plant and a construction plaster plant near Ankara through a joint venture with Dalsan Insaat. Together, we have built a new wallboard plant in Istanbul, which was completed at the end of 2008.

In South Africa, Lafarge completed the construction of a plasterboard plant with a capacity of 15 million m<sup>2</sup> mid-2007, complementing its existing manufacturing line for gypsum components.

In Algeria, Lafarge built a plaster plant with a capacity of 150,000 tonnes in 2007.

In Saudi Arabia, Lafarge signed a joint venture agreement in 2005 with local players to build a new plaster plant with a capacity of 150,000 tonnes that became operational in 2007. In Morocco, we operate a plaster plant with a capacity of 140,000 tonnes.

In Australia, we operate two wallboard plants. In 2007, we built a plaster compound plant in Altona on the site of the existing wallboard plant.

In Latin America, through companies we control jointly with the Etex group, we operate one wallboard plant in Argentina, Brazil and Chile and a plaster plant in Brazil and Chile. In 2007, we began the construction of a wallboard plant with a capacity of 15 million m<sup>2</sup> in Colombia with our joint-venture partner. In Mexico, Lafarge operates

through a joint-venture with a majority partner, the Comex group. The joint-venture built a new wallboard plant that began operations in January 2007.

In Asia, we conduct gypsum wallboard and related operations through a 50/50 joint venture managed jointly with the Australian company Boral Limited. The joint venture operates three wallboard plants in South Korea, three in China, one in Malaysia, two in Thailand and two in Indonesia. It also has several plaster and metal stud plants in these countries. In 2008, the joint-venture built a new wallboard plant in Central Western China and closed one of its two plants in Chongqing. In addition, the joint venture has started the construction of a new wallboard plant in Shanghai with a capacity of 62 million m<sup>2</sup>. In 2007, the capacity of the joint-venture's Dangjin plant in South Korea was doubled to 75 million m<sup>2</sup>. The joint venture completed the construction of a wallboard plant in Rajasthan (India) which began production early 2008.

Our wallboard and related products sales in emerging markets totaled 453 million euros in 2008, 390 million euros in 2007 and 336 million euros in 2006. These sales accounted for 29.3%, 24.7% and 20.5% of our total wallboard and related product sales for each respective year.