PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

You should read the following selected consolidated financial data together with the section entitled "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements.

The table below sets forth selected consolidated financial data at and for each of the five years ended December 31, 2004, 2003, 2002, 2001 and 2000. The financial information presented in this summary is derived from our consolidated financial statements, which have been audited by Deloitte & Associés. The audited consolidated financial statements at December 31, 2004, 2003 and 2002 appear in Item 18 of this report.

The consolidated financial statements and the notes thereto have been prepared in accordance with the provisions of French accounting legislation and standards ("French GAAP"), which differs from accounting principles generally accepted in the United States ("U.S. GAAP") in certain significant respects. For a discussion of significant differences between U.S. GAAP and French GAAP as they relate to our consolidated financial statements and a reconciliation to U.S. GAAP of net income and shareholders' equity, please refer to Notes 30 through 33 to our consolidated financial statements.

As of January 1, 2002, the share of net income of equity affiliates determined in accordance with equity method consolidation principles is shown in the Group consolidated statement of income on a specific line "share of net income of equity affiliates". Prior to the adoption of this presentation, the company's share of net income of equity affiliates was presented in the following line-items: "Operating income on ordinary activities", "Gains on disposals, net", "Other income (expenses), net", "Financial expenses, net" and "Income tax". The presentation of the consolidated financial statements of income for 2000 and 2001 has been revised for comparative purposes in the table below.

Beginning January 1, 2002, the historical cost of cement plant assets have been reclassified into specific cost categories based upon their distinct characteristics. Each cost category represents cement plant components with specific useful lives. This new definition was based on a detailed technical study performed by the company. Prior to January 1, 2002, cement plant assets had been depreciated over their estimated useful lives, using a broader definition of cost classification. The new system of classifying costs has been applied prospectively as of January 1, 2002. On average, for a new cement plant, this change in estimate has resulted in increasing the depreciable useful life from 20 years to 28 years, which more closely reflects actual experience with modern cement plants.

	At or for the year ended December 31,					
	2004		2003	2002	2001	2000
	(in millions, except per share and share data)					
	$ (a)	€	€	€	€	€
STATEMENTS OF INCOME						
French GAAP						
Sales	19,543	14,436	13,658	14,610	13,698	12,216
Operating income on ordinary activities	2,875	2,124	1,934	2,132	1,934	1,804
Operating income	2,647	1,955	2,056	1,823	2,056	1,833
Income before share of net income of equity affiliates, amortization of goodwill and minority interests	1,612	1,191	1,063	854	1,144	1,009
Share of net income of equity affiliates (b)	100	74	37	33	18	50
Amortization of goodwill	(180)	(133)	(135)	(158)	(142)	(120)
Minority interests	(357)	(264)	(237)	(273)	(270)	(213)
Net income	1,175	868	728	456	750	726
Earnings per share — basic	6.98	5.16	4.92	3.52	5.97	6.78
Earnings per share — diluted	6.77	5.00	4.77	3.49	5.85	6.69
Average number of shares (in thousands)	168,253	168,253	147,949	129,629	125,616	107,098
U.S. GAAP						
Sales	18,102	13,371	12,468	13,406	12,434	10,857
Operating income	2,452	1,811	1,854	1,580	1,403	1,312
Net income	1,336	987	831	436	702	482
Earnings per share — basic	7.99	5.90	5.66	3.36	5.57	4.43
Earnings per share — diluted	7.72	5.70	5.45	3.34	5.47	4.36
Average number of shares (in thousands)	167,217	167,217	146,891	129,629	125,974	108,779
BALANCE SHEETS						
French GAAP						
Long-term assets	25,252	18,653	19,048	21,168	23,562	15,454
Current assets	8,284	6,119	5,787	5,471	6,340	5,443
Total assets	**33,536**	**24,772**	**24,835**	**26,639**	**29,902**	**20,897**
Shareholders' equity	11,476	8,477	8,185	6,981	7,882	6,043
Long-term liabilities	16,522	12,204	12,406	15,461	16,380	11,397
Current liabilities	5,538	4,091	4,244	4,197	5,640	3,457
Total shareholders' equity and liabilities	**33,536**	**24,772**	**24,835**	**26,639**	**29,902**	**20,897**
U.S. GAAP						
Current assets	7,443	5,498	5,252	5,096	5,817	4,735
Long-term assets	25,826	19,077	19,046	21,302	23,872	15,742
Total assets	**33,269**	**24,575**	**24,298**	**26,398**	**29,689**	**20,477**
Current liabilities	5,056	3,735	3,968	3,864	5,345	3,370
Long-term liabilities	13,992	10,335	10,767	14,204	14,332	9,474
Minority Interests	3,038	2,244	2,063	1,936	2,201	1,324
Shareholders' equity	11,183	8,261	7,500	6,394	7,811	6,309
Total liabilities and shareholders' equity	**33,269**	**24,575**	**24,298**	**26,398**	**29,689**	**20,477**
STATEMENTS OF CASH FLOWS						
French GAAP						
Net cash provided by operating activities	2,350	1,736	2,089	1,791	1,842	1,484
Net cash used in investing activities	(1,209)	(893)	(673)	(774)	(4,679)	(2,417)
Net cash (used in) provided by financing activities	(1,074)	(793)	(866)	(926)	2,310	1,602
Increase (decrease) in cash and cash equivalents	67	50	550	91	(527)	669
U.S. GAAP						
Net cash provided by operating activities	2,004	1,480	1,763	1,555	1,602	1,155
Net cash used in investing activities	(899)	(664)	(511)	(490)	(3,927)	(2,698)
Net cash (used in) provided by financing activities	(1,094)	(808)	(775)	(953)	2,372	1,517
Net effect of foreign currency translation on cash and cash equivalents	(28)	(21)	(79)	(170)	(6)	10
(Decrease) increase in cash and cash equivalents	(17)	(13)	398	(58)	41	(16)

(a) Amounts in $ presented in the table have been translated solely for the convenience of the reader using the Noon Buying Rate on December 31, 2004, of 1 euro = $1.3538.

(b) As of January 1, 2002, the share of net income of equity affiliates determined in accordance with equity method consolidation principles is shown in "Share of net income of equity affiliates". The presentation of the consolidated financial statements of income for 2000 and 2001 has been revised for comparative purposes in the table above.

The following table indicates the dividend amount per share we paid for the years 2003, 2002, 2001 and 2000. The table also discloses the dividend amount per share for 2004 proposed by our Board of Directors for approval at the annual general meeting of shareholders to be held on May 25, 2005. The table shows dividend amounts in euros, together with their U.S. dollar equivalents translated for convenience at the December 31, 2004 Noon Buying Rate of 1 euro = $1.3538, for each of the years indicated. Shareholders who are U.S. residents should be aware that they will be subject to French withholding tax on dividends received. See "Item 10. Additional Information — Taxation". Dividends paid on fully paid-up shares that have been held by the same shareholders in registered form for at least two years are increased by 10% over dividends paid on other shares. The number of shares eligible to such increased dividend that can be held by one shareholder is limited to 0.5% of all outstanding shares, at the end of the fiscal year for which the dividend is paid.

	2004*		2003		2002		2001		2000	
	€	$	€	$	€	$	€	$	€	$
Total Dividend Payment (in millions)	408	552	383	519	303	410	297	402	273	370
Base Dividend per Share	2.40	3.25	2.30	3.11	2.30	3.11	2.30	3.11	2.20	2.98
Tax Credit on Base Dividend per Share**	—	—	1.15	1.56	1.15	1.56	1.15	1.56	1.10	1.49
Increased Dividend per Share	2.64	3.57	2.53	3.43	2.53	3.43	2.53	3.43	2.42	3.28
Tax Credit on Increased Dividend per Share**	—	—	1.27	1.72	1.27	1.72	1.27	1.72	1.21	1.64

* Proposed dividend.

** For information regarding recent changes in French tax law concerning the tax credit on base dividend *(avoir fiscal)*, see "Item 10. Additionnal Information — Taxation — French Taxation — *Avoir fiscal*".

Exchange Rate Information

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in New York City as defined by the Federal Reserve Bank of New York.

	$ per €1.00			
	Year/period Closing Rate	Average Rate(1)	High	Low
Yearly rates				
2000	0.94	0.92	1.03	0.83
2001	0.89	0.89	0.95	0.84
2002	1.05	0.95	1.05	0.86
2003	1.26	1,13	1.17	1.08
2004	1.35	1.24	1.36	1.18
Monthly rates				
September 2004	1.24	1.22	1.24	1.21
October 2004	1.27	1.25	1.28	1.23
November 2004	1.33	1.30	1.33	1.27
December 2004	1.35	1.34	1.36	1.32
January 2005	1.30	1.31	1.35	1.30
February 2005	1.32	1.30	1.32	1.28
March 2005 (through March 23)	1.30	1.33	1.35	1.30

(1) In the case of a year or partial year, the average of the Noon Buying Rates on the last business day of each month during such year or partial year; in the case of a month or partial month, the average of the Noon Buying Rates on the business days occurring during such month or partial month.

Risk Factors

Our results are dependent on the level of activity in the construction sector. The construction sector tends to be cyclical.

In each of our operating Divisions our business activity is dependent on the level of activity in the construction sector in each of the geographic markets in which we operate. The construction industry in a given geographic market tends to be cyclical, especially in mature economies, and dependent on the level of residential and commercial construction and the level of infrastructure spending. The construction industry is sensitive to factors such as interest rates, and a downturn in economic activity in a particular economy may lead to a recession in the construction industry. In addition, the level of construction activity can fall even if the economy in general is growing. While we believe that our geographical diversification is the best way to ensure stability of returns, our results of operations and profitability could be adversely affected by a downturn in construction activity on a global scale or in a significant market in which we operate.

Demand for our products is seasonal because climatic conditions affect the level of activity in the construction sector. Abnormal climatic conditions can adversely affect our results.

Adverse climatic conditions, such as cold weather, snow and heavy or sustained rainfall generally reduce the level of construction activity and result in a reduction in demand for our products. Thus, demand for our products is seasonal and tends to be lower in the winter months in temperate countries and in the rainy season in tropical countries. We usually experience a reduction in sales during the first quarter reflecting the effect of the winter season in our principal markets in Western Europe and North America and an increase in sales in the second and third quarters reflecting the effect of the summer season.

If these adverse climatic conditions present unusual intensity, occur at abnormal periods or last longer than usual in major geographic markets, especially during peak construction periods, this could have a material adverse effect on our results of operations and profitability.

We operate in competitive markets, which could adversely affect our results of operations and profitability.

The competitive environment in which we operate can be significantly affected by regional factors, such as the number of competitors and production capacity in the regional market, the proximity of natural resources to the regional market and economic conditions and product demand in the regional market. In addition, the pricing policies of competitors and the entry of new competitors into the regional markets in which we operate can have an adverse effect on demand for our products and on our results of operations and profitability.

Our growth strategy exposes us to risks in emerging markets.

We classify all countries outside of our Western Europe and North America geographic sectors, with the exception of Japan, Australia and New Zealand, as emerging markets. In 2004, we generated approximately 30% of our revenues in emerging markets. The emerging markets in which we operate, in order of revenues generated in 2004 include: South Africa, South Korea, Nigeria, Malaysia, Poland, Chile, India, Brazil, Jordan, the Philippines, Romania, Turkey, Morocco, China, Cameroon, Russia, Kenya, Venezuela, the Czech Republic, Indonesia, Serbia, Uganda, Sri Lanka, Slovenia, Singapore, Honduras, Egypt, Zambia, Ukraine, Mexico, Mauritus, Zimbabwe, Hungary, Tanzania, Thailand, Benin, Slovakia, Malawi, Croatia, and Moldavia. We believe that in the long term growth in the construction sector in emerging markets will substantially exceed growth in developed countries. We have steadily increased our presence in emerging economies and expect to continue to generate an increasing portion of our revenues in emerging markets.

Our expansion in emerging markets exposes us to risks which we do not face in North America or Western Europe. In many of these markets, the legal system is less certain than the legal systems in North America and Western Europe, and when acquiring interests in or purchasing companies in emerging markets, we can become exposed to risks with regard to the enforceability of our acquisition contracts and the presence of liabilities, such as liens and mortgages, which are not necessarily recorded in the public records.

In addition, in some countries, particularly in the former U.S.S.R. and its former satellite countries, the establishment of accounts compatible with generally accepted accounting practices in developed countries may take time.

Once we have established ourselves in emerging markets we face additional risks. Emerging markets are more likely to suffer from high volatility in gross domestic product and interest rates, which may negatively affect the level of construction activity and our results of operations in a given market. Emerging markets may also suffer from factors such as high inflation and unstable exchange rates and interest rates, which may negatively affect the financial results of our operating subsidiaries in a given market as reported in euros. Instability in an emerging market can lead to restrictions on currency movements which may adversely affect our emerging market operating subsidiaries' ability to pay dividends and restrictions on imports of raw materials and machinery, which may adversely affect our emerging market operating subsidiaries' ongoing maintenance and capital expenditure programs.

Recent examples of problems in the past few years include the political, economic and financial crisis in Venezuela, high volatility in gross domestic product in many emerging Asian countries, such as Indonesia and the Philippines, extremely high inflation rates in Turkey and unstable exchange rates with respect to the Brazilian real, Venezuelan bolivar, Egyptian pound and Turkish lira. Other risks presented by emerging markets include civil disturbances, nationalization and expropriation of private assets, the imposition of taxes or other payments by foreign governments or agencies and other adverse actions or restrictions imposed by foreign governments.

Any one of these developments in an emerging market in which we have a significant presence could result in lower profits and/or a loss in value of our assets. This could lead to a reduction in dividends and also adversely affect our stock price. There can be no assurance that our financial condition and results of operations will not also be materially adversely affected in other ways through our exposure to emerging markets.

Changes in exchange rates could have a material adverse effect on our financial condition and results of operations.

In the year ended December 31, 2004, approximately 70% of our revenues were earned in currencies other than the euro and a significant portion of our revenues were denominated in U.S. dollars (18%). In addition, 68% of our assets are located outside the member states of the European Monetary Union.

Since our results are reported in euros, exchange rate movements may affect our reported profits, assets, equity and debt. This effect may be positive or negative depending on the nature of the actual exchange rate movement and the nature of any currency hedging instruments that we have put in place. Fluctuations in exchange rates could have a material adverse effect on our financial condition and results of operations. As an example, the appreciation of the euro against the majority of other currencies in 2004 had a significant impact on our reported results of operations. See "Item 5. Operating and Financial Review and Prospects".

Our acquisition strategy may be unsuccessful due to an inability to identify suitable acquisition targets and to integrate acquired companies into our business, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We plan to continue making selective acquisitions to strengthen and develop our existing activities. The successful implementation of our acquisition strategy depends on a range of factors, including our ability to:

- identify appropriate opportunities;
- complete acquisitions at an appropriate cost; and
- achieve an acceptable rate of return from our acquisitions, including past acquisitions.

There may also be substantial challenges or delays in integrating and adding value to the businesses we acquire. In addition, the costs of integration, which are difficult to predict with precision, could be material and the projected synergies resulting from such acquisitions may not be realized. Material costs or delays in connection with the integration of the operations that we acquire or the inability to realize synergies from

those acquisitions could have a material adverse effect on our business, financial condition and results of operations.

Our share price may react negatively to future acquisitions and investments.

As part of our business strategy, we intend to continue to acquire or make strategic investments in additional companies to complement and expand our activities and accelerate our growth. Announcements concerning potential acquisitions and investments could be made at any time. We may pay for part of these acquisitions and investments with our shares. These acquisitions and investments, if they occur, may have a dilutive effect for existing shareholders and, whether they are paid for in cash or shares, may cause our share price to fall.

We do not have a controlling interest in certain of the businesses in which we have invested and in the future we may invest in businesses in which we will not have a controlling interest. In addition, we are subject to restrictions due to minority interests in certain of our consolidated subsidiaries.

In certain of our operations, we have a significant but not controlling interest. Under the governing documents for certain of these partnerships and corporations, certain key matters such as the approval of business plans and decisions as to the timing and amount of cash distributions may require the consent of our partners or may be approved without our consent. These limitations could make it difficult for us to pursue our Group objectives for these investments.

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

Increases in our leverage and level of debt could have a material adverse effect on our operating and financial flexibility.

We have entered into a number of debt agreements, which have been used to help finance the capital expenditures and the implementation of our acquisition strategy (see "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources"). At December 31, 2004, we had consolidated debt of 8,152 million euros and shareholders equity of 8,477 million euros, and net cash provided by operating activities amounted to 1,736 million euros for the year ended December 31, 2004. Interest expense for the year ended December 31, 2004 amounted to about 434 million euros or approximately 25% of our net cash provided by operating activities during the year.

Our total debt has decreased by 543 million euros as of December 31, 2004 compared to December 31, 2003, as a result of actions taken to improve our financial flexibility. However to the extent our total debt materially increases, the possible negative consequences would include:

- Increased financial charges, which entails, for example higher debt service costs that adversely affect our results of operations, and allocations of increasing amounts of cash flow for debt service;
- Possible increased costs of future financing due to the downgrading of credit ratings issued by rating agencies in respect of our debt, and higher exposure to interest and exchange rate fluctuations;
- Potential restrictions on our capital resources and/or operations imposed by lenders;

In the event any or all of the above occur, we would have reduced flexibility to take advantage of, or pursue, other business opportunities.

In the past, some of our debt agreements have contained and in the future they may contain financial, operating and other obligations that limit our operating and financial flexibility. Our ability to comply with these obligations depends on the future performance of our businesses. There can be no assurances that the obligations under our debt agreements will not materially adversely affect our ability to finance our future operations, or that they will not prevent us from engaging in other business activities that may be in our best

interest. See "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources — Net cash (used in) provided by financing activities" and Note 23 (e) to our consolidated financial statements.

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

Lafarge S.A. is a holding company with no significant assets other than the shares of our wholly owned and non-wholly-owned subsidiaries. In addition, a certain number of our subsidiaries are located in countries that have had in the recent past, or may have in the future, regulations restricting the payment of dividends outside of the country as a result of exchange control regulations. While in the recent past, a very small number of subsidiaries, representing less than 5% of our revenues, were operating in countries presenting a legal risk for repatriation of dividends, as at the date of this document, we have not identified countries in which we operate that present such a risk. However, there is no assurance that such risk may not exist in the future.

In addition, the dividend payments or other transfers made by our subsidiaries to us may also be limited by covenants in our subsidiaries' debt agreements or be subject to various contractual and/or tax constraints in the countries in which they operate, which could make such payments difficult or costly. We do not believe that any of these covenants or restrictions will have any material impact on our ability to meet our financial obligations. However, if in the future these restrictions are increased and we are unable to ensure the continued transfer of dividends and other income to us from these subsidiaries, this will impair our ability to pay dividends and make debt payments.

Increases in energy and fuel costs could have a material adverse effect on our results of operations and profitability.

Energy is a significant cost factor in most of our operations. We protect ourselves, to a certain extent, against the risk of energy price inflation through the ability of many of our cement plants to switch fuel sources or to use alternative fuels, such as used oil or tire recycling, in some of our cement plants and through the use of long-term supply contracts for certain of our energy needs. For example, from time to time, we contract for electricity and gas using forward contracts. Despite these measures, recent increases or significant fluctuations in energy and fuel costs have affected and may in the future affect our results of operations and profitability. See subsection of Item 4 entitled "Information on the Company — Cement — General Information Regarding Our Products, Markets and Industry — Production and facilities information" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

We are dependent on third-party suppliers for some raw materials used in our manufacturing processes and changes in the quantity or conditions for obtaining these raw materials could increase our costs, which may adversely affect our financial performance.

Although we maintain our own reserves of limestone, gypsum, aggregates and other materials used in our manufacturing operations, we have increasingly turned to synthetic alternatives generated as by-products of other industrial processes such as synthetic gypsum and slag and fly ash which we obtain from third-party suppliers. We generally secure our supply of these materials through long-term contracts most of which are renewable; however, in certain cases, legal constraints require us to contract over shorter periods. Should our existing suppliers cease operations or stop producing these by-products, we may be obliged to secure these materials at higher costs, which could adversely affect our profitability.

Changes in government policy or legislation, notably regarding zoning and the environment, could have a material adverse effect on our business, financial condition and results of operations.

Our performance is affected significantly by national and/or local government policy and legislation in the regions and territories in which we have operations.

Many products manufactured by our operating units are subject to government regulation in various jurisdictions regarding their production and sale and our operating units are subject to extensive regulation by national and local agencies concerning such matters as zoning and environmental compliance. In addition,

numerous governmental permits and approvals are required for our operations. We believe that our operating units are currently operating in substantial compliance with, or under approved variances from, various national and local regulations in all applicable jurisdictions. In the past, our subsidiaries have made significant capital and maintenance expenditures to comply with zoning, water, air and solid and hazardous waste regulations and they may be required to do so in the future.

In addition, national governments' policies with regard to the development of public infrastructure and housing have a significant effect on demand for our products and, as a result, our profitability. Delays in the implementation of infrastructure and housing projects, due to budgetary constraints or problems with implementation of projects, could have a material adverse effect on our business, financial condition and results of operations.

Changes in governmental regulations could increase our operating costs and could have a material adverse effect on our business, financial condition and results of operations. For example, the European Union recently passed a directive implementing the Kyoto Protocol on climate change that concerns our operations in Western Europe (see "Item 4. Information on the Company — Environment").

The price of our ADSs and the U.S. dollar value of any dividends will be affected by fluctuations in the U.S. dollar/euro exchange rate.

The ADSs trade in U.S. dollars. As the principal trading market for the shares underlying the ADSs is the Eurolist of Euronext Paris, where the shares trade in euro, the value of the ADSs will likely fluctuate as the U.S. dollar/euro exchange rate fluctuates. If the value of the euro decreases against the U.S. dollar, the price at which our ADSs trade will decrease. In addition, since any dividends that we may declare will be denominated in euro, exchange rate fluctuations will affect the U.S. dollar equivalent of dividends received by holders of ADSs. See "Exchange Rate Information", above. If the value of the euro decreases against the U.S. dollar, the value of the U.S. dollar equivalent of any dividend will decrease comparatively.

You may not be able to exercise preemptive rights for shares underlying your ADSs.

Under French law, shareholders have preemptive rights ("*droits préférentiels de souscription*") to subscribe for cash for issuances of new shares or other securities giving rights, directly or indirectly, to acquire additional shares on a pro rata basis. Shareholders may waive their preemptive rights specifically in respect of any offering, either individually or collectively, at an extraordinary general meeting. Preemptive rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares and may be quoted on the *Eurolist*. U.S. holders of ADSs may not be able to exercise preemptive rights for the shares underlying their ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, is effective with respect to such rights or an exemption from the registration requirements thereunder is available. We intend to evaluate at the time of any rights offering the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits of enabling the exercise by the holders of ADSs of the preemptive rights associated with the shares underlying their ADSs, and any other factors we consider appropriate at the time, and then to make a decision as to whether to file such a registration statement. We cannot guarantee that any registration statement would be filed, or, if filed, that it would be declared effective. If preemptive rights cannot be exercised by an ADS holder, JPMorgan Chase Bank, as depositary, will, if possible, sell such holder's preemptive rights and distribute the net proceeds of the sale to the holder. If the depositary determines, in its discretion, that such rights cannot be sold, the depositary may allow such rights to lapse. In either case, ADS holders' interest in us will be diluted and, if the depositary allows rights to lapse, holders of ADSs will not realize any value from the granting of preemptive rights.

Holders of ADSs may be subject to additional risks related to holding ADSs rather than shares.

Because holders of ADSs do not hold their shares directly, they are subject to the following additional risks:

In the event of a dividend or other distribution, if exchange rates fluctuate during any period of time when the depositary cannot convert a foreign currency into dollars, the ADS holder may lose some or all of

the value of the distribution. There can be no assurances that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.

There can be no guarantee that ADS holders will receive voting materials in time to instruct the depositary to vote. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.

ADS holders may not receive copies of all reports from us or the depositary. You may have to go to the depositary's offices to inspect any reports issued.

We and the depositary may amend or terminate the deposit agreement without ADS holders' consent in a manner that could prejudice ADS holders.

ITEM 4. INFORMATION ON LAFARGE

Business Overview

We believe, based on our experience in this industry that we are the world leader in construction materials and one of France's major corporations in terms of sales. In the financial year 2004, under French GAAP, we achieved sales of 14,436 million euros, operating income on ordinary activities of 2,124 million euros and net income of 868 million euros, and at year end had total assets amounting to 24,772 million euros. We currently employ approximately 77,000 people in 75 countries. Our expertise in efficient industrial production, conservation of natural resources and respect for both society and the environment has been implemented around the world.

Our operations are organized into four Divisions, each of which holds a leading position in its respective market: Cement, Aggregates & Concrete, Roofing and Gypsum. We believe, based on our experience in these industries, that we are the largest cement producer worldwide, with annual sales of 6,810 million euros and industrial operations in 43 countries. We believe that we are the world's second largest producer of aggregates and ready mix concrete. In 2004, our Aggregates & Concrete Division achieved annual sales of 4,747 million euros. We believe that our Roofing Division is the world's leading producer of concrete and clay roofing tiles with annual sales in 2004 of 1,493 million euros, and that our Gypsum Division is the third-largest manufacturer of gypsum wallboard worldwide with annual sales of 1,340 million euros in 2004.

Contributions to our sales by segment for the years ended December 31, 2004 and 2003 and the related percentage changes between the two periods were as follows:

	Year ended December 31, 2004		% Var.	Year ended December 31, 2003	
Sales	**(in million €)**	**%**	**2004/2003**	**(in million €)**	**%**
Cement	6,810	47.2	6.7	6,383	46.7
Aggregates & Concrete	4,747	32.9	6.3	4,465	32.7
Roofing	1,493	10.3	(1.1)	1,510	11.1
Gypsum	1,340	9.3	12.2	1,194	8.7
Other	46	0.3	(56.6)	106	0.8
Total	**14,436**	**100.0**	**5.7**	**13,658**	**100.0**

Sales by geographic area for the years ended December 31, 2004, 2003 and 2002 were as follows:

	Total Sales by Geographic Area Year ended December 31,		
Geographic Area	**2004**	**2003**	**2002**
Western Europe	6,020	5,776	6,005
North America	3,938	3,840	4,405
Mediterranean Basin	534	530	562
Central & Eastern Europe	746	696	661
Latin America	579	613	720
Africa	1,190	921	869
Asia/Pacific	1,429	1,282	1,388
Total	**14,436**	**13,658**	**14,610**

Our operating structure grants each of our Divisions responsibility for strategy and performance management in its area of business, in the context of our strategic guidelines. The Division-based organization allows greater decentralization and initiative, while maintaining overall coherence with respect to policies and product standards and allowing synergies between Divisions.

Our shares have been traded on the Paris stock exchange since 1923 and are a component of the French CAC-40 market index since its creation. On March 23, 2005 our market capitalization (including our treasury shares) was 12,879 million euros (based on the closing price). Our shares are also included in the SBF 250 index and the Dow Jones Eurostoxx 50 index.

Our shares have traded on the New York Stock Exchange ("NYSE") in the form of American Depositary Shares, or ADSs under the symbol "LR" since July 23, 2001. Each ADS represents one-fourth of one share.

Corporate Information and History and Development of the Company

We are a French limited liability company (*société anonyme*) governed by French law. Our commercial name is "Lafarge". We were incorporated in 1884 under the name "J et A Pavin de Lafarge". Currently, our by-laws state that the duration of our company is until December 31, 2066, and may be amended to extend our corporate life. Our registered office is located at 61 rue des Belles Feuilles, 75116 Paris, France. We are registered under the number "542 105 572 RCS Paris" with the registrar of the Paris Commercial Court (*Tribunal de Commerce de Paris).*

We originated in the first half of the nineteenth century in France as a lime exploitation enterprise founded by Auguste Pavin de Lafarge. We have been operating internationally since the 1860s, when we supplied lime for the building of the Suez Canal. After growing to be France's largest cement producer during the first part of the twentieth century, we further developed our international profile by expanding in North America and South America. We became one of the largest cement manufacturers in North America after acquiring General Portland Inc. in 1981. Today, our North American operations are conducted principally through our 53% owned subsidiary, Lafarge North America Inc., a New York Stock Exchange ("NYSE") listed company.

After further external developments namely in Western Europe, Eastern Europe around the Mediterranean Basin and in Asia Pacific and following the acquisition of Blue Circle Industries plc in 2001, which was then the sixth largest cement manufacturer in the world, we became the world's largest cement manufacturer with operations in 39 countries.

While expanding our cement operations internationally, we have broadened our other longstanding product lines, aggregates (sand, gravel, calcareous and igneous materials), concrete and gypsum. The development of the Aggregates & Concrete business progressed significantly in 1997 with the acquisition of Redland plc, then one of the principal manufacturer of aggregates and concrete worldwide. This acquisition also brought us our roofing business.

Recent Events

Division	Geographic area	Timing	Description
Cement	Asia-South Korea	January 2004	Lafarge increased its holding in Lafarge Halla from 39.9% up to 50.1% for a value of 57 million euros.
Cement	Asia-China	June 2004	Lafarge announced plans to double by 2006 the capacity of its Dujiangyan cement plant located to serve the market of Chengdu (South West of China) for a total investment of $58 million. In addition, Lafarge has signed an exclusive partnership agreement for cooperation with Shui On Construction and Materials Limited ("SOCAM"), a major player in the construction sector. SOCAM is setting up a joint venture for a total investment of about 160 million euros to acquire two cement plants in Yunnan. Lafarge has also an option to purchase from SOCAM, subject to certain conditions, until July 8, 2005 a 40% interest in a joint venture to be formed between SOCAM (80% stake) and the Yunnan Provincial Government (20% stake) which will control assets representing 4.5 million tonnes cement capacity in the Yunnan Province.

Division	Geographic area	Timing	Description
Cement	Western Europe-Spain and Portugal	January and September 2004	The sale of our 40.9% participation in Cementos Molins took the form of a limited tender offer that Cementos Molins launched for its own shares. The transaction amounted to 265 million euros.
Cement	Asia-Vietnam	October 2004	Lafarge announced the construction of a grinding plant close to Ho Chi Minh City in Vietnam to enter service during late 2005. The investment, which will cost a total of almost $30 million for 2 years, is being made by DonaFrance, a joint venture in which Lafarge owns a 70% interest with the remainder held by a Vietnamese building materials company.
Cement	Latin America-Honduras	October 2004	A 50% owned subsidiary of Lafarge Incehsa S.A. de CV, a majority owned subsidiary of Lafarge, acquired a cement grinding unit in San Lorenzo for a total amount close to $15 million (11 million euros).
Cement	Latin America-Ecuador	December 2004	Lafarge acquired a German capital investment company, Finlatam V GmbH, Germany, which owns nearly 99% of the shares of Cementos Selva Alegre, a major cement producer in Ecuador. The company was acquired at a price of about $130 million (98 million euros) and is free of debt. Cementos Selva Alegre, a cement manufacturer ranked number two in the Ecuadorean market with a 20% market share, owns a cement plant with an annual production capacity of 640,000 tonnes. The plant is located some 110 km north of the capital, Quito.
Cement	Asia-South Korea-India-Japan	January 2005	Lafarge announced the buyout of minority interests held by the State of Wisconsin Investment Board ("SWIB") in its cement activities in South Korea, India and Japan, in accordance with the partnership agreements concluded five years ago. The transaction is worth $141 million (104 million euros) and included: • a 20.3% stake in Lafarge Halla Cement in South Korea, taking our total stake to 71.4%. Lafarge Halla Cement is South Korea's fourth-largest cement producer, with three industrial sites and the capacity to produce 7.5 million tonnes of cement per year. • a 23.6% stake in Lafarge India Private Ltd, taking our total stake to 94.4%. Lafarge India Private Ltd is the leading player in Eastern India. With total annual cement production capacity of 5 million tonnes across two cement plants and a grinding station. This unit supplies the Eastern Indian market. • a 43% stake in Lafarge Japan Holdings, taking its total stake to 100%. Lafarge Japan Holdings owns 39.4% of Lafarge Aso Cement Ltd, which has two cement plants and total annual cement production capacity of 3 million tonnes.

Division	Geographic area	Timing	Description
Cement, Aggregates & Concrete	North America	April 2004	Lafarge Building Materials Inc., a wholly-owned subsidiary of Lafarge S.A. which holds the cement and ready-mix assets formerly owned by Blue Circle in the United States, has completed the acquisition of the assets of the Ready-Mix Concrete and Cement Divisions of The Concrete Company of Columbus, Georgia for a total amount 87 million euros. The Concrete Company is a major cement importer and producer of ready-mix concrete, precast concrete and concrete pipe, and construction aggregates in the southeastern United States. The purchased assets include a cement import terminal with an annual capacity of 0.9 million metric tonnes, two distribution terminals, 46 ready-mix plants with annual sales of approximately 1.2 million cubic meters of concrete, and related equipment. Subsequently at the end of December 2004, we divested 17 of the acquired plants for an amount of 17 million euros.
Aggregates & Concrete	Western Europe-France and Switzerland	May 2004	Financière Granulats, a wholly owned subsidiary of Lafarge, acquired Hupfer Holding, a major aggregates and ready-mix concrete producer located in the east and the center of France and in Switzerland, for a price of 92.6 million euros, including debt of 23.5 million euros. The assets of Hupfer Holding include 9 quarries with a total annual capacity of 4.7 million tonnes of aggregates and 7 ready-mix plants (with a total capacity of approximately 0.3 million cubic meters).
Aggregates & Concrete	Western Europe-Spain	July 2004	Readymix Asland, a 50% owned subsidiary of Lafarge, acquired for 38.5 million euros, including debt of 6.5 million euros, Hormigones Ciudad Real S.A. (“HORCISA”), a major aggregates and ready-mix concrete producer. The HORCISA assets include 6 aggregates quarries, providing important reserves of aggregates, and 6 ready mix concrete manufacturing plants.
Roofing	Central and Eastern Europe-Romania	September2004	Our 50% owned subsidiary Bramac opened its first concrete roof tile plant in Romania.
Roofing	Western Europe-United Kingdom and Belgium	November2004	Our 100% subsidiary Schiedel, Europe’s leading manufacturer of chimney systems, acquired the British Rite-Vent Group. The Rite-Vent take-over will enable Schiedel to double its sales in Europe for stainless steel chimneys. At the same time Schiedel acquired Bemal NV in Belgium to expand its market position in that country.
Gypsum	Asia	May 2004	Lafarge Gypsum International purchased 14% of Lafarge Gypsum in Asia for a total amount of 34 million euros. As a subsidiary of Lafarge Gypsum in Asia, Lafarge Boral Gypsum in Asia is now owned 50% by Lafarge and 50% by Boral.

Division	Geographic area	Timing	Description
Gypsum	Western Europe-United Kingdom	February 2005	Lafarge announced that it will invest approximately 45 million euros in a new plasterboard plant in the Midlands, which will increase its capacity by 50% in the United Kingdom with an additional 25 million square meters. Construction will start in 2005.
Other operations-Lime	North America	December 2004	Lafarge announced that it had completed the sale of its 40% stake in Carmeuse North America BV to Carmeuse, for $140 million (98 million euros). Lafarge had been a minority shareholder within Carmeuse North America since 1998.

Capital expenditures, acquisitions and divestitures in 2004

Our acquisitions in consolidated and non-consolidated companies represented an aggregate cash cost of 420 million euros in 2004. The most significant acquisitions included (monetary amounts below have been converted into euros using the average yearly exchange rates for 2004):

- the acquisition in Ecuador of Cementos Selva Alegre for 98 million euros. Cementos Selva Alegre acquired at the end of 2004 will be consolidated starting January 1, 2005;
- the acquisition of The Concrete Company of Columbus, Georgia, United States for 87 million euros with operations in both cement and concrete;
- the acquisition of Hupfer Holdings for 69 million euros with operations in France and Switzerland in aggregates activities;
- the acquisition for 57 million euros of an additional 10.2% stake in Lafarge Halla Cement, in South Korea; and
- the acquisition for 34 million euros of an additional 14% stake in the holding company Lafarge Gypsum in Asia which controls our gypsum operations in Asia, in a joint venture with Boral.

In addition, in 2004 we spent 783 million euros on the ongoing upgrading and modernization of our existing industrial plants and 350 million euros in additional production capacity, including capital expenditures on major projects such as:

- the new plant in Bangladesh for 32 million euros;
- the kiln in Tula, Mexico for 22 million euros;
- the second line in Chongqing, China for 15 million euros; and
- the kiln in Ewekoro, Nigeria for 10 million euros,

and a variety of smaller projects which amounted to 149 million euros in cement, 63 million euros in aggregates and concrete, 48 million euros in roofing and 11 million euros in gypsum.

Divestitures of non industrial and financial strategic assets in 2004 yielded 574 million euros in cash. The most significant included:

- the disposal of the 40.9% stake in Cementos Molins in Spain for 265 million euros; and
- the disposal of the 40% stake in Carmeuse North America BV for 98 million euros.

On a year to year basis, we generally finance our capital expenditures with operating cash flows and, to some extent, with the proceeds from divestitures.

Our Organizational Structure

For details of our principal subsidiaries, including their full legal name and country of incorporation, see Note 33 to our consolidated financial statements.

Our group comprises over 1,240 majority owned subsidiaries and approximately 230 companies in which we have an equity participation. The large number of subsidiaries is essentially due to the local nature of our business, our multiple installations in 75 countries and the organization of our activities into four Divisions.

The relations between Lafarge S.A., our group's holding company, and our subsidiaries include a financial component and a services component.

The financial component covers the repatriation of dividends from our subsidiaries and the financing by Lafarge S.A. of the activities of our subsidiaries. At December 31, 2004, approximately 74% of the Group's financial debt was carried by Lafarge S.A. The Company has access to short-term and long-term financial markets and to large banking networks for its financing and provides financing to its subsidiaries through intercompany loans. For this purpose, the Company uses in particular its Euro Medium Term Note program for medium to long-term financings and its Commercial Paper program for short-term financings. There are, however, a few exceptions to this general rule. When our subsidiaries operate in local currencies that cannot be obtained by Lafarge S.A., local financing is sought so as to ensure that local operations are financed in the relevant local currency. Another situation is when there are minority shareholders in our consolidated subsidiaries, such as our subsidiary Lafarge North America Inc., which has access to financial markets in North America and carries its own financings.

We also promote the cash pooling by Lafarge S.A. of the cash generated within the Group whenever it is possible to implement such arrangements. Lafarge S.A. is therefore in charge of the daily consolidation of the cash located in most of our subsidiaries located in the euro zone and the financing of their activities.

The services component covers the provision by Lafarge S.A. of management support and technical assistance to our operating subsidiaries. Lafarge S.A. also licences its trademarks, patents and know-how to its subsidiaries. Technical assistance is provided through the Central Research Laboratory and the group's different technical centers that are directly linked to Lafarge S.A. See the sections of this item entitled "Research and Development" and "Intellectual Property" for a more detailed discussion of these aspects.

While some of our listed subsidiaries have a broadly dispersed public shareholder base, certain majority owned subsidiaries have minority shareholders that may be industrial or financial partners, governmental entities, employees or shareholders of the subsidiary before its acquisition by the Group. The presence of these minority shareholders is sometimes mandatory under local law or regulations (namely in case of a partial privatization) or is intended to share the business risk. The presence of these minority shareholders often leads to the implementation of shareholder agreements that contain board membership or other similar provisions, shareholders' information rights and control provisions. Our subsidiaries that are subject to these shareholder agreements represent approximately 20% of our consolidated revenues and 23% of our consolidated operating income on ordinary activities. We do not currently experience any difficulties in the management of these subsidiaries vis-à-vis our partners which could present a risk to our financial structure.

Finally, certain of our shareholder agreements contain exit provisions to the benefit of our minority shareholders that can be exercised at any time or at certain fixed times (See Note 26 to our consolidated financial statements) or in specific situations, namely in case of a continuing disagreement or change of control of the relevant subsidiary or the Group. In particular, the shareholder agreements entered into in relation to our Cement business in Morocco and Egypt, our Gypsum business in Asia and our Roofing business in North America (the last two being our joint ventures with the Boral group) contain provisions that enable our partners to buy back our shareholding in these businesses in case of a change of control of Lafarge S.A.

The discussion that follows provides, with respect to each Division, the after tax return on capital employed, which is one of the measures of profitability of our operations used by the management. The after tax return on capital employed is the sum of the operating income on ordinary activities after tax (which is calculated by applying the effective tax rate for the year in question to the Division's operating income on

ordinary activities) and the share of net income of equity affiliates divided by the average capital invested per Division. The calculation of the after tax return on capital employed for year 2004 is based on the effective tax rate for the year 2003 — 28.6% — because the effective tax rate for the year 2004 is not representative for the purposes of this calculation. (See Notes 3(a) and 8 (b) to our consolidated financial statements).

Cement

Our Cement Division covers operations throughout the world. In the year 2004, the companies we consolidated (global and proportionate) had industrial operations in 43 countries. We believe that as cement demand is closely related to the business cycle and the level of infrastructure and construction spending, geographical diversification is the best way to ensure growth of returns. We believe emerging markets represent the best prospects for long-term growth in the cement industry.

Our goals for the coming years in cement are to further enhance our operating performance in our various geographic markets by improving operating performance through benchmarking and transfer of best practices. We also intend to continue to participate in the consolidation of the industry worldwide.

With sales of 6,810 million euros, our Cement Division contributed 47.2% of our sales in 2004 and 73.8% of our operating income on ordinary activities. The Cement Division's after tax return on capital employed in 2004 was 9.5%. At December 31, 2004, we had 38,202 employees in the Cement Division.

On the basis of tonnes of cement capacity in 2004, we believe, based on our experience in this industry, that our cement business is the world's largest producer of cement. At the end of 2004, the companies we consolidated (global and proportionate) operated 114 cement plants, 20 clinker grinding plants and 6 slag grinding stations.

In 2004, the companies we consolidated (global and proportionate) had sales volumes of 119.4 million tonnes of cement.

	Cement Sales by Destination Year ended December 31,					
Geographic Area	**2004**		**2003**		**2002**	
	(in million € except percentages)					
Western Europe	2,204	32.4%	2,099	32.9%	2,274	32.7%
North America	1,338	19.6	1,345	21.1	1,579	22.7
Central and Eastern Europe	457	6.7	409	6.4	401	5.8
Mediterranean Basin	430	6.3	441	6.9	455	6.6
Latin America	372	5.5	416	6.5	502	7.2
Sub-Saharan Africa	944	13.9	766	12.0	756	10.9
Asia	1,065	15.6	907	14.2	981	14.1
Total	**6,810**	**100.0%**	**6,383**	**100.0%**	**6,948**	**100.0%**

We had sales of 3,267 million euros in emerging markets in 2004, compared to 2,938 million euros in 2003 and 3,092 million euros in 2002. The overall percentage of our sales to emerging markets was 48.0% in 2004 compared to 46.0% in 2003 and 44.5% in 2002.

General information regarding our products, markets and industry

Products

Our major products are a wide range of cements and hydraulic binders for the construction industry. Cement is a fine powder that is the principal strength-giving and property-controlling component of concrete. We have developed a broad-based product offering for construction industry professionals:

- a range of cements adapted for use in all conditions (including cements adapted to exposure to seawater, sulfates and hostile natural environments);
- special cements: white cement, oil-well cements, blended silica fume, fly-ash, pozzolana and slag cements; road surfacing hydraulic binders;
- natural lime hydraulic binders for construction;

- masonry cements; and
- ground slag.

All these products are referred to as "cement" in this report.

Together with this range of products, we provide a series of associated services, such as technical support, ordering and delivery logistics, documentation, demonstrations and training.

Production and facilities information

The production of cement can be separated into three main stages.

- The first step is to mix calcium carbonate, silica, alumina and iron ore in the correct proportions and grind them to produce the "raw meal";
- This "raw meal" is then heated and calcined in a kiln at a temperature of around 1500^{o}C, and then cooled down quickly to obtain an intermediate product in the form of a hard pellet, called "clinker"; and
- The clinker is then mixed with gypsum and finely ground to produce cement. Other cementitious materials can also be added at this stage such as slag, fly ash and pozzolana, naturally occurring volcanic cement.

There are two main processes used to produce clinker: the older, less fuel efficient, wet process and the modern dry process. In the wet process, the raw materials are mixed and ground with water to produce "slurry," which is then heated in the kiln to produce clinker. In the dry process, the raw materials are mixed and ground without water (hence "dry") to produce a very fine powder, which is then heated in the kiln. The dry process consumes less heat, since there is no need to eliminate the water added in the wet process. This substantially reduces fuel costs. Over 85% of our cement plants use the dry process.

The raw materials required for this process (calcium carbonate, silica, alumina and iron ore) are usually present in limestone, chalk, marl, shale and clay and are generally readily available in most countries of the world. Based on historic trends we do not consider the prices of these raw materials to be volatile. Cement plants are normally built beside large deposits of these raw materials. We currently estimate we have approximately 5 billion tonnes of proven and authorized reserves of raw materials. We believe that the quantities of authorized reserves at each of our existing cement plants is adequate for sustainable operating levels for the planned life of each of our plants.

In addition to naturally occurring raw materials, it is sometimes possible to substitute them partially with other cementitious materials produced as by-products from other industrial processes, such as blast-furnace slag and fly ash from coal-fired power plants. The use of slag and fly ash can improve some characteristics of cement and can also help us lower our use of capital. The amounts that can be substituted depend on the particular characteristics of the slag or fly ash and on the standards and regulations applicable to the particular type of cement. The use of these substitute products is part of our environmental objectives of pursuing environmentally friendly solutions. We use slag and fly ash principally in our plants in North America, France, Spain, Turkey, Austria, Poland, Romania, Brazil, South Korea, India, South Africa, Greece, United Kingdom, Chile, Kenya, the Philippines and Malaysia. In 2004, the cementitious addition ratio rose to 13.2% compared to 12.0% in 2003. The use of cementitious products remains a part of our long-term development strategy.

Cement production is capital intensive. The construction of a new dry process cement production line with a production capacity of 1 million tonnes per year (buildings, machinery and equipment) represents an investment of 50 to 160 million euros depending on the country in which it is located. The following table sets forth our estimate of a typical structure of grey cement production:

Item	Percentage of Total Cost
Raw Materials and consumables	23%
Energy	28
Direct production labor	14
Maintenance	14
Other fixed or general costs	7
Depreciation	14
Total Cost including depreciation	100%

We have placed special emphasis on becoming, and have become, more efficient in our sourcing and use of fuel. Fuel-efficiencies have been gained through improved plant design to include techniques such as using air exiting the kiln to preheat the blended raw materials as well as through the use of alternate fuels for firing the kiln, such as used oil or tire recycling, as a partial substitute for the oil, natural gas, coke or coal otherwise used. As an additional means of reducing energy costs, many of our cement plants are equipped to convert from one form of fuel to another with very little interruption in production, thus avoiding dependence on a single fuel and permitting us to take advantage of price variations between fuels. We have 71 plants that use some form of alternate fuel and operate with more than 4 different kinds of fuel. Approximately 70% of our cement plants are equipped to switch between fuel sources i.e. pet coke and coal. In 2004, alternative fuel accounted for close to 9% of the total fuel consumption in our worldwide operations. Our definition of alternative fuels only includes combustible wastes. The availability of wastes varies widely from region to region, and in particular between developed and emerging countries. Highly degraded fossil fuels are not included in our definition of alternative fuels and we also have a very aggressive strategy to increase our use of these as well.

Customers

In each of our markets we sell our cement, either bulk or bagged, to several thousand unaffiliated customers. Our products are used in three major segments of the construction industry: major civil engineering products, residential and commercial construction and renovation. Our primary customers are:

- ready mix concrete producers;
- precast manufacturers;
- building materials wholesalers;
- construction, civil engineering, road building and excavation work contractors.

We also sell to our other Divisions, including our Aggregates & Concrete Division, but we eliminate inter-company sales in reporting sales for the Division. In 2004, sales of our Cement Division to our other Divisions represented 593 million euros, compared to 562 million euros in 2003 and 573 million euros in 2002. Sales of cement are made generally pursuant to current orders from customers who purchase quantities sufficient for their immediate requirements. Our sales of cement do not typically involve long-term contractual commitments. The amount of backlog orders, as measured by written contracts, is normally not significant.

Market and competitive factors

The world's major cement markets are Asia, Western Europe and North America, and the highest growth is expected to be in emerging markets. Historically, cement consumption in a given country has been correlated to growth of per-capita income. As emerging countries become industrialized, consumption tends to grow rapidly as a percentage of per capita income with increased expenditures on public works and housing. After a certain point of development, consumption per capita tends to taper off and may actually fall

if the focus of development turns away from residential and commercial construction and infrastructure projects.

Demand for cement is seasonal and tends to be lower in the winter months in temperate countries and in the rainy season in tropical countries. In each country it is also closely linked to the level of public and private construction and infrastructure spending and is sensitive to interest rates and business cycles. Demand for cement in specific markets also depends on local considerations such as climate, natural resources and consumer tastes (demand for cement is far more seasonal in areas with cold winters such as Canada and the mid-western United States and, for example, U.S. residential construction uses more wood and less cement and concrete than much European residential construction).

Due to its nature, cement cannot normally be transported economically on land farther than about 300 km, although by sea and inland waterway it becomes economical to transport over great distances. Price is an important factor in competition. Nonetheless, demand for cement in any particular market is inelastic downwards in that lower prices do not typically increase market demand. Differentiation from competitors can be achieved through consistent quality over time and regular services as well as through the marketing of special purpose cements.

The capital-intensive nature of the cement industry together with over-capacity after the oil shocks of the 1970s led to the consolidation of the cement industry in Europe. In the 1980s, the major European cement manufacturers expanded into the United States and acquired approximately 70% of U.S. cement production. After the Asian crises, the consolidation of production into the hands of multinationals was then mirrored in Asia's cement industry, with the multinationals having a stake in an estimated 60% of Asian cement capacity outside of China. Cement is a competitive industry in all of our markets. We consider our major global competitors to be: Holcim (Switzerland), Cemex (Mexico), HeidelbergCement (Germany) and Italcementi (Italy).

Our geographic markets

In the discussion that follows, we describe market conditions and our competitive position in the principal geographic areas in which we operate. The sales volume figures we have provided for each country or region are the total volumes sold in each particular country or region by our consolidated cement subsidiaries including volumes sold to our other Divisions and adjusted to reflect our percentage of interest in our proportionately consolidated subsidiaries. The information as to the rated annual cement production capacity of our operating cement manufacturing plants is based on management's estimates at December 31, 2004. The production of a cement plant might be less than its rated capacity due to product demand, plant failures and seasonal factors. The information as to the total industry capacity is, unless mentioned otherwise, as estimated by JP Morgan in their report Construction & Building Materials Sector published in August 2004. In the following pages we will refer to this document as the "JP Morgan Report". The JP Morgan Report estimate of our production capacity differs in some respects from our management's estimates. However, we have retained the figures in the JP Morgan Report for our production capacity when calculating total industry capacity.

Western Europe

Western Europe represented approximately 32.4% of our cement sales in 2004. We have significant operations in France, the United Kingdom, Greece, Spain, Germany and Austria. We sold 32.0 million tonnes of cement in Western Europe in 2004 compared to 30.6 million tonnes in 2003 and 32.8 million tonnes in 2002.

Most cement markets in this region are mature and based on the JP Morgan Report, the total consumption for Western Europe as a whole in 2004 was close to 202.4 million tonnes or approximately 530 kg per capita. However, consumption varies dramatically within the region, with Greece and Spain having for instance a much higher per capita consumption of cement than France. The cement industry in Europe is competitive in all major markets, with production generally concentrated among the major international groups.

Number of cement plants and production capacity by country at December 31, 2004

Country	Company	Number of Plants		Total Cement Production Capacity (in million tonnes)
		Cement	Clinker Grinding	
France	Lafarge Ciments	10	2	9.2
United Kingdom	Lafarge Cement UK (1)	8	—	7.8
Greece	Heracles General Cement	3	—	10.0
Spain	Lafarge Asland	3	—	4.6
Germany	Lafarge Zement	3	—	3.5
Austria	Lafarge Perlmooser	2	—	1.5
Italy	Lafarge Adriasebina	2	—	1.2
Total Western Europe		**31**	**2**	**37.8**

(1) Lafarge Cement UK designates our cement operations in the UK.

France. Through our wholly owned subsidiary, Lafarge Ciments, we are the leading cement producer in France with a total market share of approximately 35%, according to the JP Morgan report. Our ten cement plants and two-seaboard clinker grinding plants are located to serve all of the major urban areas and regions in the country. We also operate a slag grinding plant and a lime plant. In 2004, France represented approximately 31.2% of our cement sales in Western Europe.

Based on figures provided by the JP Morgan Report, annual cement consumption in France fell rapidly in the mid-1990s to reach a low of 18.7 million tonnes in 1996 and 1997, but has partially recovered since the beginning of 1999 and has since stabilized with consumption in 2004 of 21.1 million tonnes compared to 20.7 million tonnes in 2003 and 2002. We sold 8.2 million tonnes of cement in metropolitan France in 2004, compared to 7.2 million tonnes in 2003 and 7.4 million tonnes in 2002.

Our major competitors in France are Ciments Français (72% owned by Italcementi), Vicat (in which HeidelbergCement holds an interest) and Holcim France (a wholly-owned subsidiary of Holcim).

United Kingdom. We established our operations in the United Kingdom through our acquisition of Blue Circle. Through Lafarge Cement UK, we are the leading cement producer in the United Kingdom. In 2004, the United Kingdom contributed approximately 22.2% of our cement sales in Western Europe. The JP Morgan Report estimated that our total installed capacity represented approximately 48% of the total rated capacity.

Our eight cement plants are located to serve the whole of the country, including Northern Ireland. The domestic market remained stable in 2004. We sold 6.3 million tonnes in 2004 compared to 6.4 million tonnes in 2003 and 7.1 million tonnes in 2002.

Our competitors in the United Kingdom are Castle Cement (wholly owned by HeidelbergCement), Rugby Cement (now an indirect subsidiary of Cemex) and Tarmac (controlled by Anglo American).

Greece. We established our operations in Greece with our acquisition of Blue Circle. Through our majority owned subsidiary, Heracles General Cement, we are the leading cement producer. In 2004, Greece contributed approximately 19.0% of our cement sales in Western Europe. According to our estimates we have a market share of 53%.

Our three cement plants are located to serve the domestic Greek market through seven separate distribution terminals. In 2004, exports from our operations accounted for approximately 37% of our volumes sold from Greece.

According to the JP Morgan Report, Greece had the fourth highest per capita cement consumption rate in the European Union in 2004. This reflects the fact that the construction market is very much concrete based. We sold 5.6 million tonnes of cement in Greece in 2004 compared to 6.0 million tonnes in 2003 and 5.5 million tonnes in 2002.

Our major competitors are Titan Cement Co and Halyps Cement Co (indirectly controlled by Italcementi).

Spain. Our operations are conducted through our majority owned subsidiary Lafarge Asland, which we acquired in 1989. In 2004, Spain represented approximately 13.5% of our cement sales in Western Europe. We are currently the fourth largest cement producer in Spain with 9% of market share as reported by the JP Morgan Report. We sold 5.0 million tonnes of cement in 2004 compared to 4.9 million in 2003 and 6.8 million tonnes in 2002, which included sales of discontinued operations in Andalusia.

Our three plants are located primarily in the growth regions of the Mediterranean coast and of the region of central Spain surrounding Madrid. We also operate a network of distribution centers and 3 seaboard terminals. According to the JP Morgan Report, Spain is among the leading countries in Europe in terms of cement consumption per capita due to the high level of infrastructure and buildings spending and the market continued to expand in 2004 reaching 47 million tonnes. However, imports have continued to have a significant impact on prices especially in the coastal regions and, according to the JP Morgan Report, imports of cement and clinker represented approximately 19% of the market's consumption estimated for 2004.

Our major competitors in Spain are Valenciana (99.5% owned by Cemex), Cementos Portland (55% owned by Valderrivas), Hisalba (99.9% held by Holcim), Financiera y Minera (indirectly controlled by Italcementi), Cimpor, Cementos Molins and Uniland.

Germany. Our operations are conducted through our wholly owned subsidiary Lafarge Zement GmbH. In 2004, Germany represented approximately 5.4% of our cement sales in Western Europe. We are the sixth largest cement producer with a 7% market share as reported by the JP Morgan Report.

We have three plants: the Wössingen plant near Karlsruhe, in which we initially acquired an interest in 1976, Karsdorf in Sachsen Anhalt, in Eastern Germany, which we acquired in 1991 and the Sötenich plant in Nord Rhein-Westphalia near the Belgian border, which we acquired in 1998. Our Wössingen plant serves Southern Germany including Stuttgart and Munich. Our Karsdorf plant serves Central and North Eastern Germany. Sötenich serves South West Germany including Cologne and Düsseldorf. We also serve Dresden and South Eastern Germany from our Cizkovice plant in the Czech Republic.

The construction industry has suffered a downturn since 1999 and, according to the JP Morgan Report, the overall cement market in Germany amounted to 28.3 million tonnes in 2004 a decline of 2% compared to 2003 and a decline of approximately 10% compared to 2002. We sold 3.0 million tonnes in 2004 compared to 3.1 million tonnes in 2003 and 2.7 million tonnes in 2002. Our major competitors in Germany are Dyckerhoff, HeidelbergCement, Schwenk, Readymix Zement (now an indirect subsidiary of Cemex) and Holcim.

Austria. Our cement business is conducted through our wholly owned subsidiary, Lafarge Perlmooser AG, in which we acquired our initial interest through our acquisition of Cementia in 1989. In 2004, Austria represented approximately 4.2% of our cement sales in Western Europe. Lafarge Perlmooser AG is the largest cement producer based on capacity according to our estimates. We operate two cement plants, one near Vienna and one in the Styria region. We sold 1.6 million tonnes of cement in 2004, compared to 1.4 million tonnes in both 2003 and 2002. Our major competitors are Lasselsberger, Wietersdorfer, Schretterand Leube.

We also hold a 50% interest in Kirchdorfer Zement, which operates a plant with a rated capacity of 0.55 million tonnes, according to our estimates.

Italy. Our cement business is conducted through our wholly owned subsidiary, Lafarge Adriasebina that we acquired in 1996. In 2004, Italy represented approximately 3.8% of our cement sales in Western Europe. We sold 1.4 million tonnes of cement in 2004 as well as in 2003 and 2002. We operate two cement plants and a number or import terminals.

North America

North America represented approximately 19.6% of our cement sales in 2004. We are represented in North America through our majority owned subsidiary, Lafarge North America Inc., a New York Stock Exchange ("NYSE") listed company and through our wholly owned subsidiary Blue Circle North America Inc. which we acquired as part of the Blue Circle acquisition. The assets of Blue Circle North America Inc. are currently managed by Lafarge North America Inc., which had an option to purchase such assets anytime

between July 1, 2002 and December 31, 2004, at a fixed call price of $1,400 million, subject to certain adjustments at the time of the exercise. On November 2, 2004, Lafarge North America Inc. decided not to exercise the option to purchase the Blue Circle North America's assets.

North America is a mature cement market. Sales are seasonal in Canada and much of the East Coast and Mid West as temperatures in the winter fall below minimum setting temperatures for concrete. We sold 21.0 million tonnes of cement in North America in 2004 compared to 18.0 million tonnes of cement in 2003 and 17.5 million tonnes of cement in 2002. Approximately 14% of our cement shipments in North America were made to our Aggregates & Concrete Division.

Number of cement plants and production capacity by country at December 31, 2004

Country	Company	Number of Plants		Total Cement Production Capacity (in million tonnes)
		Cement	Clinker Grinding	
United States	Lafarge North America Inc.	8	—	7.6
	Blue Circle North America	5	—	6.0
Canada	Lafarge Canada Inc.	7	—	7.0
Total North America		**20**	**—**	**20.6**

United States. In 2004, the United States represented approximately 83.3% of our cement sales in North America. On the basis of the figures provided by the JP Morgan Report, we are the second largest cement producer with a 13% of market share, marginally less than Holcim. The acquisition of Blue Circle brought us operations in the southeastern United States that complemented our existing plants, which are primarily concentrated in the central and midwestern states, extending from the northern Great Lakes southward along the Mississippi River system. Two new production lines became operational in 2002 replacing our prior capacities at Sugar Creek, near Kansas City, and Roberta, Alabama. In 2003, we divested our operations in Florida, which consisted primarily of two cement grinding and import facilities, for approximately 142 million euros. We have expanded our use of cementitious products and already have two slag grinding facilities, one in Baltimore, Maryland, and the other close to Chicago, Illinois.

We sold 17.4 million tonnes of cement in 2004 compared to 14.8 million tonnes in 2003 and 14.6 million tonnes in 2002. Our most significant U.S. markets in 2004 were Illinois, Michigan and Wisconsin.

Our major competitors in the United States are Holnam (a subsidiary of Holcim), Southdown (a subsidiary of Cemex), Ash Grove Cement and HeidelbergCement's U.S. subsidiaries.

Canada. In 2004, Canada represented approximately 16.7% of our cement sales in North America. We are the leading cement producer in Canada according to the JP Morgan Report, with approximately 34% of the total active industry clinker production capacity in Canada. We are the only cement producer serving all regions of Canada. We sold 3.7 million tonnes of cement in 2004 compared to 3.2 million tonnes in 2003 and 3.0 million tonnes in 2002. We had a significant increase in market consumption in British Columbia. In addition to the plants shown in the table above we also have two slag grinding plants in Ontario.

Our major competitors are St. Lawrence Cement (a subsidiary of Holcim) and St Marys Cement (a subsidiary of Votorantim).

Central and Eastern Europe

In 2004, Central and Eastern Europe represented approximately 6.7% of our cement sales. We have actively sought to take advantage of the opportunities offered in the emerging markets of Central and Eastern Europe and are present in Poland, the Czech Republic, Romania, Serbia-Montenegro, Slovenia and the Commonwealth of Independent States. Many of the countries in Central and Eastern Europe currently suffer from chronic excess capacity as a result of the inheritance from former central planning. However, we believe that the entry into the European Union of a number of Central and Eastern European countries will influence positively their long-term growth prospects. The companies we consolidated sold 10.2 million tonnes of cement in Central and Eastern Europe in 2004 compared to 9.0 million tonnes in 2003 and 8.1 million tonnes in 2002.

Number of cement plants and production capacity by country at December 31, 2004

Country	Company	Number of Plants		Total Cement Production Capacity (in million tonnes)
		Cement	Clinker Grinding	
Poland	Lafarge Cement Polska	2	—	3.3
Romania	Lafarge Romcim	2	1	4.4
Total CIS		**4**	**—**	**6.4**
Commonwealth of Independent States	Voskresenskcement	1	—	1.9
	Mykolaivcement	1	—	1.6
	Uralcement	1	—	1.7
	Rezina	1	—	1.2
Serbia-Montenegro	Lafarge Beocinska Fabrika Cementa	1	—	1.5
Slovenia	Lafarge Cement D.D.	1	—	0.6
Czech Republic	Lafarge Cement a.s.	1	—	1.0
Total Central and Eastern Europe		**11**	**1**	**17.2**

Poland. In 2004, Poland represented approximately 25.6% of our cement sales in Central and Eastern Europe. We operate through our wholly owned subsidiary Lafarge Cement Polska which, we believe, based on our experience in this industry, is the second largest producer in terms of capacity. We acquired our plants in a series of acquisitions in 1995 and 1996. We sold 2.3 million tonnes of cement in 2004, compared to 2.2 million tonnes in each of 2003 and 2002. Our major competitors are CRH, HeidelbergCement, and Dyckerhoff.

Romania. In 2004, Romania represented approximately 24.5% of our cement sales in Central and Eastern Europe. We operate two cement plants and one clinker grinding station, through our majority owned subsidiary, Lafarge Romcim, which we acquired in 1997. The JP Morgan Report estimates the total market for cement in Romania at 5.2 million tonnes in 2004. We sold 1.8 million tonnes in 2004, compared to 1.9 million tonnes in 2003 and 1.6 million tonnes in 2002. In 2004, exports from our operations in Romania accounted for approximately 43% of our total volumes sold from Romania.

Commonwealth of Independent States. We have plants in Russia, Ukraine and Moldavia.

In 1996, we acquired our majority interest in JSC Voskresenskcement, which operates a cement plant in Voskresensk, near Moscow. In October 2003, we acquired a 75% interest in Uralcement, which operates a plant in the Urals with a capacity of 1.7 million tonnes. According to the JP Morgan Report, the total market for cement in Russia was 44.9 million tonnes in 2004. We sold 2.4 million tonnes of cement in Russia in 2004 compared to 1.6 million tonnes in 2003 and 1.5 million tonnes in 2002.

In 1999 after initially acquiring a minority stake in 1998, we acquired a majority interest in Mykolaivcement, which operates a cement plant in Mykolaiv, near the Black Sea. We sold 0.9 million tonnes of cement in Ukraine in 2004 compared to 0.8 million tonnes in 2003 and 0.7 million tonnes in 2002.

In Moldavia, where we acquired our first holding in 1998, our wholly owned subsidiary, Cement Rezina, operates a cement plant located in Rezina with a capacity of 1.2 million tonnes. We sold 0.4 million tonnes in 2004.

Serbia-Montenegro. Our subsidiary Beocinska Fabrika Cementa, which we acquired in 2002, is the market leader in Serbia-Montenegro, with a total annual production capacity of 1.5 million tonnes. The plant is located on the Danube close to Novi Sad and Belgrade. Our indirect ownership interest as at December 31, 2004 is 42.04%. We sold 0.9 million tonnes of cement in 2004 compared to 1.0 million tonnes in 2003 and 0.8 million tonnes in 2002.

Slovenia. Our subsidiary Lafarge Cement D.D., which we acquired in 2002, is the second largest cement producer on the Slovenian market, with an annual production capacity of 0.6 million tonnes. The plant is located close to the two major cities of the country (Ljubljana and Maribor) and close to Austria. We sold 0.5 million tonnes of cement in 2004 and in 2003 and 0.4 million tonnes in 2002.

Czech Republic. In 2004, the Czech Republic represented approximately 5.5% of our cement sales in Central and Eastern Europe. Our operations are conducted through our majority owned subsidiary

Lafarge Cement AS. We sold 0.3 million tonnes of cement in 2004, 2003 and 2002. In 2004, exports from our operations in the Czech Republic accounted for 51% of our total volumes. Our major competitors are HeidelbergCement, Holcim and Dyckerhoff.

Mediterranean Basin

In 2004, the Mediterranean Basin represented approximately 6.3% of our cement sales. We believe that the emerging countries of the Mediterranean Basin have high growth potential in the medium to long-term as they industrialize and urbanize. Many of the cement markets in the region have only been recently opened up to competition after years of state ownership. The companies we consolidated sold 9.7 million tonnes of cement in the region in 2004 compared to 9.9 million tonnes in 2003 and 9.5 million tonnes in 2002.

Number of cement plants and production capacity by country at December 31, 2004

Country	Company	Number of Plants		Total Cement Production Capacity (in million tonnes)
		Cement	Clinker Grinding	
Jordan	Jordan Cement Factories	2	—	4.5
Morocco	Lafarge Maroc(1)	4	—	4.2
Total Turkey		**4**	**4**	**4.4**
Turkey	Lafarge Aslan	1	—	2.1
	Yibitas Lafarge(1)	3	3	2.1
	Eregli Cimento	0	1	0.2
Total Egypt		**2**	**—**	**3.1**
Egypt	Beni Suef Cement(1)	1	—	1.4
	Alexandria Portland Cement(1)	1	—	1.7
Total Mediterranean Basin		**12**	**4**	**16.2**

(1) companies consolidated using the proportionate consolidation method

Jordan. In 2004, Jordan represented approximately 38.6% of our cement sales in the Mediterranean Basin. Our operations in Jordan are conducted through Jordan Cement Factories, a listed company. In 1998, Jordan Cement Factories was privatized and we purchased a 33.3% interest. We are currently the largest shareholder of the company with 48% participation. The Jordanian social security is the second largest shareholder in Jordan Cement Factories with a 23% interest.

Cement consumption has increased over the past few years. We sold 3.3 million tonnes of cement in 2004 compared to 2.8 million tonnes in 2003 and 2.7 million tonnes in 2002. In 2004, exports from our operations represented 14% of our total volumes sold from Jordan.

Morocco. In 2004, Morocco represented approximately 27.9% of our cement sales in the Mediterranean Basin. We operate four cement plants through our subsidiary Lafarge Maroc and its operating subsidiaries. Our partner in Lafarge Maroc is ONA, the largest Moroccan group. According to our estimates, we are the largest cement producer and have approximately 41.5% of the production capacity in the country. We sold 2.1 million tonnes in 2004 compared to 1.9 million tonnes in 2003 and 1.8 million tonnes in 2002. The market consists of international players and our competitors include Italcementi, Holcim and Cimpor.

Cement consumption is growing but the growth pattern is heavily influenced by the level of earnings in the agriculture sector, which drives the economy as a whole. In March 2004, Lafarge announced the decision by Lafarge Ciments (Morocco) to build a new production line in Bouskoura, to increase the cement capacity by over 900,000 tonnes. In May 2004, Lafarge Maroc inaugurated a new cement plant in Tetouan. With a production capacity of one million tonnes, the new plant was designed to meet fast-growing demand in Morocco's northern provinces. The total investment in the new plant amounted to 120 million euros.

Turkey. In 2004, Turkey represented approximately 16.5% of our cement sales in the Mediterranean Basin. Through our majority owned subsidiary, Lafarge Aslan Cimento AS, we operate a plant in Darica, in the Marmara region, and through our wholly owned subsidiary, Agretas Agrega Insaat San.ve Tic.AS, we own a 49.9% interest in Yibitas Lafarge, a joint venture with Yibitas Holding, which we manage. Yibitas Lafarge operates plants in Central Anatolia and the Black Sea region.

We sold 2.1 million tonnes of cement in Turkey compared to 1.9 million tonnes in 2003 and 2.8 million tonnes in 2002 (Ybitas Lafarge is consolidated using the proportionate consolidation method since 2003).

Our major competitors are Akçansa (a subsidiary of Heildelberger Cement and Sabançi), Italcementi, Nuh Cimento, BURSA, Vicat and OYAK.

Egypt. Our operations in Egypt are conducted through Lafarge Titan Egyptian Investments Ltd., a 50/50 joint venture with the Greek cement group Titan S.A. We initially joined with Titan to buy 76% of Beni Suef in 1999 and this joint interest was raised to 95% in 2000. We included Alexandria Portland Cement, which we acquired as part of the Blue Circle acquisition within the structure of the joint venture in 2002. Beni Suef has a single dry kiln plant located 120 kilometers south of Cairo and is the tenth largest producer. Alexandria Portland Cement serves Egypt's second city, Alexandria, and is the seventh largest producer. It has a single plant with a dry line, which has been in operation since mid-2002. In 2003, the last wet kiln was closed so as to optimize the use of our assets in the country. We sold 1.2 million tonnes of cement in 2004 and in 2003. Our major competitors are Egyptian Cement (a subsidiary of Orascom and Holcim), Assiut (a subsidiary of Cemex) and Suez (in which Italcementi holds a large participation).

Latin America

In 2004, Latin America represented approximately 5.5% of our cement sales. We first entered the Latin-American market in the 1950s when we started our operations in Brazil. The companies we consolidated sold 6.0 million tonnes of cement in Latin America in 2004 compared to 6.2 million tonnes in 2003 and 6.5 million tonnes in 2002.

Number of cement and clinker plants and production capacity by country at December 31, 2004

Country	Company	Number of Plants		Total Cement Production Capacity (in million tonnes)
		Cement and clinker	Clinker Grinding	
Brazil	Companhia Nacional de Cimento Portland ("CNCP") Companhia de Materiais Sulfurosos ("CMS")	5	—	4.2
Chile	Empresas Melon	1	—	2.0
Venezuela	Fabrica Nacional de Cementos	2	—	1.6
Honduras	Lafarge Incehsa S.A. de C.V.	1	1	1.3
Mexico	Lafarge Cementos S.A. de C.V.	1	—	0.4
French Antilles	Ciments Antillais and Ciments Guyanais	—	3	1.0
Total Latin America		**10**	**4**	**10.5**

Brazil. In 2004, Brazil represented approximately 35.5% of our cement sales in Latin America. Our cement plants in Brazil are located mainly in the southeast of the country in the states of Rio de Janeiro, Minas Gerais and Sao Paolo. On the basis of figures published by the JP Morgan Report, we estimate we are the fourth largest cement manufacturer in terms of rated capacity. Our major competitors are Votorantim, Joao Santos, Camargo Correa, Holcim and Cimpor.

In 2004, the cement activity was slow due to both political and economical uncertainties. Retail sales, mainly for individual construction use, account for most of the demand.

We sold 2.4 million tonnes of cement in 2004 compared to 2.6 million tonnes of cement in 2003 and 2.9 million tonnes in 2002.

Chile. We operate through our majority owned subsidiary, Empresas Melon, a holding established with our acquisition of Blue Circle. In 2004, Chile contributed 21.5% of our cement sales in Latin America. Empresas Melon operates a single plant located near the capital Santiago. We believe, based on our experience in this industry, that we are market leader with 34.8% of market share. We sold 1.4 million tonnes of cement in 2004, 1.3 million tonnes in 2003 and in 2002.

Our major competitors are Polpaico (which is 54% owned by Holcim) and Cementos Bio-Bio.

Venezuela. In 2004, Venezuela represented approximately 15.9% of our cement sales in Latin America. We conduct our operations in Venezuela through our majority owned subsidiary, Fabrica Nacional de

Cementos. Our major competitors are Cemex and Holcim. On the basis of figures published by the JP Morgan Report, we estimate we are the third largest cement manufacturer in terms of rated capacity.

Our plants are located in the northern part of Venezuela where 80% of the population is concentrated. We sold 0.8 million tonnes of cement in 2004 compared to 0.6 million tonnes in 2003 and 0.8 million tonnes in 2002.

Honduras. In 2004, Honduras represented approximately 10.5% of our cement sales in Latin America. In 1998, we acquired our majority owned subsidiary Lafarge Incehsa S.A. de C.V., which has a plant located near the capital Tegucigalpa. We have increased the capacity of the plant by 400,000 tonnes. In October 2004, one of Incehsa's 50% subsidiaries acquired from Cemar the assets of a grinding station, located in South Honduras with an annual grinding capacity of 0.3 million tonnes. Our competitor is Cementos del Norte which has a plant located near the Guatemalan border.

Mexico. We operate a single plant in Mexico through our subsidiary Lafarge Cementos S.A. de C.V. which we acquired in 1999. Our plant in Mexico is located in Hidalgo State near Mexico City. Our major competitors are Cemex, Holcim, Cruz Azul and Moctezuma.

We decided in 2003 to start the construction of a new cement plant close to our existing plant near Mexico City. This new plant will have an annual production capacity of 600,000 tonnes and will replace the existing plant, which has a capacity 350,000 tonnes per year. The plant is expected to start operations in 2006. The total investment cost including additional reserves should be close to $120 million.

Sub-Saharan Africa

We substantially expanded our operations in the region with the Blue Circle acquisition, adding operations in Nigeria and Zimbabwe to our existing operations, which were primarily concentrated in South Africa and Kenya. In 2004, the region represented approximately 13.9% of our cement sales. The companies we consolidated sold 12.4 million tonnes of cement in the region in 2004 compared to 11.2 million tonnes in 2003 and 10.2 million tonnes in 2002.

Number of cement plants and production capacity by country at December 31, 2004

Country	Company	Number of Plants		Total Cement Production Capacity (in million tonnes)
		Cement	Clinker Grinding	
Total Nigeria		**3**	**—**	**3.0**
Nigeria	West African Portland Cement Company ("WAPCO")	2	—	2.1
	Ashakacem	1	—	0.9
South Africa	Lafarge South Africa Ltd.	1	1	2.4
Cameroon	Cimenteries du Cameroun ("Cimencam")	1	1	1.0
Benin	SCB-Lafarge	1	—	0.7
Kenya	Bamburi Cement	1	1	2.0
Uganda	Hima Cement Ltd.	1	—	0.3
Zambia	Chilanga Cement	2	—	0.7
Malawi	Portland Cement	—	1	0.2
Tanzania	Mbeya Cement	1	—	0.3
Zimbabwe	Circle Cement	1	—	0.4
Total Sub-Saharan Africa		**12**	**4**	**11.0**

Nigeria. In 2004, the Division sales in Nigeria contributed approximately 35.3% of our cement sales in Sub-Saharan Africa. We established our industrial operations in Nigeria through our acquisition of Blue Circle. They are conducted through our subsidiaries West African Portland Cement Company which serves the Lagos market and Ashakacem plc, which serves Northern Nigeria. In August 2003, we inaugurated a new cement plant in Ewekoro with a capacity of 1 million tonnes per year. According to our estimates, we are the first cement producer in the country and our two subsidiaries serve 26% of the market.

The domestic market dropped sharply in 2002, prior to the 2003 presidential election. The market subsequently expanded and reached 10.1 million tonnes in 2004 compared to 9.2 million tonnes in 2003, as

reported in the JP Morgan Report. Wapco and Ashakacem sold 2.1 million tonnes of cement in 2004 compared to 1.8 million tonnes in 2003 and 1.8 million tonnes in 2002. Our competitors are Dangote, Flour Mills, Cement Co of Northern Nigeria (controlled by HeidelbergCement), Bendel Cement, Calabar Cement and Unicem.

South Africa. In 2004, South Africa represented approximately 16.4% of our cement sales in Sub-Saharan Africa. In 1998, we acquired our wholly owned subsidiary, Lafarge South Africa Ltd. Our operations consist of one cement plant, which serves the Johannesburg market, and one grinding plant near Durban.

The domestic market continued to improve in 2004 with a 15% growth in volumes, according to our estimates. We sold 2.0 million tonnes of cement in 2004 compared to 1.7 million tonnes in 2003 and 1.6 million tonnes in 2002. Our major competitors are Pretoria Portland Cement and Alpha (a subsidiary of Holcim).

Cameroon, Benin. Our subsidiary, Cimenteries du Cameroun, known as Cimencam, is the sole cement producer in Cameroon. In Benin, we have a 50% interest in SCB-Lafarge, which operates a cement plant in Onigbolo.

Kenya and Uganda. In 2004, Kenya represented approximately 7.8% of our cement sales in Sub-Saharan Africa. Our operations in Kenya are conducted through our subsidiary Bamburi Cement Ltd., which was operated as a joint venture with Blue Circle prior to our acquisition of Blue Circle in 2001. Bamburi Cement has an integrated cement plant in Mombasa and a grinding unit in Nairobi. The market recovered in 2002 after a few years of stagnation due to the condition of the economy and the lack of government and development funding. The market continued to grow in 2004 to reach 2.2 million tonnes, according to our estimates. Our major competitors in this market are Athi River Mining and East African Portland Cement, a state-controlled company in which Lafarge and Bamburi have a combined minority interest of approximately 40%. In 1999, through Bamburi Cement Ltd., we acquired an interest in Hima Cement Ltd., a company which operates a cement plant in Uganda.

Zambia, Malawi, Tanzania and Zimbabwe. In 2001, we acquired the operations in Zambia, Malawi, and Tanzania from CDC Partners. At the beginning of 2003, we decided to close the kiln of our cement plant in Malawi. We entered in our majority owned subsidiary in Zimbabwe, Circle Cement, with the acquisition of Blue Circle. Circle Cement has a single plant that serves the capital Harare.

Asia

In 2004, Asia represented approximately 15.6% of our cement sales. We believe that long-term growth prospects for the region remain very favorable. The companies we consolidated sold 28.2 million tonnes of cement in the region in 2004 compared to 23.1 million tonnes in 2003 and 21.1 million tonnes in 2002. In 2004, our operations in South Korea were fully consolidated, whereas they had previously been consolidated on a proportionate basis.

Number of cement and clinker plants and our production capacity by country at December 31, 2004

		Number of Plants		Total Cement Production Capacity
Country	**Company**	**Cement and clinker**	**Clinker Grinding**	**(in million tonnes)**
South Korea	Lafarge Halla Cement	2	—	9.1
Malaysia	Malayan Cement Berhad	3	1	13.0
India	Lafarge India Ltd.	2	1	5.0
Philippines	Lafarge Philippines	6	3	10.0
Total China		**4**	**—**	**3.8**
China	Beijing Chinefarge Cement	1	—	1.1
	Shunfa Lafarge Cement	1	—	0.5
	Lafarge Dujiangyan Cement	1	—	1.4
	Lafarge Chongqing Cement	1	—	0.8
Indonesia	P.T. Semen Andalas	1	—	1.5
Total Asia		**18**	**5**	**42.4**

South Korea. In 2004, South Korea represented approximately 26.8% of our cement sales in Asia. We acquired a 39.9% interest in Lafarge Halla Cement in January 2000 and in January 2004, we increased our holding in Lafarge Halla up to 51.17%. Our subsidiary Lafarge Halla has been fully consolidated as a result of our increased equity interest. We operate a cement plant and a clinker plant both located in the North East of the country. We also operate a slag grinding plant at Kwangyang. In 2004, the cement market was of 57.7 million of tonnes according to the JP Morgan Report.

We sold 6.9 million tonnes of cement in 2004 compared to 3.2 million tonnes in 2003 and 2.9 million tonnes in 2002. Our major competitors in the country are TongYang, Ssangyong, Sungshin, Hyundai and Hanil.

Malaysia. In 2004, Malaysia contributed approximately 21.8% of our cement sales in Asia. We established our operations in Malaysia with our acquisition of Blue Circle. According to our estimates, our majority owned subsidiary, Malayan Cement Berhad is the leading cement producer. Our total installed capacity represented approximately 41% of the total rated clinker capacity, according to our estimates. Our three cement plants and our grinding plant are located to serve the whole of Malaysia and the export market. We sold 6.1 million tonnes of cement in 2004 compared to 6.4 million tonnes of cement in 2003 and 5.5 million tonnes in 2002. In 2004, exports from our operations represented 27% of the total volumes sold from Malaysia. The market remained relatively stable in 2004 with 12.3 million tonnes, as reported in the JP Morgan Report.

Our major competitors are Tasek Corporation, Renong, CMS Cement, Perak Hanjoong and Tenggara (100% owned by Holcim).

India. In 2004, India represented approximately 18.3% of our cement sales in Asia. We operate since November 1999 and we believe, based on our experience in this industry, we are the market leader in the eastern region of India. We sold 4.2 million tonnes of cement in 2004 compared to 3.6 million tonnes in 2003 and 3.9 million tonnes in 2002. Our major competitors in the Eastern region are Associated Cement Company, Gujarat Ambura Cement Ltd., Larsen & Toubro, Grasim/Ultratech and Century.

Philippines. In 2004, the Philippines represented 15.0% of our cement sales in Asia. We operate through our wholly owned subsidiary, Lafarge Philippines, and its subsidiaries. We believe, based on our experience in this industry, that our holdings constitute together the largest producer of cement with 32% of market share. We first entered the market in 1998.

Cement consumption in the Philippines is low by Asian standards. However, we estimate cement consumption has been growing at an average rate of over 7% per annum over the last decade and according to the JP Morgan Report, the total cement market amounted to approximately 12.1 million tonnes in 2003. In 2004, demand remained stable.

We sold 4.1 million tonnes of cement in 2004 compared to 4.2 million tonnes in 2003 and 3.7 million tonnes in 2002. Our major competitors in the country are Holcim and Cemex.

China. We are present in three areas.

Our majority owned subsidiaries, Beijing Chinefarge Cement Ltd. and Beijing Shunfa Lafarge Cement, serve the Beijing market. The Chinese state development investment company and a Chinese cement company respectively hold 15% and 20% of Beijing Chinefarge Cement, and a local Chinese partner holds 30% of Beijing Shunfa Lafarge Cement.

In the Sichuan province, near Chengdu, we completed the construction of the Dujiangyan plant with a 1.4 million tonnes cement capacity and launched commercial operations in mid 2002. We announced in June 2004 our intention to build a second production line. This $58 million investment will double the plant's existing cement capacity, to reach 2.8 million tonnes. Production is expected to start mid-2006.

At the cement plant of Chongqing we are currently building a second production line to meet the very strong growth in the local cement market. This $40 million investment will increase the plant's capacity by 1 million tonnes, thereafter reaching 1.8 million tonnes. The new line is expected to start in the second half of 2005. We hold a 63.7% interest in Lafarge Chongqing Cement.

Lafarge has also an option to purchase from Shui On Construction And Materials Limited (SOCAM), subject to certain conditions, until July 8, 2005 a 40% interest in a joint venture to be formed between SOCAM (80% stake) and the Yunnan Provincial Government (20% stake) which will control assets representing 4.5 million tonnes cement capacity in the Yunnan Province.

Indonesia. We operate in Indonesia through P.T. Semen Andalas, which we have controlled since 1994. Our plant is located in the Aceh province at the northern tip of Sumatra. Our major competitors are Gresik (in which Cemex has a 25.5% interest), Indocement and Cibinong (in which Holcim has an equity interest of about 77%). We sold 1.2 million tonnes of cement in 2004 compared to 1.1 million tonnes in 2003 and 1.2 million tonnes in 2002.

On December 26, 2004, a tsunami struck the Banda Aceh area where our plant was located. Many employees and contractors lost their lives that day. Our plant was severely damaged, and has been stopped for a number of months. Our local team organizes cement supplies from other countries in Asia to serve the market and help reconstruction.

Bangladesh. In Bangladesh, our subsidiary, Lafarge Surma Cement, started the construction of a 1.2 million tonnes greenfield plant in the north east part of the country for a total estimated project cost of $255 million. The new plant is financed in part through project financing arrangements with a syndicate organized by the World Bank and the Asian Development Bank. Our majority interest in Lafarge Surma Cement is held though a 50/50 joint venture established with Cementos Molins.

Japan. Our majority owned subsidiary, Lafarge Japan Holding, holds 39.4% of Lafarge Aso Cement Ltd. with two plants in Kyushu with a combined cement capacity of 3 million tonnes. We account for our 22.45% indirect ownership interest in Lafarge Aso Cement Ltd. using the equity method.

Trading activities

In order to increase our international sales and explore new markets without the necessity of immediately making investments in new production facilities, we created our Cementia Trading subsidiary, a separate entity within Lafarge that focuses on cement trading. Through Cementia Trading we purchased and sold approximately 7.9 million tonnes of cement and clinker in 2004 (these volumes are included in the volumes reported sold by geographic zone above). Approximately 60% of this amount consisted of exports from our operations, including those in Greece, Malaysia and Romania, and the rest was purchased from third parties in Indonesia, Japan, Venezuela and Colombia. Our trading network also enables us to distribute cement from countries where we have excess capacity to regions around the world where it is in demand. This helps us to maximize the capacity utilization of our facilities worldwide while reducing our exposure to the inherent cyclical nature of the cement industry. Our trading activities constitute a fundamental part of our strategic goals by allowing international development through careful, calculated steps, while at the same time satisfying worldwide demand where required.

Marine Cement. Marine Cement acts mainly as an importer and distributor of cement in Reunion, the Seychelles and the Red Sea countries. Marine Cement sold 2.4 million tonnes of cement in 2004 compared to 2.2 million tonnes in 2003 and 1.5 million tonnes in 2002. Marine Cement purchases its cement from our own subsidiaries, including Malayan Cement in Malaysia, Bamburi Cement in Kenya and from third-party suppliers.

Capital expenditures

Cement is a capital-intensive business. In the periods ended December 31, 2004, 2003 and 2002 our capital expenditures in the Cement Division totaled 557 million euros, and 397 and 656 million euros, respectively. They related to the on-going upgrading and modernization of existing industrial operations around the world and on organic growth through the building of new production facilities. Our capital expenditures in the Cement Division accounted for approximately 56% of our overall capital expenditures in the three-year period.

The principal capital expenditures (in excess of 20 million euros) in the three-year period from 2002 to 2004 for the modernization or replacing of existing plants and equipment included:

- North America: increased capacity at the former Blue Circle Roberta plant (Alabama) (2002), increased capacity at the Sugar Creek plant (Missouri) (2002) and construction of slag production and grinding facilities in Chicago (2002);
- Central and Eastern Europe: construction of a new production line (dry process) in Kujawy, Poland (2002 and 2003), the upgrading of our Voskressensk plant in Russia and of Beocin in Serbia-Montenegro (2004);
- Mediterranean Basin: construction of a new line in Tetouan (2002, 2003 and 2004) and a new line at our plant in Alexandria, Egypt (2002);
- Latin America: construction of a new cement plant near Mexico City, Mexico (2003 and 2004);
- Sub-Saharan Africa: increased capacity at the former Blue Circle plant at Ewekoro in Nigeria (2002, 2003 and 2004); and
- Asia: construction of a greenfield plant in Dujiangyan, China (2002), in Bangladesh (2004) and of a grinding plant in Vietnam (2004).

The Group also invested approximately 869 million euros in the three-year period on various acquisitions that expanded our market and geographical presence.

In 2005, the level of our capital expenditures will depend on general market conditions. We expect capital expenditures in the Division to exceed 800 million euros, excluding new acquisitions. We intend to invest in projects that maintain or improve the performance of our plants. We also intend to take advantage of selected acquisition opportunities in both mature and emerging markets.

The ongoing increases in capacity of cement plants in Morocco, China, as well as the construction of new plants in Mexico and Bangladesh and a grinding plant in Vietnam are included in the 2005 capital expenditures.

Aggregates & Concrete

With sales of 4,747 million euros, Aggregates & Concrete contributed 32.9% of our sales in 2004 and 15.9% of our operating income on ordinary activities. The Aggregates & Concrete Division's after-tax return on capital employed in 2004 was 7.9%. At December 31, 2004, we had 20,096 employees in the Aggregates & Concrete Division.

Lafarge is a leading international supplier of aggregates, ready mix concrete and asphalt. On the basis of the volumes of concrete and aggregates sold in 2004, we estimate we are the world's second largest producer of aggregates and ready mix concrete with significant market positions in Western Europe and North America. At December 31, 2004 the companies we consolidated (global and proportionate) operated 609 quarries and 1,105 ready mix concrete plants in 25 countries. In addition, we also produce asphalt and pre-cast concrete products and we are active in road contracting and surfacing in North America where we have leading positions in certain regions and in the United Kingdom.

In 2004, the companies we consolidated (global and proportionate) had sales volumes of 234.2 million tonnes of aggregates and 37.0 million cubic meters of ready mix concrete.

We manage our aggregates, concrete and asphalt businesses in the same Division because:

- the final users of these three product lines are similar,
- logistical constraints inherent to these businesses make it necessary to serve local markets through large numbers of operational units, and
- it is generally most efficient to produce ready mix concrete and asphalt at or close to our aggregate quarries as this proximity allows us to share management, equipment, services and marketing and reduces our logistic costs, thus reducing our overall production costs.

We initially entered the ready mix concrete business as part of our strategy to vertically integrate our cement operations and subsequently expanded upstream into aggregates. Ready mix concrete producers are

the largest consumers of cement in some of the major markets in which we are present. Vertical integration was pursued to better manage distribution channels, and to give us direct contact with the end-users of cement. We expanded into aggregates to secure the supply of raw materials and to profitably exploit our core competences in the geological, operational, environmental and regulatory aspects of quarrying operations which we had acquired through our cement operations. We also expanded into asphalt and road paving in North America and the United Kingdom, markets which provide further outlets for our aggregates resources. Our goals for the coming years are to pursue a growth strategy in aggregates in developed and selected emerging markets and to improve our operational performance.

The table below indicates the breakdown of our sales by destination in 2004, 2003 and 2002:

	Aggregates & Concrete Sales by Destination Year ended December 31,					
Geographic Area	**2004**		**2003**		**2002**	
	(in million €, except percentages)					
Western Europe	1,958	41.2%	1,845	41.3%	1,856	38.9%
North America	2,220	46.8	2,130	47.7	2,405	50.5
Other Regions	569	12.0	490	11.0	507	10.6
Total	**4,747**	**100%**	**4,465**	**100.0%**	**4,768**	**100.0%**

General information regarding our products, industry and markets

Products

Aggregate (sand, gravel and crushed rock) is used as a base material in roads, landfill and buildings and as raw material for concrete, masonry, asphalt and many industrial processes. In North America and the United Kingdom we also produce asphalt, which consists of dried aggregate mixed with a binder of 5-10% of heated liquid bitumen, a by-product of the oil refining process. Asphalt is used for road surfacing and paving and we also act as road contractors in some geographies.

Ready mix concrete (a blend of aggregate, water, cement and chemical admixtures) is used for a variety of applications from curbs and sidewalks to foundations, highways and buildings. Currently, we market a wide range of concrete mixes from industry standard mixes, with good tensile strength and durability, to specialty concretes which, for example, offer customers ease of placement under various weather or construction conditions, cost efficient/fit for purpose products and products with specific technical qualities. We have research and development resources dedicated to providing differentiated concrete mixes for specific purposes, and have recently developed two new products; Agilia®, which offers clients such qualities as superior coverage and filling abilities, self-leveling surfaces and enhanced durability and appearance, and Ductal® which is a self-placing ductile concrete, that can "bend" without breaking, and which has ten times the compressive strength of traditional concrete. In North America and the United Kingdom we also produce pre-cast concrete products. Our pre-cast concrete products include pavers and paving slabs used in sidewalks and driveways and concrete building blocks for residential and commercial construction.

Production & facility information

Aggregates

There are essentially three primary sources of aggregates: land-won sand and gravel, hard rock and marine sand and gravel. The production of recycled (recycled concrete or asphalt) and secondary (such as iron and steel or mine waste) aggregates is also increasing. In 2004, approximately 61% of our production was hard rock and 39% was sand and gravel.

The different types of aggregate are generally substitutable, depending on their uses and the corresponding physical specification requirements (granularity, hardness, etc). The choice of aggregate for a particular purpose also depends largely on the local geology or availability. In certain areas only one or two types of aggregate will be readily available. As aggregates are expensive to transport relative to their price, the cost of transport will generally limit the availability of aggregates to what is readily accessible in the local area.

The aggregate manufacturing process varies slightly depending on whether crushed rock or sand and gravel are used. The rock (usually either limestone or granite) is blasted from quarries and then crushed, ground and screened to meet end user specifications. Sand and gravel requires less crushing but as with rock also requires grading and screening to different sizes (generally 8mm to 80mm). Rock particularly can have different hardness and crushing characteristics which makes it suitable for higher specification uses (e.g. road building).

We currently estimate that we have control of approximately 10.1 billion tonnes of proven and authorized aggregates reserves at year-end 2004. We have sustained the level of our reserves through various acquisitions and successful permit applications. We believe that the quantities of proven and authorized reserves at our aggregates facilities are sufficient to result in an average life in excess of 35 years at present operating levels. We also have access to aggregate reserves for which we have either not yet requested or not yet received an extraction permit. We expect to gain the necessary permits for a significant portion of these in due course.

Ready mix concrete

Ready mix concrete generally consists of approximately 85% to 90% of dried aggregate which is combined with water and with 10% to 15% of cement and other cementitious substitutes that acts as a binder. Ready mix concrete is produced at low capital intensive industrial plants. The plants comprise storage facilities for the main raw materials and equipment for combining the dry materials to the required specification. The concrete is either mixed at the plant or in special mixer trucks. One cubic meter in volume of ready mix concrete can be mixed utilizing standard machinery in about three minutes.

Special additives may be included to give concrete a particular quality. Computerized systems add required quantities of additives such as retarding or accelerating agents plus water during the mixing process. For example, one of the key ingredients of our patented Ductal® concrete is its reinforcement made of metallic or organic fibers, which are a key component in its outstanding compression and traction strength.

Ready mix concrete also has a service aspect involving the on-time delivery of the quantity and quality of product ordered at the location specified by the customer. This aspect of the business requires significant logistical know-how. In a typical ready mix concrete plant raw materials will comprise about 85% of total production costs. Raw material prices can vary considerably between the various markets in which we operate. Over half of the raw material costs relate to cement and in our ready mix concrete operations we are expending substantial efforts to adjust our formulations to optimize raw material usage for a given standard of concrete. In order to achieve greater flexibility and better control over our transportation costs, we have increasingly moved toward subcontracting our transport operations and we now subcontract approximately 90% of our ready mix concrete transportation outside of North America.

In the manufacture of pre-cast block paving and concrete blocks, the concrete is normally manufactured on site near a source of aggregates and both the paving units and the blocks are formed using mould boxes. The material is compacted either by pressure or vibration or a combination of the two. The paving and blocks are sold in standard sizes, which can vary between markets and the types of block are further differentiated according to their end use primarily by the materials from which they are manufactured: naturally occurring aggregates in the case of dense aggregate blocks, blast furnace slag/clinker or artificial aggregates in the case of light aggregate blocks and pulverized fly ash or sand in the case of autoclaved aerated blocks.

Asphalt and Paving

Asphalt, like ready mix concrete, is produced at low capital intensive industrial plants. The plants comprise storage facilities for the main raw materials (bitumen and different grades of aggregates), equipment for combining and hot mixing the materials to the required specification and computerized systems for the addition of the requisite quantities of bitumen while the ingredients are mixed. Our asphalt plants range in output from 5,000 to 500,000 tonnes per year. Generally, asphalt consists of approximately 90% to 95% of dried aggregate with 5% to 10% of heated liquid bitumen that acts as a binder. Bitumen is a by-product of the petroleum refining process, the price of which is tied to oil prices.

We are also active in paving where we have leading positions based on sales in certain regions in North America and in the United Kingdom.

Customers

Our products are generally supplied at a local level directly to the end user and we sell to thousands of unaffiliated customers. Our customers for aggregates include ready mix concrete producers, manufacturers of pre-cast concrete products (pipes, curbs, building blocks, block pavers), asphalt producers, road contractors, masons and construction companies of all sizes. Aggregates also have numerous industrial applications and specialty aggregates are used, for example, by the steel industry and by numerous industrial, agricultural and manufacturing sectors. The primary customers for ready mix concrete and pre-cast concrete products are construction and road contractors of all sizes from major international construction companies to small residential builders, farmers or do-it-yourself enthusiasts. Asphalt is sold to road contractors for the construction of highways, driveways and parking lots and directly to state and local authorities.

We have no exclusive distribution or long-term supply contracts for ready mix concrete, pre-cast concrete products or asphalt, other than supply contracts to specific jobs which have been the subject of competitive tender. These are generally made on the basis of competitive prices in each market area, pursuant to current orders from customers on short notice who purchase quantities sufficient for their requirements. With regard to aggregates, we do have some supply contracts for specific production plants manufacturing ready mix concrete, asphalt and pre-cast concrete products. These contracts tend to be negotiated annually. The amount of backlog orders, as measured by written contracts, is normally not significant.

Market & competitive factors

General. We have built up our aggregates and ready mix concrete businesses over a number of years but the two most significant developments came with our acquisition of Redland in 1997 which almost doubled the size of our business and to a lesser extent from the acquisition of Blue Circle in 2001. In addition, we often acquire new concrete and aggregate operations in connection with a cement acquisition. We endeavor to restrict our concrete and aggregate operations to countries where the nature and enforcement of regulations ensure that we are operating on a "level playing field". We seek to avoid operating in countries where regulations are not enforced or non-existent and where local operators are not obliged to follow the same environmental and labor standards thus giving them an unfair competitive advantage.

In the Western European and North American markets, where we have the bulk of our operations, the levels of aggregates, asphalt and ready mix concrete demand at a national level generally move in line with the consumption of cement. Demand is seasonal and tends to be less in the winter months in temperate countries and in the rainy season in tropical countries.

As with cement, the aggregates, asphalt and concrete industries are cyclical and dependent on the level of activity in the construction industry and level of public infrastructure spending. However, it is not economical to ship aggregates over large distances and ready mix concrete and asphalt cannot be transported over distances that involve more than about one hour of traveling time. Brand recognition and loyalty start playing a role in sales of our products. But the determining factors in the selection of an aggregate, ready mix or asphalt producer are still location, quality, reliability of service and price. Demand for all of these products is very fragmented as choice of provider and supply takes place within a local market. Demand for aggregates, concrete and asphalt thus depends on micro-market conditions and can vary dramatically within a national market.

Aggregates. The competitive situation in aggregates is favorable to incumbent producers, as the opening of new aggregate sources is constrained by environmental and planning laws in many countries. Aggregate producers do frequently have a competitive advantage in those local markets where there are limited aggregate reserves. Nevertheless, substantial aggregates capacity is already in operation in most markets. Additionally, to the extent that new permits can be obtained and deposits are available, moderate capital investment is required to bring additional aggregate sources into production.

We estimate that the cost of a new plant and equipment to extract and process industrial minerals for a typical small quarry with an output of 250,000 to 500,000 tonnes per annum would be of the order of 2 to 4 million euros. With a large quarry with an output in excess of 1 million tonnes per annum costs would rise to 7 to 25 million euros while a super quarry may cost in excess of 45 million euros. These figures exclude costs for the land and minerals.

We believe we have a strong competitive position in aggregates. Our market positions and operational expertise assist us in optimizing returns from our investments. We are continuously seeking to improve our operational performance through performance improvement programs. We believe our knowledge of the construction markets assists us in ensuring that we acquire only well located reserves and businesses, and we believe that our environmental reputation for responsible land restoration assists us in obtaining new permits more easily and encourages landowners to deal with us as the operator of choice.

Ready mix concrete. Ready mix production has relatively few barriers to entry because of the low capital outlay required and the fact that the raw materials are generally plentiful and competitively priced. The concrete business in each micro market thus tends to be price constrained by the ability of competitors to quickly bring new capacity to market.

In each country in which we operate we aim to place our ready mix concrete plants in clusters in each micro market in which we operate in order to optimize our delivery flexibility, capacity and backup capability. The capacity of our plants varies depending upon market circumstance from 5 thousand to 300 thousand cubic meters. We evaluate each micro market in which we operate periodically and dismantle and move plants to locations where they can be used more profitably if we find a micro market is suffering from overcapacity or is a declining market. Recently we have increased the number of mobile plants we operate since these plants can be moved more easily and have the flexibility to be placed on temporary sites (including our clients' sites) to meet local customers needs.

We believe that developing new ready mix concrete products, such as Ductal® and Agilia®, will enable us to increasingly compete on the basis of quality and product differentiation. We also believe that by providing superior technical support and service we can differentiate ourselves from our competitors and charge a corresponding premium. The ongoing implementation of our readymix concrete performance program has continued to deliver performance improvement.

Asphalt. As with ready mix concrete, it is essential to deliver asphalt in usable form to the customer within a short period of mixing and customer sites are thus generally located within relatively short distances of the asphalt plant. The asphalt will usually be mixed from early morning and throughout the day for delivery to the road construction site at intervals to enable the contractor to maintain a steady flow of work. Sales are, on the whole, made directly between the asphalt producer and the customer, with only very limited use of intermediate distributors or agents since prompt and reliable delivery in insulated vehicles is a key element of the service provided by asphalt companies to their customers. Asphalt has a higher entry cost requirement than ready mix concrete as the capital cost of a typical asphalt plant is around 1.2 million euros in comparison to 400,000 euros for a ready mix concrete plant.

Our geographic markets

Our major markets in Western Europe are France and the United Kingdom, which represented approximately 51.1% and 30.1% respectively, of our Aggregates & Concrete sales in this area in 2004. We are also present to a lesser extent in Greece, Austria and Italy and through two joint ventures with RMC Group plc (which was acquired by Cemex in March 2005) in Spain and Portugal. In North America our primary markets are in Eastern and Western Canada, Colorado, New Mexico, Kansas, Louisiana, Missouri, Ohio, Maryland, Pennsylvania, West Virginia, Wisconsin, Georgia, Alabama and Florida. Our main other markets are South Africa, Brazil, Chile, Malaysia and Singapore and Turkey. In 2004, we increased our aggregates and/or ready mix concrete presence in North America, France, Ukraine and Switzerland.

In aggregates and ready mix concrete we regularly acquire small independent operators. From time to time we acquire larger operations when the opportunity arises and, additionally, assume control of aggregates and concrete assets which have been acquired via larger cement acquisitions. For example, the Blue Circle

acquisition in 2001 brought not only significant aggregates and ready mix positions in Georgia and Alabama in North America, but also positions in Greece, Malaysia, Singapore and Chile.

The following table shows our volumes and number of sites, broken down by geographic area, for 2004. The sales volume figures we have provided for each country or geographic zone are the total volumes sold in each particular country or zone by all of our consolidated subsidiaries, including volumes sold to our other Divisions and adjusted to reflect our percentage interest in our proportionately consolidated subsidiaries.

	Number of Sites At December 31, 2004		Volumes Sold in 2004	
Geographic Area	Aggregates	Ready mix concrete	Aggregates (in million tonnes)	Ready mix concrete (in million m^3)
Western Europe	**215**	**559**	**77.1**	**14.7**
France	130	258	46.1	6.8
United Kingdom	56	110	19.3	2.4
Spain/Portugal (1)	21	148	8.4	3.4
Greece	3	21	1.5	1.4
Other	5	22	1.8	0.7
North America	**342**	**308**	**134.9**	**12.1**
Canada	256	141	63.2	5.1
United States	86	167	71.7	7.0
Other Regions	**52**	**238**	**22.2**	**10.2**
South Africa	20	44	5.8	1.7
Brazil	4	44	2.2	0.7
Chile	3	40	3.2	2.0
Malaysia/Singapore	1	46	0.7	3.0
Turkey	5	18	2.1	1.3
Other	19	46	8.2	1.5
Total	**609**	**1,105**	**234.2**	**37.0**

(1) Our Spanish and Portuguese operations are conducted through two joint ventures with RMC Group plc (which was acquired by Cemex in March 2005).

In 2004, our asphalt operations produced and sold 10 million tonnes in the United States, Canada and also in the United Kingdom.

In aggregates in North America, Western Europe and in emerging markets, we face competition from numerous independent operators. However, the aggregates industry in particular is in the early stages of consolidation and we face competition from regional and international producers such as Vulcan Materials and Martin Marietta Materials in the United States and Hanson and CRH internationally. In the United Kingdom, this process of consolidation has reached the stage where the five major producers sales account approximately for 75% of the market.

In ready mix concrete the tendency towards consolidation is less pronounced but we still face competition from firms such as RMC Group plc (Cemex), HeidelbergCement, Holcim, Hanson, CRH and Rinker both in North America and internationally. Our strategy of vertical integration of concrete with cement operations has also been followed by our major competitors in the cement markets such as Holcim, Cemex and CRH.

Capital expenditures

Capital expenditures in the years ended December 31, 2004, 2003 and 2002 amounted to 261 million euros, 168 million euros and 204 million euros, respectively. These capital expenditures related to the on-going upgrading and modernization of existing industrial operations around the world and to organic growth through the building of new production facilities. Our capital expenditures accounted for approximately 22% of our total capital expenditures in the three-year period.

The Group also invested approximately 240 million euros in the three-year period on various acquisitions that expanded our market and geographical presence.

In 2005, the level of our capital expenditures will depend on general market conditions. We expect capital expenditures to total approximately 180 to 250 million euros, excluding new acquisitions. We intend

to invest in projects that maintain or improve the performance of our plants. We also intend to take advantage in 2005 of selected acquisition opportunities in Europe and North America and in selected emerging markets.

Roofing

In 2004, sales of the Roofing Division amounted to 1,493 million euros. Roofing represented 10.3% of our consolidated sales in 2004 and 7.1% of our consolidated operating income on ordinary activities. The Roofing Division's after tax return on capital employed in 2004 was 5.5%. At December 31, 2004 we had 11,683 employees in the Roofing Division.

We acquired our roofing business in December 1997 as part of our acquisition of Redland plc and we believe, based on our experience in this industry that we are the world's largest producer of concrete and clay roof tiles by annual sales and volumes. At the end of 2004, the companies which we consolidated (global and proportionate) operated 158 production sites in 34 countries. We are principally based in Western Europe (which represented 74.1% of our sales in 2004) but we are also present in North America, through a joint venture with Boral, which represented 7.5% of our total roofing sales in 2004, and are expanding into other regions including Asia Pacific, which represented 18.4% of our sales in 2004.

The companies we consolidated (global and proportionate) sold 127.8 million square meters of concrete roof tiles, 26.0 million square meters of clay roof tiles and 3.1 million meters of chimneys in 2004.

Our goals are to consolidate our positions in Western Europe in concrete roof tiles, clay roof tiles and roofing components and to develop progressively in emerging markets.

The table below indicates the breakdown of our sales by destination in 2004, 2003 and 2002:

	Roofing Sales by Geographic Area Year ended December 31,					
Geographic Area	**2004**		**2003**		**2002**	
	(in million €, except percentages)					
Western Europe	1,107	74.1%	1,138	75.4%	1,162	75.6%
North America	112	7.5	109	7.2	121	7.9
Other Regions	274	18.4	263	17.4	255	16.5
Total	**1,493**	**100.0%**	**1,510**	**100.0%**	**1,538**	**100.0%**

General information regarding our products, industry and markets

Products

Our roofing products are designed for pitched roofs. Pitched roofs are the traditional form of European roofing and predominate in the residential market in Western Europe and North America. Pitched roofs are generally covered with tiles, shingles, metal sheets, metal tiles or fiber cement. Flat roofs are most commonly used in commercial buildings, but are also used in some residential structures, such as the row houses of the U.S. Eastern seaboard cities. Flat roofs are normally covered with roofing felt and tar, and products designed for pitched roofs are not commonly used on flat roofs.

A pitched roof is generally far more expensive to install than a flat roof both in terms of materials and labor costs but has a longer life expectancy, with clay or concrete tile roofs lasting up to 50 years as compared to the 10 to15 year average for a flat roof.

Roofing material markets are characterized by regional needs and traditions. Climatic conditions and historic availability of building materials have led to a diversity of building traditions between regions. Depending on the region, not only do the pitch and construction of the roofs vary, but also the profile, material and color of the roofing materials. In Europe, concrete and clay tiles dominate the pitched roof market, but the style of tile varies considerably between each country. In North America the market has traditionally favored low-cost, easily installed cladding materials such as asphalt shingles for pitched roofs, which have a shorter life span.

Roofing Products. In 2004, our roofing products represented approximately 87.3% of our total sales in the Roofing Division worldwide. We offer a line of products that comprise entire roofing systems providing complete solutions for pitched roofs including:

- *Roof tiles*. In 2004, sales of roof tiles represented approximately 67.1% of our overall sales in roofing. Through innovation in production and coating technology, we offer a wide spectrum of shapes, profiles, surfaces and colors, to meet varying aesthetic, quality and durability demands. Recent innovations include improved dirt-repellant surfaces, longer color durability, expanded color offerings, as well as larger sizes of tiles to achieve greater construction efficiencies on-site. There are generally two varieties of materials for roof tiles: concrete and clay.
  - *Concrete tiles*. Concrete tiles represented approximately 49.6% of our overall sales in the Division in 2004. Our concrete tiles range from uncoated tiles and classic red monocolored polymer coated tiles to premium tiles, which have the same appearance as traditional clay designs, wood shingles and slates. The principal advantages of concrete are its durability, its general cost-effectiveness and the widespread availability of raw materials for its manufacture. Concrete roof tiles are used worldwide, particularly by residential building contractors. Usually, ten concrete tiles are laid per square meter, but there can be as few as 5.5 tiles per square meter for larger sizes or as many as 60 in the case of small format plain tiles.
  - *Clay tiles*. Clay tiles represented approximately 17.5% of our overall sales in the Division in 2004. We offer a variety of sizes and surfaces of clay tiles, ranging from large format tiles (10-13 tiles per square meter) and medium-size and light profile tiles (13-17 pieces per square meter) to small format tiles (20-60 pieces per square meter). In addition, we offer a variety of surface finishes, ranging from mono-colored to multi-colored tiles that simulate the effect of old tiles, as well as premium-glazed tiles.
- *Roofing Components, Metal and Other Products*. In 2004, sales of roofing components, metal and other products represented approximately 20.2% of our overall sales in the Division. In order to provide complete roofing solutions, we also offer a range of complementary products and services to our customers. Roofing Components include a large number of components and accessories that cover all functional aspects of roof construction, such as safety gratings, snow guard tiles, ventilation underlays, skylights, and prefabricated roof elements. In addition, we also offer photovoltaic and solar thermal installations that generate electricity and warm water, respectively.

Chimneys. Sales of chimneys represented approximately 12.7% of our overall sales in the Division in 2004. Based on our experience in this industry, we believe that we are currently the leading manufacturer of chimney systems in Europe, offering both ceramic and steel models, by annual sales and volumes. We believe that we are the technological leader in ceramic chimneys in Europe based on product developments.

Our chimney products can be divided into two principal categories: mineral-based, or ceramic, systems and metal-based, or steel, systems. Our product range in ceramic chimneys comprises ready-to-install insulated chimneys (comprising flue liner, insulation and blockstones) and ventilation systems as well as a fully developed range of complementary accessories. We also offer restoration products for chimneys and steel chimney systems in Italy, Austria and other European countries. We manufacture approximately 90% of our chimney products in our own factories.

Our innovations include multi-wall insulated chimneys with cavity ventilation that prevent moisture damage, and isostatic ceramic liners that are more resistant to temperature variations.

Production & facility information

Concrete tiles. Concrete tiles are manufactured out of sand-based concrete mix by extrusion onto individual molds or pallets. Several layers may be added, by extrusion or other means, to obtain a variety of surface textures and colors on the weather side of the tiles. Once dried, the tiles are removed from the molds and after two to four weeks of curing are ready for installation. Our simple tiles are made out of a single layer of concrete whereas several layers of concrete may be used in our most expensive tiles. Raw materials amount to approximately 45% of our total production costs and we have spent a great deal of effort on

improving our formulations to optimize our use of raw materials as well as introducing practices to improve the quality of our finished products. Based on historic trends we do not consider the prices of these raw materials to be volatile. Depreciation, direct labor and fixed costs represent about 52% of our total production costs. Energy represents approximately 3% of our total production costs.

At December 31, 2004, the companies we consolidated (global and proportionate) operated 102 production sites devoted to the manufacture of concrete tiles, with a total maximum annual capacity based on full shifts of 557 million square meters. The annual average capacity of our plants is 5.5 million square meters. We depreciate our new plants on a straight line basis over 20 years. The average capital investment for a new plant today would be between 4 and 20 million euros depending on the location, capacity, degree of automation and product range. Because of freight costs and design differences, most of our concrete tile plants are designed to supply a regional market.

Clay tiles. Clay tiles are manufactured out of a mix of natural clays, molded under pressure and fired in a tunnel kiln at high temperatures. Various types of finishes can be achieved for different applications through surface coatings. The newer production processes (so called "H Cassette") require significant capital investments, but result in higher quality tiles that can be produced in larger sizes. The quality and delivered cost (from the quarry to the plant) of clay is critical to the quality of end-product and cost performance of the plant. Ownership or control of high-quality clay deposits near the plant is determinative of the plant's overall performance. However, raw materials costs are a smaller proportion of our costs than in concrete tiles, representing approximately 15% of our total production costs. Based on historic trends we do not consider the prices of these raw materials to be volatile. We either extract clay from our own reserves or have secured long-term supply contracts that endure over the expected life of the relevant plants. Depreciation, direct labor and fixed costs represent approximately 70% of our total production costs. Due to the use of kilns in manufacturing, energy costs are significant, amounting to about 15% of our total costs.

At December 31, 2004, the companies we consolidated (global and proportionate) operated 23 plants devoted to the manufacture of clay tiles, with a total maximum annual capacity based on full shifts of 38 million square meters. The average annual capacity of our plants is 1.7 million square meters. Depending on the technology used, the average capital investment for a new clay tile plant today would vary from 40 to 50 million euros for an annual capacity of 2 million square meters. We depreciate our new plants on a straight line basis over 20 years. The geographic reach of sales from a given plant is usually restricted by the design of tile which it produces and the geographic market for that design. Freight costs have less of an influence because of the higher prices charged for clay tiles.

Roofing Components. We manufacture or purchase from manufacturers a variety of roofing components. Each production process is specific to the type of accessory.

Chimneys. We have 22 production sites devoted to manufacturing chimneys, 6 of which are in Germany and the remainder of which are located in Europe. The total maximum annual capacity based on full shifts of our chimney plants is 7.5 million meters. Most of our mineral-based chimney products consist of a simple blockstone reinforced with a three-layered product comprising a ceramic flue liner, a mineral wool insulation and a light weight concrete blockstone. Our mineral-based chimney products are delivered either as single parts to be assembled by the mason on site or as prefabricated story-high chimneys which can be mounted on the site without specialists. Our metal-based chimneys are constructed mainly from stainless steel and small amounts of aluminum. The basic construction principles are the same as those used in the manufacture of mineral-based chimney systems.

In addition, we offer all the accessories necessary to assemble a chimney on the building site, including a flue gas connection to the boiler, cleaning doors, condensate handling, chimney coverage, glue, mortar and top cover plate. These accessories are provided to the customer as prepackaged kits.

Customers

We believe in establishing long-term relationships with our ultimate customers, the building owners, as well as the professionals who cater to them:

- roofing contractors;

- architects;
- house builders and developers;
- housing associations;
- local government and planners;
- retailers and merchants; and
- chimney constructors.

In general, we distribute our products through building products merchants or specialized merchants based on current orders. Thus, we do not have a significant backlog. In the ordinary course of our business, we usually keep an inventory of finished products in constant turnover that represents on average slightly more than one month of sales, which is mostly due to the curing time of two to four weeks to achieve the required strength of the tiles depending on the region and climatic conditions.

Market & competitive factors

Producers of roofing products compete primarily on a regional basis and based on factors such as price, product quality and customer service. Concrete and clay tiles compete against a variety of products in different markets: asphalt shingles in the U.S. residential market, fiber cement and corrugated steel in the low-end residential segment of developing countries, fiber cement and metal in the non-residential sector worldwide, slate in the high-end residential segment in Western Europe and in the Northeastern United States. We envision market growth potential in developing countries in Asia, South America and Eastern Europe where construction activity is expected to increase and to a lesser extent also in North America.

The demand for roofing products is linked to overall construction activity within a given region, population (measured by the number of households) and demographic growth, economic development and growth in average household income, climatic conditions, governmental regulations (such as change of added value tax rates for building materials in Poland, reduction of the home owner credit in Germany and the new requirement in Spain that all new buildings be equiped with solar technology on the roof), insurance regulations (e.g. fire protection), and availability and affordability of land for new construction. In general, demand in developing countries tends to be driven in large part by utility and durability, whereas aesthetics tends to be a more significant factor in more developed countries.

Western European markets are seeing a relatively stable market for renovation while the new-built markets are declining in many countries. Also there is a growing trend towards the utilization of clay tiles. While clay is generally more expensive than concrete, it is perceived as having greater decorative value. Clay roof tiles are increasingly being used in Northern Europe, mostly for upscale renovations of individual houses. Clay roof tiles are also the traditional roofing material in Southern Europe, especially in the Mediterranean Basin, and Asia. They are selected mainly for aesthetic reasons and to preserve architectural traditions.

In the emerging markets where we operate, we have benefited from the substitution of tiles for less expensive corrugated metal and cement fiber products. Developing long-term solutions to improve appearance is critical if we want to maintain the competitiveness of our concrete tiles in these emerging markets.

The seasonality of demand for roofing products parallels that of the construction industry at large. Demand is far more seasonal in areas with cold winters than in areas with more temperate climates. In our primary markets in Western Europe our sales are lower in winter than during the rest of the year.

According to our own internal estimates, we believe, based on our experience in this industry, that we are the market leader in Europe in pitched roofing products by sales and volumes. Our principal competitors in Europe for pitched roofing products are Etex, Imerys, Terreal, Uralita, Koramic and Creaton. In the European market for chimneys, we believe, based on our experience in this industry, we are also the market leader by sales and volumes, followed by Poujoulat, Raab and Plewa.

We believe, based on our experience in this industry, that our MonierLifetile joint venture is the largest manufacturer of premium-quality concrete roof tile in the North American market by annual sales and volumes. However, we estimate that concrete and clay tiles represent only around 6% of the pitched roofing market in North America. We estimate that asphalt shingles represent approximately 84% of the total pitched roofing market in North America, and the primary manufacturers are Owens Corning, GAF and Certain Teed (Saint-Gobain). We are currently not present in the North American market for chimneys.

Our geographic markets

In the discussion that follows, we describe market conditions and our competitive position in the principal geographic areas in which we operate. The sales volume figures we have provided for each country or geographic region are the total volumes sold in each particular country or region by our consolidated subsidiaries, including volumes sold to our other Divisions and adjusted to reflect our percentage of interest in our proportionately consolidated subsidiaries.

The following table illustrates the business operations of our consolidated subsidiaries by geographic region at December 31, 2004:

	Number of plants			
Geographic Area	**Concrete Tiles**	**Clay Tiles**	**Chimneys**	**Roofing components, Metal and other Products**
	At December 31, 2004			
Western Europe	**44**	**18**	**13**	**9**
Germany	11	5	6	4
United Kingdom	9	1	2	1
France	5	4	—	—
Italy	9	3	1	—
Other	10	5	4	4
North America	**13**	**0**	**0**	**0**
Other Regions	**45**	**5**	**9**	**2**
Central & Eastern Europe	14	1	9	1
Mediterranean Basin	1	—	—	—
Latin America	3	1	—	—
Sub-Saharan Africa	6	—	—	1
Asia/Pacific	21	3	—	—
Total	**102**	**23**	**22**	**11**

Concrete and clay tiles and roofing components

Western Europe

We believe, based on our experience in this industry, we are the market leader in Western Europe based on annual sales and volumes. Western Europe represented approximately 74.1% of our total roofing products sales worldwide, and is the first market where we established our presence. We sold 61.2 million square meters of concrete tiles and 23.2 million square meters of clay tiles in the region in 2004. Our four principal markets in this region are Germany, the United Kingdom, France and Italy.

In Germany, which represented in 2004 approximately 34.8% of our roofing products sales in Western Europe, we have been facing declining volumes in concrete tiles and we have closed down two of our older plants in the past three years. These plant closures have allowed us to focus our operations on our most efficient plants and reduce our surplus capacity. We have also introduced new products such as our Star surface, a concrete tile with a smoother surface. We have also expanded our roofing components activities with the acquisition of Kloeber, a large roofing accessories producer.

We have restructured our operations in France, Italy and the Netherlands by closing down older small-scale plants while expanding capacity at our more modern operations and constructing a clay tile plant in southern Italy that became operational in 2001. We are also present in Austria, Belgium, Denmark, Finland, Norway, Sweden and Switzerland.

North America

North America is our second most important regional market, after Europe, for pitched roofing products. In 2004, our sales of concrete roofing tiles and roofing accessories in North America accounted for 7.5% of our total sales in roofing products worldwide. We operate in North America through our jointly controlled American subsidiary, MonierLifetile which was formed in 1997 as a 50/50 joint venture between Redland's subsidiary Monier Inc., which it had acquired in 1987, and Boral Lifetile Inc., a subsidiary of Boral Limited of Australia. MonierLifetile is the largest manufacturer of premium-quality concrete roof tiles in the United States based on sales and volumes. Currently, the company has 13 active concrete tile manufacturing plants in the United States, located principally in the southern states.

Other Regions

Central & Eastern Europe: We are continuing to expand into Eastern and Central Europe. Our main markets in this region are Poland, the Czech Republic, Hungary, Slovakia and Russia. We also have operations in Bulgaria, Croatia, Estonia, Slovenia and Romania where in 2004 a new concrete tile plant opened. We have a presence through sales/administrative offices in Bosnia-Herzegovina, Latvia, Lithuania, Serbia-Montenegro and Ukraine.

Asia Pacific: Our most substantial presence in other regions is in Asia where we are present in Malaysia, Japan, China, Indonesia, Philippines, India and Thailand. We have been in other regions expanding our presence in Asia and we now have six concrete tile plants in China, a new concrete tile plant in India and eight concrete tile plants and one clay tile plant in Malaysia. In 2002, we set up a joint venture with Cementhai Building Products, (a member of the Siam Cement Group), Lafarge Siam Roofing, for the manufacturing of clay roof tiles in Thailand. We opened our first clay tile plant in Rayong, Thailand in 2003.

Other countries: We are present in Turkey with a concrete tile plant. In Brazil, we operate three concrete roof tile plants and one clay roof tile plant. We also operate a joint venture with Boral in Mexico. We have substantial operations in South Africa where we sold 6.4 million square meters of tiles in 2004.

Chimneys

We have production plants in 13 European countries. Including sales offices, we are present in 23 countries.

In 2004, we acquired a new plant in Belgium (Bemal), we opened also a sales office in Russia and acquired Rite-Vent Group including one plant in the United Kingdom and 3 sales offices (United Kingdom, Italy and Germany).

Capital expenditures

Capital expenditures for the years ended December 31, 2004, 2003 and 2002 in the Roofing Division amounted to 111 million euros, 86 million euros and 88 million euros, respectively. These capital expenditures related to the on-going upgrading and modernization of existing industrial operations around the world and on organic growth through the building of new production facilities. The Roofing Division's capital expenditures accounted for approximately 10 % of our total capital expenditures in the three-year period.

There were no individual investments in the three-year period from 2002 to 2004 for the modernization or replacing of existing facilities and equipment which exceeded 20 million euros.

The Group also invested 40 million euros on various acquisitions over the three-year period to expand our geographical presence and strengthen our product range.

In 2005, the level of our capital expenditures will depend on general market conditions. We expect capital expenditures to total approximately 130 to 160 million euros, excluding new acquisitions. We intend to invest in projects that maintain or improve the performance of our plants. We also intend to take advantage in 2005 of selected acquisition opportunities.

Gypsum

In 2004, with sales of 1,340 million euros, the Gypsum Division represented 9.3% of our consolidated sales and 6.1% of our consolidated operating income on ordinary activities. The Gypsum Division's after tax return on capital employed in 2004 was 9.5%. At December 31, 2004 we had 6,012 employees in the Gypsum Division.

On the basis of square meters of wallboard produced in 2004, we believe, based on our experience in this industry, that we are the third largest manufacturer worldwide. We first entered the market for gypsum products in 1931, with the production of powdered plaster. We have since extended our product lines, and currently manufacture and offer several gypsum-based building solutions including gypsum wallboard, gypsum plaster, plaster block, jointing compounds, metal studs, anhydrite binders for self-leveling floor screeds, sound and thermal insulating partitions, and industrial plasters.

At December 31, 2004 the companies we consolidated (global and proportionate) operated 83 industrial sites in 24 countries. Of these, 36 were wallboard plants with a total production capacity of approximately 1,039 million square meters, 44 were plants where we produced other plaster and related products such as plaster, plaster block and jointing compounds and three were plants which produced paper.

Our goals are to develop our presence in strong growth markets, strengthen our position in the existing markets, innovate in our system and product offer, reduce costs and improve our marketing.

The table below indicates the breakdown of our sales by destination in 2004, 2003 and 2002:

	Gypsum Sales by Geographic Area Year ended December 31,					
Geographic Area	**2004**		**2003**		**2002**	
	(in million €, except percentages)					
Western Europe	723	54.0%	657	55.0%	604	52.7%
North America	263	19.6	226	18.9	245	21.4
Other Regions	354	26.4	311	26.1	297	25.9
Total	**1,340**	**100.0%**	**1,194**	**100.0%**	**1,146**	**100.0**

We have been actively expanding our gypsum operations in emerging markets. We define emerging markets as those countries in our other geographical regions, excluding Japan, Australia and New Zealand. In 2004, we generated revenues of 286 million euros in emerging markets compared to 247 million euros in 2003 and 235 million euros in 2002. Emerging markets accounted for 21.3% of our total revenues in gypsum worldwide in 2004 compared to 20.7% in 2003 and 20.5% in 2002.

General information regarding our products, industry and markets

Products

The predominant gypsum product sold in the global market is gypsum wallboard (also called plasterboard). Gypsum wallboard, which in 2004 represented approximately 70% of our sales of gypsum products, is used primarily for both new residential and commercial construction and for repair and remodeling of:

- partitions;
- paneling;
- ceilings; and
- linings.

We believe that in our main markets renovation activities accounted for approximately 40% of our gypsum wallboard sales in 2004, with some differences from one country to another.

Gypsum wallboard was invented in the United States in the early 1900s, but its widespread adoption in construction in North America and Europe has largely been a phenomenon of the last fifty years. It is available in standard sized sheets in a variety of thickness and quality including special sheets for high

humidity areas such as bathrooms. Due to its naturally low thermal conductivity, wallboard is an ideal insulating material, which is why it is used in interior walls. It also acts as a flame retardant and absorbs ambient sound. New technologies are being exploited to make boards stronger and more flexible. These changes mean that for the first time gypsum wallboard is competing with such materials as bricks for commercial usage.

We manufacture over a thousand different types of gypsum wallboard worldwide. We regularly introduce innovations to our product range to improve their ease of use and range of applications. In 2004, in France, we made an important step into the mobile partition systems business with our acquisition of a stake in the Clips group. The Gypsum Division is also progressively launching worldwide a new generation of four tapered edge plaster boards under the name SIGNA™. These products, with their four tapered edges made on line at low cost, represent a major innovation for the plasterboard industry. They considerably help installers to achieve a top quality finish in various applications.

In previous years, several new products and systems were launched in various countries, such as new jointing compounds to facilitate the application of our patented Deco line systems (wallboard made with paper having received a suitable coating associated with a specific jointing compound of identical whiteness, eliminating the need for a primer coat on job sites), new fire-proofing plasters and new ceiling tiles. 2003 was also the first full year of PLA-tec® operations in France (consisting of tailor made gypsum board architectural components) which proved to be successful with large installers who, as a result of PLA-tec®, saved time on the site and were able to increase the quality of complex architectural parts.

Our other gypsum-based products, such as plaster, industrial plaster, gypsum blocks and related products such as metal studs and accessories, which together in 2004 comprised the remaining 30% of our activity in this sector, are adaptable to a wide variety of uses and are targeted at the construction and decorating industry.

We tailor our marketing efforts in gypsum products to the specialized needs of each market. This marketing effort involves exchanging products or adapting our products to various technical specifications unique to each market and to differences in American and European fitting habits and production standards.

Production & facility information

Gypsum is the common term for calcium sulfate dihydrate, a naturally occurring industrial mineral that is common in sedimentary environments. Gypsum can also be obtained as a by-product from chemical manufacturing and from the scrubbers of certain coal-fired power plants. This so-called "synthetic" gypsum is increasingly being used in wallboard manufacture.

Water molecules are physically locked inside the crystal structure of gypsum. When calcined, gypsum becomes a fine powder that, mixed with water, can be applied in a plastic state which then sets and hardens by the chemical recombination of the water with the plaster. Gypsum is unique because it is the only industrial mineral that can be calcined, and yet go back to its original state when rehydrated. It is this property which is exploited in the manufacturing process.

In the manufacture of wallboard:

- gypsum is calcined and ground to a flour like consistency known as stucco;
- the stucco is blended with water and other ingredients in a mixer to form a slurry;
- this slurry is extruded between two continuous sheets of paper at the forming station;
- the product travels down a long line in order to give the stucco molecules time to rehydrate and recrystallize into gypsum;
- as it travels, the gypsum crystals grow into each other and into the liner paper, giving the product three-dimensional strength;
- when the product has achieved initial "set" or firmness (approximately three minutes), it is cut into lengths;

- the individual boards are then dried in a kiln to remove excess water; and
- the boards are packaged face to face and stored until ready for shipment.

Gypsum is a key raw material for wallboard production. To produce one square meter of wallboard, we need on average approximately nine kilograms of gypsum. In 2004, we sold 675 million square meters of wallboard which used approximately six million tonnes of gypsum. We use both naturally occurring gypsum from our own quarries and synthetic gypsum. Based on historic trends we do not consider the prices of these raw materials to be volatile. We use synthetic gypsum principally in some of our plants in the United States, South Korea, France, Germany and the Netherlands. We generally aim to locate our production sites as close as possible to gypsum supply sources to minimize transport costs, but in certain circumstances it is economical to transport natural gypsum long distances.

Our policy is to secure both our own natural reserves and long-term supply contracts for synthetic and natural gypsum in order to diversify our supply risk. At year-end 2004, our consolidated companies operated 16 gypsum quarries worldwide including 12 in Western Europe. We currently estimate that we have approximately 113 million tonnes of proven and authorized reserves of gypsum worldwide. We estimate that we have an additional 175 million tonnes of identified reserves for which we expect to obtain authorization. In general, we obtain synthetic gypsum through long-term contracts that last approximately 20 years, most of which contain an option to renew. In certain cases, as a function of our supply needs and local market practices, we contract over shorter periods. We have contracts outstanding for the supply of over 42 million tonnes of synthetic gypsum over the life of the contracts. We believe our current supply of gypsum, both natural and synthetic, is adequate for present and foreseeable operating levels.

Gypsum represents approximately 12% of our production costs and is a less significant input than paper in the manufacture of wallboard, which represents approximately 28% of our production costs. We primarily use recycled paper in our manufacturing process, and produce 50% of the paper we use in wallboard production through our own paper mills in Sweden, France and in a joint venture in the United States. The major raw material for paper is recycled fibers whose prices are volatile as they are influenced by worldwide trading. Energy costs make up approximately 13% of the delivered paper cost. We depreciate our wallboard plants on a straight line basis over 20 years.

Customers

Our gypsum wallboard products are mostly sold through wholesalers, including:

- general building material distributors;
- specialist dealers;
- lumber yards in the United States;
- decorating companies in emerging markets; and
- do-it-yourself home centers.

Specifiers, like architects, also have a significant impact on the choice of the best partition or ceiling systems. Depending on the specificity of each country, each business unit develops dedicated promotion efforts.

Sales of gypsum are made generally pursuant to current orders from customers who purchase quantities sufficient for their immediate requirements. Our sales of gypsum do not typically involve long-term contractual commitments. The amount of backlog orders, as measured by written contracts, is normally not significant.

Market & competitive factors

We believe, based on our experience in this industry, that the total world gypsum wallboard market exceeds 6,000 million square meters per year, with North America accounting for about half of the world's demand and industrialized countries more than 80%.

The gypsum industry is an integrated industry worldwide in which a few large companies, including our own, predominate. Today seven producers hold approximately 80% of the total market in a consolidating industry. These companies operate gypsum wallboard plants and usually own the gypsum reserves used in manufacturing the wallboard. They also sell gypsum for use in Portland cement production, other manufactured gypsum products and agriculture.

Our largest competitors in Europe are BPB and Knauf and in the United States, U.S. Gypsum Corporation, National Gypsum, BPB and Georgia Pacific.

The gypsum wallboard industry is highly competitive. Producers compete on a regional basis and primarily on factors such as price, product range and quality and customer service. Producers whose customers are located close to their wallboard plants benefit from lower transportation costs, which is an important advantage.

The demand for gypsum wallboard is closely linked to the gross national product of each market and to the construction methods employed. Wallboard penetration is higher in markets that employ advanced construction methods. In markets that use so-called "dry" construction processes (i.e. steel or wood materials), such as the United States, Japan and Australia, wallboard is used for fire protection, to keep installation costs down and for ease of assembly. The average annual consumption of gypsum wallboard in these countries is between four and ten square meters per person. In Western Europe, where "wet" construction processes are more commonly used (i.e. construction using masonry, stone and brick materials), the average annual consumption of wallboard is between two and four square meters per person.

We envisage significant market growth potential in developing countries where construction methods are expected to evolve. Factors that stimulate market demand for gypsum products are the need to increase construction speed and labor cost increases, necessitating simpler and less labor-intensive assembly methods. In most countries in Asia, Eastern Europe and South America wallboard consumption is currently at modest levels (less than one square meters per person per year), but growing rapidly at rates ranging from 8% to 15% and more. Gypsum wallboard demand is seasonal in North America, as it is tied to the level of construction activity which tends to be seasonal.

Our geographic regions

In the discussion that follows, we describe market conditions and our competitive position in the principal geographic regions in which we operate. The sales volume figures we have provided for each country or geographic regions are the total volumes sold in each particular country or region by our consolidated subsidiaries, including volumes sold to our other Divisions and adjusted to reflect our percentage interest in our proportionately consolidated subsidiaries.

Western Europe

In 2004, our sales in Western Europe accounted for 54% of our total sales in gypsum worldwide. Western Europe is the second largest regional market worldwide for wallboard, after North America. Our three principal markets in this region are France, the United Kingdom and Germany. Our total annual production capacity for wallboard in Western Europe was approximately 331 million square meters as of December 31, 2004 and we sold 266 million square meters in Western Europe in 2004.

France. We operate in France through our wholly owned subsidiary, Lafarge Plâtres. We have four wallboard plants in France, one of which is designed to use primarily synthetic gypsum and the others natural gypsum. We also have a paper mill and 16 other production sites for the rest of our gypsum product lines, which include plaster, plaster blocks, industrial plaster, insulation and other materials.

In 2004, we purchased a 25.5% stake in the Clips group, a recognized specialist in moveable partitions and interior design elements. Clips operates throughout France and, through subsidiaries, in China and Germany.

United Kingdom. We operate in the United Kingdom through our wholly owned subsidiary, Lafarge Plasterboard Ltd. We have a single plant in the United Kingdom, located in Bristol, with two wallboard production lines designed to primarily use natural gypsum. Our plant is supplied with gypsum from Spain. We also have a jointing compound plant in Frampton.

In February 2005, we announced an investment of approximately 45 million euros to build a new wallboard plant in the United Kingdom. This plant, located in the Midlands region will use synthetic gypsum and have an annual capacity of 25 million square meters.

Germany and the Netherlands. We operate in Germany through our wholly owned subsidiary, Lafarge Gips GmbH. In February 2003, we completed the acquisition of the wallboard businesses of Gyproc in Germany and Poland for 42 million euros (net of cash acquired). The two acquired plants, located in Peitz and in Hartershofen with a combined annual capacity of 53 million square meters, were fully integrated with our other operations. We now operate four wallboard plants in Germany and a wallboard plant in the Netherlands which are primarily designed to use synthetic gypsum, except for the plant in Hartershofen, Germany, which is primarily designed to use a mix of natural gypsum and synthetic gypsum.

Other regions. We own a wallboard production plant and a plaster plant in Italy through our wholly owned subsidiary, Lafarge Gessi S.A. as well as a metal studs business though our subsidiary, Lafarge Profili. We also operate a paper mill in Sweden. In addition, we have a minority interest in Yesos Ibericos which operates a wallboard plant and three plaster plants in Spain.

North America

In 2004, our sales in North America accounted for 19.6% of our total sales in gypsum worldwide. Our total annual production capacity for wallboard in North America was approximately 233 million square meters at December 31, 2004 and we sold 202 million square meters in 2004. We first entered the North American gypsum market in 1996 and we estimate, based on volumes sold and our experience in the industry, that we are now the sixth largest producer in this region.

We operate in North America through our majority owned subsidiary Lafarge North America, Inc. At December 31, 2004 we operated four wallboard manufacturing plants in the United States, two of which use natural gypsum, located in Newark, New Jersey and Buchanan, New York. Two state-of-the-art wallboard manufacturing plants using 100 percent recycled materials, including synthetic gypsum generated from nearby power plants are located in Silver Grove, Kentucky and in Palatka, Florida. We are also party to a joint venture paper mill in Lynchburg with Rock-Tenn company, Virginia. In Canada, we operate one gypsum wallboard manufacturing plant in Corner Brook, Newfoundland, and a jointing compound plant in Quebec. Our subsidiary Lafarge North America Inc. ceased operations at its Wilmington plant, Delaware, at the end of 2002 as part of an ongoing strategy to service customers predominantly from newer, more efficient plants.

In November 2004, Lafarge North America Inc. announced plans to invest $75 million to substantially upgrade and double the capacity of its Buchanan, New York, wallboard plant. The improved facility is being built to produce 60 million square meters of gypsum wallboard annually to meet the growing demands of our residential and commercial customers in the northeast United States. The renovation is expected to begin mid-2005 and to be completed in mid-2006.

Other regions

Central and Eastern Europe and the Mediterranean Basin. We currently have operations in Poland, Ukraine, Romania and Morocco. We acquired our operations in Poland in 2000 with the acquisition of Dolina Nidy and Nida Gips. Nida Gips had an old wallboard plant in Gacki which was closed at the end of 2002. We have completed the construction of a new wallboard plant at the same site, which began operations at the end of 2002. We also operate a metal stud plant in Poland. In 2003, we increased our stake in Lafarge Arcom Gips in Romania and consolidated Lafarge Aghirès, our gypsum business in Romania, for the first time.

We have operations in Ukraine: a plaster business, Stromgips and a commercial office in Kiev selling imported wallboard. In Turkey, we operate two companies through joint ventures which comprise a wallboard production plant and a construction plaster facility near Ankara and a quarry and production facilities near Istanbul.

Asia Pacific. We operate in the Asia Pacific region through a joint venture with the Australian company Boral Limited which held 50% of the joint venture at the end of 2003. In 2004, we purchased the shareholding of our minority financial partners who helped to finance our investment in our Asian joint venture and our interest in the joint venture is now 50%. At the end of 2004, our wallboard capacity in the region was 281 million square meters. The joint venture, Lafarge Boral Gypsum in Asia ("LBGA"), is managed jointly with Boral in accordance with our management policies.

The joint venture has three plants in South Korea which manufacture wallboard from synthetic gypsum. In China we have one main plant near Shanghai and a smaller one in Chongqing. The joint venture also has two wallboard plants in Indonesia, a metal stud plant in Indonesia and a wallboard plant in Malaysia.

The joint venture conducts its operations in Thailand through Siam Gypsum Industry with two plants and a combined capacity of 92 million square meters of wallboard at December 31, 2004. Siam Gypsum Industry announced the idling of a third facility in Navanakorn during the first quarter of 2003.

In February 2005, we announced that LBGA, with a total investment of approximately $30 million will double its production capacity of plasterboard in China to more than 70 million square meters per annum in order to keep up with sustained market growth. Two new plants will be built — as government approvals have been received — one in Shanghai and one in Chongqing which will complement LBGA's existing manufacturing facilities in both cities. The Chongqing plant is expected to be operational in the third quarter of 2005 and the Shanghai plant in the first quarter of 2006.

Outside of the joint venture we have two plants in Australia located in Melbourne and Sydney which exclusively manufacture wallboard from natural gypsum. We entered the Australian market in 1988 through a joint venture with the Pioneer Group. The joint venture was fully acquired in 1999.

Latin America. Our principal markets in this region are Chile, Brazil and Argentina. In these countries, we operate through companies we control jointly with the Etex Group. We have one wallboard plant in each of Argentina, Brazil and Chile and two plaster plants, one in Brazil and one in Chile.

Africa. In 2003, we entered the South African market through the acquisition of 40% of MacSteel Interior Systems, a leading producer and distributor of interior systems, including plasterboard systems. In 2004 we acquired the remaining 60% interest in the company which changed its name to Lafarge Gypsum South Africa.

Capital expenditures

Capital expenditures in the years ended December 31, 2004, 2003 and 2002 in the Gypsum Division amounted to 46 million euros, 54 million euros and 79 million euros, respectively. These expenditures related to the on-going upgrading and modernization of existing operations around the world and to organic growth through the building of new production facilities. The Gypsum Division's capital expenditures accounted for 6.3% of our total capital expenditures in the three-year period.

The Group also invested 135 million euros in the three-year period on various acquisitions to expand our capacity and our geographic presence.

The principal investments (in excess of 20 million euros) in the three-year period from 2002 to 2004 for modernizing or replacing existing plants and equipment included:

- Eastern Europe: construction of a new wallboard plant in Gacki, Poland (completed end of 2002); and
- Asia: construction of a new wallboard plant in Dangjin, Korea (completed September 2002)

In 2005, the level of our capital expenditures will depend on general market conditions. We expect capital expenditures to total approximately 140 to 170 million euros, excluding new acquisitions. We intend

to invest in projects that maintain or improve the performance of our plants. We also plan to pursue external growth opportunities that will enhance our ability to compete.

Other Operations

The sale of the operations of our former Specialty Products Division was initiated in 2000 with the disposal of our European road marking business which was sold to the Burelle group and the sale to three investment funds of our majority stake in Materis Participations which included our former operations in admixtures, aluminates, mortars, paints and refractories. In 2003, following the sale by these three investment funds of their stake in Materis Participations to a new investment fund, LBO France, our share in Materis decreased from 33.36% to 7.27%. We entered into agreements with Materis allowing Materis to continue to use the Lafarge trademark and establishing a partnership in research and development until 2006.

In 2004, we sold our remaining lime business in the United Kingdom and our 40% equity interest in Carmeuse North America BV for 98 million euros.

Our other operations generated sales of 28 million euros in 2004, representing approximately 0.2% of our consolidated sales, compared to 87 million euros in 2003 and 191 million euros in 2002.

Capital expenditures

In the years ended December 31, 2004, 2003 and 2002, we made no material capital expenditure in our other operations.

Environment

We are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate. These laws and regulations impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater discharges, the use and handling of hazardous waste or materials, waste disposal practices and the remediation of environmental damage or contamination. These standards expose us to the risk of substantial environmental costs and liabilities, including liabilities associated with divested assets and past activities, even where conducted by prior owners or operators and, in some jurisdictions, without regard to fault or the lawfulness of the original activity. We are also subject to regulations regarding the control and removal of asbestos-containing material and the identification of potential exposure of employees to asbestos.

To prevent, control and remediate environmental problems and maintain compliance with regulatory requirements, we maintain an environmental policy designed to monitor and control environmental matters. Because of the wide variety of environmental regulations we face, our policy is decentralized with the group environmental department providing advice on environmental compliance, assisting in the recruitment, training and retention of personnel experienced in environmental matters and ensuring the interchange of ideas between our subsidiaries.

Our policy requires each subsidiary to respect local laws and meet our own internal standards to minimize the use of non-renewable resources and the generation of hazardous and other wastes. Our subsidiaries are encouraged to take a proactive role with respect to the environment and cooperate with the regulatory authorities to evaluate the costs and benefits of proposed regulations. In each of our plants, our policy requires that each operational unit implement programs:

- preventing accidental releases; and
- providing for emergency action plans.

Our environmental policy also requires environmental audits to be performed periodically at all of our properties to ensure environmental compliance and to assess whether improvements to the site are required to meet environmental laws or our own internal standards.

In 2000, we entered into a voluntary environmental conservation partnership with the World Wildlife Fund ("WWF") and became a founding member of its Conservation Partner program and lent our support to

the Forest Reborn program. In 2001, we worked with the WWF on a number of areas including environmental performance indictors (audits, CO_2 emissions, energy consumption and the contribution of recycling), biodiversity and the restoration of quarries and the development of a voluntary CO_2 reduction program. On November 6, 2001, we announced, in conjunction with the WWF, that we had entered into a voluntary worldwide CO_2 reduction commitment. We agreed with the WWF to a reduction of 20% in CO_2 emissions per tonne of cement produced worldwide over the period 1990-2010. This corresponds to a reduction of our CO_2 emissions in industrialized countries of 15% in comparison to 1990 if alternative fuels are considered CO_2 neutral, and 10% using WWF methodology. We estimate that Group wide we produced 672 kg of CO_2 emissions per tonne of cement produced in 2004, a reduction of 11.2% in comparison to 1990, and that in industrialized countries our CO_2 emissions amounted to 47.6 million tonnes, a reduction of 11.6% in comparison to 1990. In calculating our CO_2 emissions, we follow the requirements of the WBCSD/WRI Carbon Dioxide Protocol and consider alternative fuels, (where in general we incinerate waste and recover the energy), to be CO_2 neutral.

We are currently involved in the remediation of contamination of certain properties. We believe, based on current information, that these activities will not have a material adverse effect on our financial condition or results of operations. It should be noted, in addition and as evidence of our dedication to a strict environmental policy, that most of these situations arose from alleged events or practices that took place before we acquired the relevant properties or subsidiaries.

Environmental matters cannot be predicted with certainty and there can be no assurance that the amounts we have budgeted and reserved will be adequate. In addition, future developments, such as the discovery of new facts or conditions or future changes in environmental laws, regulations or case law, could result in increased environmental costs and liabilities that could have a material adverse effect on our financial condition or results of operations. We are not currently aware of any environmental liabilities or of any non-compliance with environmental regulations that we expect will have a material adverse effect on our financial condition or results of operations.

We regularly incur capital expenditures that have an environmental component or that are impacted by environmental regulations. However, we do not keep separate accounts for such mixed expenditures. Environmental expenditures that extend the life, increase the capacity, improve the safety or efficiency of assets or are incurred to mitigate or prevent future environmental contamination may be capitalized. Other environmental costs are expensed when incurred. For the years ended December 31, 2004, 2003 and 2002, environmental capital expenditures and remediation expenses were not material. However, our environmental expenditures may increase in the future.

In 2003, the European Union adopted a directive implementing the Kyoto Protocol on climate change and establishing a greenhouse gas emissions allowance trading scheme within the European Union. The directive came into force on October 25, 2003 and requires European Member States to impose binding caps on CO_2 and from installations involved in energy activities, the production and processing of ferrous metals, the mineral industry (including cement production) and the pulp, paper or board production business. Under this scheme, companies with operations in these sectors receive from the relevant Member States allowances that set limitations on the levels of greenhouse gas emissions from their installations. These allowances are tradable so as to enable companies that manage to reduce their emissions to sell their excess allowances to companies that are not reaching their emissions objectives. Companies can also use credits issued from the use of the flexibility mechanisms under the Kyoto protocol to fulfill their European obligations. These flexibility mechanisms provide that credits (equivalent to allowances) can be obtained by companies for projects that reduce greenhouse gas emissions in emerging markets. These projects are referred to Clean Development Mechanisms ("CDM") or joint implementation projects depending on the countries where they take place. Failure to meet the emissions caps is subject to heavy penalties.

Most of the Member States have established in 2004 a national allocation plan that sets out the allowance allocations for the initial period of three years, from 2005 to 2007. The European Commission has approved most of them. On January 1, 2005, four national allocations plans were still not yet approved by the Commission namely those of the following countries: Greece, Italy, Poland and the Czech Republic.

The directive provides that the Member States have to issue the allowances for the year 2005 before February 28, 2005 while the operators will have to surrender a number of allowances equal to the total emissions from the installations during the year before March 31, 2006. We forecast that the level of allocations that the national allocation plans will apply to our operations in Europe should be aligned with the levels of emissions we have targeted in our agreement with the WWF, provided that the production forecasts fit with the reality. These plans will mainly apply to our Cement operations and to a much lesser extent to our Roofing and Gypsum operations. Even if we are confident in our ability to achieve our reduction targets as planned in our WWF commitment, we are in a position to mitigate possible impacts of the national allocation plans on our operations in some European Countries by relying on other production sites and namely by using possible credits derived from the implementation of Kyoto flexibility mechanisms. Three CDM projects are currently in the approval process by the United Nations Framework Convention on Climate Change ("UNFCCC") bodies (methodology panel and CDM executive board), they are developed respectively in Malaysia, Philippines and Morocco.

Research and Development

Central research has focused over recent years on comprehension studies of the physical and chemical mechanisms that should improve the performance levels of our materials. These were studied in various aspects: easy implementation, mechanical strengths, aesthetics and overall quality of the environment. These research axes correspond to long-term requirements from our customers and are the heart of the Lafarge strategy for growth and differentiation. These axes were at the root of two main innovations in the Group within the Concrete Division: Ductal® and more recently Agilia®.

A new phase began in 2002 when research programs for new concretes were actively accelerated and are now showing results. The research teams at the Lafarge Centre de Recherche ("LCR") have come up with at least three new prototypes in 2004; these should put new products on the market in 2005. The concrete accelerating systems and the possibility of making slabs in large dimensions without joints are two examples. On another score, the range of Agilia® self-placing concretes is being deployed on a large scale thanks to the support of the research teams. In the field of sustainable development requirements, (particularly the goal to reduce cement-released CO_2 by 20%), the priority to find substitution products within the cement family ("cementitious" materials) has been reinforced. This research gave encouraging results in 2004 both in terms of characterization of available raw materials and optimization of mixes made with cement.

Organization of the Research Center was set up in 2002 in a Project and Competence Pole matrix that has now proved to be efficient. Project management has deepened relationships between each Division's research teams and their operational units. This has made it easier to better identify and focus on the most pertinent research subjects thus significantly reduce industrialization delays for these research results. LCR is currently managing a well-balanced research project portfolio on the short, mid and long-terms as well as discontinued projects. This state of affairs is very encouraging for the future.

The Divisions and operational units have increased their budget allotments for the activities of LCR. The staff at LCR has increased by 30% in the last three years reaching a total of 200 employees at the end of 2004. More than 15 application and development laboratories also work for the Divisions and operational units throughout the world and the LCR research teams collaborate closely with them. Total Lafarge Research and Development expenditure in 2004 was 54 millions euros compared to 56 millions euros in 2003 and 55 millions euros in 2002.

Due to this increase in demand, LCR has developed more and more partnerships with leading universities and research centers around the world. The Massachusetts Institute of Technology ("MIT") and Princeton University in the U.S.A., Laval and Sherbrooke in Canada as well as the CNRS ("Centre National de la Recherche Scientifique" — the most important fundamental research center in Europe) are a few examples.

Among the new products launched in 2004, the following can be mentioned:

- **Cement Division:** launching *Concreto* in India and *Cemento Ultra* in Venezuela; *Blockset* in North America (a composite cement for block-making) and *Maxcem* (slag cement); *FluamixC*® in Austria as well as special binders for civil engineering.
- **Concrete and Aggregates Division:** *Artevia* — a range of ornamental concretes; solutions using fiber concretes for slabs and floors; development of the *Agilia*® products has been continued.
- **Roofing Division:** *Plate de pays* — a clay tile that completes the highest quality product line for Lafarge Roofing in France; *Galléane* — the first lipped channel tile that is easy to lay and also offers aesthetic qualities.
- **Gypsum Division:** *Signa* — a board with four tapered edges. This is an important market innovation as it improves both productivity and aesthetics. *Rapid Deco* (USA) is a pre-coated board offering unequalled finished quality.

Intellectual Property

We currently own or have licenses to use various trademarks, patents and other intellectual property rights that are of value in the conduct of our business, but no such intellectual property right is, by itself, material to our activities. We own or otherwise have rights to the trademarks and trade names, including those mentioned in this document, used in conjunction with the marketing and sale of our products.

Our Protection of Industrial Property ("PIP") Corporate Department aims to enhance the value of this intellectual property by coordinating, centralizing and establishing our title through patents, trademarks, copyright and other relevant laws and conventions and by using legal and regulatory recourse in the event of infringement. Each of our Divisions also has either a corresponding PIP Department or representatives linked in a network with the PIP Corporate Department, in order to coordinate our efforts to protect our intellectual property position in building materials.

The use of or access to our intellectual property is governed by the terms of royalty agreements signed with our subsidiaries. In 2004, a certain number of Industrial Franchise agreements have been implemented to progressively substitute former royalty agreements. The Industrial franchise agreements are made of a bundle of licenses concerning Lafarge intangibles developed by the Group (Know-how, Trademark, Trade Name, patents, Best practices, etc.).

In 2004, the content of the Lafarge intellectual property was enriched in terms of know-how and best practices derived from the results of the various development programs initiated by Lafarge and aimed at improving performance levels.

Our PIP Corporate Department is in charge of monitoring the consistency of the Group Royalty policy and Group Trade Name policy.

Insurance Management Policy

The Group's general policy in insurance matters is predicated on two principles: i) cover under Group-wide policies subsidiaries in which the Group owns a majority shareholding, subject to local regulatory constraints and specific geographical exclusions, and ii) retain exposure to frequency risks through self-insurance and captive insurance techniques and transfer only severity risks to the insurance and reinsurance markets. Special attention is paid to the financial strength of these market participants.

Two insurance programs have been implemented within the Group, one covering North America and the other covering operations in the rest of the world.

Insurance policies excluding Lafarge North America Inc.

The main insurance programs in Europe, Africa, Latin America and Asia primarily cover property risks (fire, explosion, natural disasters, etc.), machinery breakdown and ensuing business interruption. Assets are insured at their actual cash value. The largest sites are assessed in advance by independent appraisers to

establish the asset values covered. They vary significantly depending on the Division: Cement, Aggregates and Concrete, Roofing, and Gypsum. Total insurance coverage amounts to 16 billion euros. Loss control engineers evaluate potential losses for the largest sites. The highest Probable Maximum Loss (PML) stands at 112 million euros, an amount for which we are covered.

Different sub-limits on coverage have been introduced into the insurance market, particularly for natural events. The Property Damage Group's policy carries a limit of 75 million euros per year and per event for earthquakes. A specific sub-limit applies in certain higher-risk countries, including Australia, China, Greece, Indonesia, Italy, Japan, Kenya, Malawi, Mexico, the Philippines, Serbia, Slovenia, Tanzania, Turkey, the U.S., Venezuela and Zambia. In Indonesia, this sub-limit stands at 50 million euros per event. The Group policy was effective from July 1, 2004. Following the earthquake and tsunami on December 26, 2004, which very seriously affected our plant located in the Aceh province (Indonesia), the Group renewed the earthquake coverage for the period from January to June 2005 inclusive, on the same terms and conditions as prior to the disaster.

The risk of business interruption caused by damage to insured property is generally considered to be low. Given the size of our manufacturing network in most countries and within each business activity, our plants are generally in a position to help each other out. Business interruption risk is generally insured by our subsidiaries, with a deductible of five days following a direct damage and fifteen days following a machinery breakdown and a maximum coverage period of 12 months. Furthermore, the continued operation of our plants is not dependent on any particular supplier or sub-contractor.

Lastly, the loss control program continued along the same lines as in previous years. A total of 86 site inspections were carried out during 2004 by engineers specializing in prevention.

Civil liability, product liability, directors and officers liability and environmental damage policies are the main casualty-related policies. They cover amounts commensurate with the nature of our business activities, the countries in which we operate, our loss experience and the available capacity of the insurance market. Given the sensitivity of this information, the coverage provided by these various policies remains confidential.

The Group has two reinsurance captives. One, which was set up in 2000, covers the frequency risk of the Group's subsidiaries. The risk retained by this captive stands at 2 million euros per casualty claim and 5 million euros per property damage claim. The other originated from the acquisition of the Redland and Blue Circle groups and mainly handles the past risks incurred by these Groups.

An insurance captive was set up during 2004 to cover property risks affecting the Group's principal subsidiaries in the European Union, as well as the U.S. assets inherited from Blue Circle.

The Group benefited from the more favorable conditions prevailing in the insurance market upon the annual renewal of its property damage program from July 1, 2004. The total cost of the Group's insurance programs, including the risks self-insured via the captives, amounted to 3.56 per thousand of the insured turnover, representing a reduction of 9% compared with the previous year.

Lafarge North America Inc. Insurance Policies

We maintain a comprehensive insurance program to protect the company from certain types of property and casualty losses, which utilizes commercial insurance and two captive insurance companies. Commercial property insurance with replacement coverage is purchased to insure against losses to plants and equipment. Additionally, the property policy provides business interruption coverage for the cement manufacturing plants and the gypsum manufacturing plants. We also purchase commercial insurance for our risks associated with workers compensation, auto liability and general liability exposures. The deductibles on this coverages range from $1 million to $5 million per claim. The captive insurance companies are used to fund losses below these amounts. We maintain other insurance programs as appropriate. We believe the insurance programs, policy limits and deductibles are appropriate for the risks associated with our business and in line with coverage available in the market.

Litigation

We are involved in several legal proceedings, including contract disputes, product liability cases, environmental inquiries and remediation actions (see the subsection entitled "Environment") and fair competition proceedings, that have arisen in the ordinary course of business. We believe that we have made adequate provisions to cover both current or contemplated general and specific litigation risks and we believe that these matters will be resolved without any significant impact on our activity levels, financial position or results of operations.

On December 3, 2002, the European Commission imposed a fine on us in the amount of 250 million euros on the grounds that some of our subsidiaries had allegedly colluded on market shares and prices with their competitors between 1992 and 1998 for wallboard, essentially in the United Kingdom and Germany. We vigorously challenged this decision and have brought the case before the Court of First Instance (CFI) in Luxembourg, which has jurisdiction over such matters, on February 14, 2003. The proceedings are currently taking place before the court. The resolution procedure usually takes several years based on comparable cases. As a bank guarantee was given on our behalf, no payment will have to be made before the decision of the court.

Following investigations on the German cement market, the German competition authority, the Bundeskartellamt, announced on April 14, 2003, that it was imposing fines on German cement companies, including one in the amount of 86 million euros on Lafarge Zement, our German cement subsidiary for its alleged anti-competitive practices in Germany. Lafarge Zement believes that the amount of the fine is disproportionate in light of the actual facts and has brought the case before the Higher Regional Court, the Oberlandesgericht, in Düsseldorf. The court's decision is not expected before several years. No payment nor any guarantee is required to be made or given prior to the court's decision. A provision of 300 million euros was recorded in our financial statements for the year ended December 31, 2002 in connection with the two matters above and we recorded additional provisions in 2003 and 2004 for a total amount of 20 million euros in relation to interest on the amount of the fines since 2002.

On November 12, 2004, our subsidiary Lafarge North America Inc. settled the arbitration proceeding which the Dunn Industrial Group, Inc. ("Dunn Industrial") initiated as a lawsuit against us in 2001 in the Circuit Court of Jackson County, Missouri in connection with the construction of our new cement plant in Sugar Creek, Missouri. In full satisfaction of all of Dunn Industrial's claims, i) Dunn Industrial retained a $6.5 million advance payment previously made by Lafarge North America Inc., ii) $3.8 million previously paid by Lafarge North America Inc. to an escrow agent was released to Dunn Industrial, and iii) Lafarge North America Inc. paid Dunn Industrial an additional $29.7 million. These amounts have been capitalized as additional costs of constructing the cement plant.

In the Netherlands, a former subsidiary of the group, Tollens Coatings B.V., is one of the defendants in an action brought in 1990 by the government in connection with the discharge of certain waste in the Lekkerker canal between 1968 and 1971. At that time, Tollens Coatings B.V. operated a paint manufacturing plant and had hired another company to carry and dispose of waste produced by the plant. The government is seeking 160 million Dutch guilders (approximately 72.6 million euros) in damages, plus interest. Tollens Coatings B.V. contends that it did not instruct the disposal company to dump the waste in the Lekkerker canal and that it had no knowledge of the disposal company's conduct. With the consent of the parties, the proceedings, which are still at the level of first instance, have been postponed several times by the court and since late 1993 no proceedings on the merits have taken place. In July 2001, the Dutch government took sufficient action to delay the running of the statute of limitations, without any other consequence. As a result, the case is still pending. Tollens Coating B.V. was disposed of with the Specialty Products Division. However, pursuant to the disposition arrangements, including the subsequent sale of Materis Participations to LBO France, the group has agreed to indemnify the acquirers for any damages incurred in connection with this litigation.

Finally, certain of our subsidiaries have litigation and claims pending in the normal course of business. Management is of the opinion that these matters will be settled without any material adverse effect on the company's financial statements.