

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our consolidated financial statements which are included elsewhere in this Form 20-F. Our consolidated financial statements have been prepared in accordance with the provisions of French accounting legislation and standards (“French GAAP”), which differ in significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”). See Note 30 to Note 33 to our consolidated financial statements for a description of the principal differences between French GAAP and U.S. GAAP as they relate to Lafarge.

Our functional and reporting currency has been the euro since the introduction of the euro on January 1, 1999. The consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 have been prepared in euros.

Overview

2004 was a year of significant growth in the markets served by Lafarge, as well as a year of improving results. Sales, at constant scope and exchange rates, increased by 7.7%. We also benefitted from steps taken during the last few years to expand our geographical coverage and product offer. Operating income on ordinary activities, at constant scope and exchange rates, increased by 12.8% due to a generally favorable pricing environment and our continuous efforts to improve performance, despite rising energy costs. Also, after the important developments completed during recent years, and particularly in 2001 with the Blue Circle acquisition, we made several acquisitions of small and medium size, as well as a number of divestments.

At the end of 2004, we had recovered a solid financial structure with strengthened financial ratios. At December 31, 2004 our net debt to equity ratio was, at 59% and our cash flow from operations to net debt ratio was 32.5%. This return to a position of financial strength was achieved, over the past three years, through our improved operational performance, tight control of capital expenditures and use of working capital, a sizeable program of divestments of non-strategic assets and a successful rights issue of 1,262 million euros during 2003. Favorable market conditions, which helped foster the growth in our operating income on ordinary activities and corresponding cash flow generation in 2004, have further improved our financial position. At year-end 2004, our total debt amounted to 8,152 million euros, a reduction of 543 million euros compared to December 31, 2003, while our cash and cash equivalents increased by 19 million euros to 1,653 million euros.

In the Cement Division, our strategy of geographical diversification has helped us to balance out the contrasting evolutions of our different regional markets. In 2004 in particular, the progressive improvement in pricing in Germany and the Philippines, well-oriented markets in North America, France, Spain, much of Eastern Europe and the Mediterranean Basin, Sub-Saharan Africa and India have largely compensated the weaknesses of South Korea, Malaysia and Brazil. In 2004, the sharp increase in energy costs proved a new challenge for the Division. Our longstanding experience and know how in the flexible use of different sources of fuel and the improvement of our industrial performance have helped to mitigate the impact of increased energy costs in many operations.

In Aggregates & Concrete, our operations, mainly concentrated in Western Europe and North America, have faced contrasting markets conditions up until 2004 when renewed growth was recorded in much of North America and in France. The United Kingdom weakened in 2004 as a result of a low level of infrastructure spending compared to 2002 and 2003. In certain emerging markets where the development of environmental regulations is gradually creating the conditions for satisfactory financial returns, our operations have continued, for the third year in a row, to significantly increase their contribution. Performance improvement programs have also continued to deliver sizeable benefits.

Throughout the three-year period we have continued to restructure our Roofing operations in particular in Germany where the market has shown renewed weakness in 2004 after some signs of stability in 2003. This restructuring effort has allowed us to show ongoing improvement in our operating income on ordinary activities over the period.

For the Gypsum Division, the three-year period 2002 to 2004 has been a period of steady improvement in performance. In particular in the United States, a steady turnaround was achieved during the second half of

2003 and confirmed in 2004 with a return to positive operating income on ordinary activities driven by the significant improvement in prices as well as better industrial performance. A positive market environment in the majority of the Gypsum Division's other markets has supported the overall improvement in performance.

The growing contribution of our operating income from emerging markets in 2004 once again confirmed our long-term strategy of significantly expanding our presence in emerging markets. We continue to believe emerging markets represent the best prospects for the sustained long-term growth of our activities. We classify all countries outside of Western Europe and North America, with the exception of Japan, Australia and New Zealand, as emerging markets.

Since the acquisition of Blue Circle Industries, our external growth strategy has been to pursue small and medium sized acquisitions, with attractive returns, primarily in Cement worldwide and in Aggregates in Europe and North America. Over the last three years, we have expanded our cement positions in China, Russia, Serbia, Slovenia and Ecuador and our aggregates and concrete operations in North America, France and Switzerland.

Significant acquisitions and divestitures

Significant acquisitions

Over the past three year period, as a consequence of our strategy to pursue small and medium size acquisitions, we did not make any individual acquisition that would qualify as significant on a consolidated basis. Nevertheless, in the aggregate, our small to medium size acquisitions had a positive scope effect on revenues amounting to 392 million euros for 2004 compared to 2003 and to 156 million euros for 2003 compared to 2002.

Significant divestitures

Materis. In September 2003, we sold our 33.36% stake in Materis Participations to LBO France, a French investment fund. This transaction was valued at a total of approximately 210 million euros including a fee related to the three-year license of the Lafarge trademark. We invested approximately 20 million euros, from the proceeds of the sale, in Materis (equivalent to a 7.27% equity stake), the holding company that currently owns the businesses of our former Specialty Products Division.

Cementos Molins. In September 2004, we sold our 40.9% stake in Cementos Molins in Spain for 265 million euros.

Total negative scope effects on revenues resulting from divestitures amounted to 411 million euros for 2003 compared to 2002, and to 178 million euros for 2004 compared to 2003

See "Item 4. Information on Lafarge — Recent Events" for a list of the principal acquisitions and divestitures.

Seasonality

Demand for our cement, aggregate and concrete and roofing 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 on a consolidated basis 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 summer construction season.

Critical accounting policies

We prepare the consolidated financial statements of Lafarge in conformity with French GAAP. We also prepare a reconciliation of our consolidated financial statements to U.S. GAAP. The notes to our consolidated financial statements summarize the significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results. See Note 2 to our consolidated financial statements regarding the significant accounting policies we apply under French GAAP and Note 30

to Note 33 for a description of the principal differences between French GAAP and the U.S. GAAP as they relate to Lafarge.

Certain of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with generally accepted accounting principles, a change in the facts and circumstances of the underlying transactions could significantly change the implication of the accounting policy and the resulting financial statement impact. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

Impairment of Goodwill and Market Shares. The net book value of goodwill and market shares is reviewed annually to take into consideration factors that may have affected the assets' value and recoverability.

Our four Divisions have been considered as the four segments of the Group including reporting units, defined as being in general the activity of a segment in a country. In some specific cases, a reporting unit may be composed of different activities in one or several countries, or similar activities in several countries. The reporting unit is the level used by the Group to organize activities and results in its internal reporting.

In our goodwill and market shares impairment test, we use a combination of a market approach and an income approach. In the market approach, we compare the carrying value of our reporting units with multiples of their Gross Operating Income. For reporting units presenting an impairment risk according to the market approach we then use the income approach. In the income approach, we estimate the discounted value of the sum of the expected future cash flows. If the carrying value of the reporting unit is higher than the measured fair value of the related assets and liabilities, the company records extraordinary amortization of goodwill and market shares to reduce the carrying value of the reporting unit to its determined fair value.

Evaluations for impairment are significantly impacted by estimates of future prices for our products, the evolution of expenses, economic trends in the local and international construction sector, the expectations on long-term development of emerging markets and other factors. This also depends on the discount rates and perpetual growth rates used. We have defined country specific discount rates for each of our reporting units based on their Weighted Average Cost of Capital. In some cases, we use a third party valuation as part of our impairment test.

The discount rates and perpetual growth rates in hard currency used for the valuation of the main reporting units presenting an impairment risk are as follows:

Reporting units	At December 31, 2004		At December 31, 2003	
	Discount rate	Perpetual growth rate	Discount rate	Perpetual growth rate
Cement United Kingdom	7.8%	2.0%	7.8%	1.5%
Cement Greece	7.3%	2.0%	7.4%	1.5%
Cement Malaysia	8.1%	2.0%	8.4%	1.5%
Cement Chile	7.8%	2.0%	N/A	N/A

As of December 31, 2004 the sensitivity of the fair values to an independent change of one point in the discount rate or the perpetual growth rate is as follows:

Reporting units	Excess of estimated fair value over carrying value (in million €)	Impact of one point increase / decrease in the			
		Discount rate		Perpetual growth rate	
		(in million €)			
		+ 1 pt	- 1 pt	+ 1 pt	- 1 pt
Cement United Kingdom	166	-244	+345	+67	-48
Cement Greece	134	-148	+216	+52	-37
Cement Malaysia	172	-98	+136	+33	-24
Cement Chile	22	-41	+58	+5	-4

The total of goodwill and market shares related to these reporting units is 1,885 million euros.

Pension Plans and Other Postretirement Benefits. The accounting for pension plans and other postretirement benefits requires us to make certain assumptions that have a significant impact on the expenses and liabilities that we record for pension plans, end of service indemnities, and other post employment benefits.

The main defined pension plans and other postretirement benefits provided to employees by the Group are in the United Kingdom and North America (the United States of America and Canada). The related projected benefit obligations as of December 31, 2004 represent 61% and 22%, respectively, of the company's total obligations in respect of pension plans, end of service indemnities and other post employment benefits.

The primary assumptions made to account for pension plans, end of service indemnities and other post employment benefits are disclosed in Note 22(b) to our consolidated financial statements.

The expected long-term rate of investment return on pension plan assets is based on historical performance, current and long-term outlook and the asset mix in the pension trust funds. The discount rates reflect the rate of long-term high-grade corporate bonds.

The 2004 pension plans, end of service indemnities and other post employment benefits expenses are impacted by the year-end 2003 assumptions for the discount rate and the expected return rate on assets (pension plans only). For North America and the United Kingdom, if the 2003 discount rate assumption had been lowered by one percent, the 2004 pension plan and other postretirement benefit expenses would have increased by approximately 46 million euros, partially offset by an increase in the value of bonds held by pension trust funds. If the 2003 return rate on assets assumption had been lowered by one percent, the 2004 pension and other benefit plans expenses would have increased by approximately 30 million euros.

Because of the typically long term nature of the Group's obligations in respect of its main post employment benefit schemes, and the short term volatility of financial markets, which has an impact on both the discount rate used and actual investment returns obtained, group accounting standards require to recognize any difference between expected and actual investment returns, as well as any impact of a modification of discount rates used, over the expected remaining active life of beneficiaries.

Environmental costs. Costs that result in future economic benefits such as extending useful lives, increased capacity, safety or, those costs incurred to mitigate or prevent future environmental contamination are capitalized. When we determine that it is probable that a liability for environmental costs exists, an undiscounted estimate of the future remediation is recorded as a provision without the offset of potential insurance recoveries. Environmental costs, which are not included above, are expensed as incurred.

Site restoration. Where we are legally, contractually or constructively required to restore a quarry site, the estimated costs of site restoration are accrued and amortized to cost of goods sold ratably, on a unit-of-production basis, over the operating life of the quarry. The estimated future costs for known restoration requirements are determined on a site-by-site basis and are calculated based on the present value of estimated future costs.

Revenue Recognition. Consolidated revenues represent the value before sales tax of goods, products and services sold by consolidated enterprises in ordinary activities and after the elimination of intra-group sales. We record our revenues from the sales of our goods and products when ownership is transferred. Amounts billed to a customer in a sales transaction related to shipping and handling are included in "Sales", and costs incurred by the seller for shipping and handling are classified as "Cost of goods sold". Revenues are shown net of commercial rebates and discounts. Financial discounts are accounted for as financial expenses.

Deferred taxes. Deferred income taxes are accounted for using the balance-sheet liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts in the balance sheet (including tax losses available for carry forward). Deferred taxes are measured by applying currently enacted tax laws. Deferred tax assets are recognized when it is reasonably certain that they will be recovered in future years.

Reconciliation of non-GAAP financial measures utilized — Net debt, total equity and cash flow from operations

We use net debt to measure the evolution of our financial ratios in particular the net-debt-to-equity ratio and the cash flow from operations to net debt ratio (see the subsection entitled “Net cash (used in) provided by financing activities”). Our senior management follows these two ratios to assess the financial strength of the Group. We believe that these ratios are useful to investors as they provide a view of the Group level of debt as compared to its total equity and its cash flow from operations.

Our net debt is defined as the total of our long-term debt, current portion of long-term debt and our short-term bank borrowings less our cash and cash equivalents.

	At December 31,		
	2004	2003	2002
	(in million €)		
Long-term debt	6,948	7,370	10,271
Current portion of long-term debt	991	985	524
Short-term bank borrowings	213	340	530
Cash and cash equivalents	(1,653)	(1,634)	(1,109)
Net debt	6,499	7,061	10,216

We calculate the net-debt-to-equity ratio by dividing the amount of our net debt as computed above by our total equity, which we define as the sum of shareholder’s equity, minority interests and other equity as set out in our consolidated balance sheet.

	At December 31,		
	2004	2003	2002
	(in million €)		
Shareholder’s equity	8,477	8,185	6,981
Minority interests	2,479	2,191	2,155
Other equity	116	118	134
Total equity	11,072	10,494	9,270

We calculate the cash flow from operations to net debt ratio by dividing our cash flow from operations by our net debt as computed above. Cash flow from operations is defined as net cash provided by operating activities after deduction of changes in operating working capital items.

	Year ended December 31,		
	2004	2003	2002
	(in million €)		
Net cash provided by operating activities	1,736	2,089	1,791
Changes in operating working capital items	(377)	290	(165)
Cash flow from operations	2,113	1,799	1,956

Origin of sales and operating income on ordinary activities

We have provided an analysis of our sales by segment. Our reported segments correspond to our operating Divisions. For the purposes of discussion in this Item 5 we present our sales by country or region of destination of the sale.

We have also provided an analysis by segment of operating income on ordinary activities. This item corresponds to our total sales, less cost of goods sold and selling and administrative expenses and depreciation. We do not calculate operating income on ordinary activities on the basis of sales by destination.

Sales and operating income on ordinary activities of entities over which we have direct or indirect control of more than 50% of the outstanding voting shares, or over which we exercise effective control, are fully consolidated. Control exists where Lafarge has the power directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Sales and operating income

on ordinary activities in companies in which we and third party investors have agreed to exercise joint control are consolidated by the proportionate consolidation method. Revenues and expenses of subsidiaries acquired or disposed of during the year are recognized in the consolidated financial statements of income as from the date of control or up to the date of transfer of control, respectively.

Effects of changes in the scope of our operations and currency fluctuations

Variations in the scope of our operations, such as acquisitions and divestitures, together with changes in how we account for our business units, such as a change from proportionate to global consolidation, may increase or decrease our consolidated sales and operating results in comparison to a prior year and thus make it difficult to discern the evolution of the underlying performance of our operations. In order to provide a meaningful analysis between any two years (referred to below as the “current” year and the “prior” year), sales and operating income on ordinary activities are adjusted in order to compare the two years at a constant scope of consolidation. With respect to businesses entering the scope of consolidation at any time during the two years under comparison, current year sales and operating income on ordinary activities are adjusted in order to take into account the contribution of these businesses during the current year only for a period of time identical to the period of their consolidation in the prior year. With respect to businesses leaving the scope of consolidation at any time during the two years under comparison, prior year sales and operating income on ordinary activities are adjusted in order to take into account the contribution of these businesses during the prior year only for a period of time identical to the period of their consolidation in the current year.

Similarly, as a global business operating in numerous currencies, changes in exchange rates against our reporting currency, the euro, may result in an increase or a decrease in the sales and operating income on ordinary activities reported in euros, which are not linked to the evolution of underlying performance. Except as otherwise noted, we calculate the impact of currency variances by measuring the difference between the prior year’s figures as published (adjusted if necessary for the effects of businesses leaving the scope of consolidation) and the result of converting the prior year’s figures (adjusted if necessary for the effects of businesses leaving the scope of consolidation) using the current year’s exchange rates.

Results of Operations for the Fiscal Years ended December 31, 2004 and 2003

In the discussion of our results for the years ended December 31, 2004 and 2003 that follows, the sales figures, unless noted otherwise, are consolidated sales by destination and include the contributions of our proportionately consolidated subsidiaries. The gross sales volumes figures we have provided for each Division or geographic zone are the total volumes sold by destination, including the volumes sold to our other Divisions and adjusted for the contributions of our proportionately consolidated subsidiaries.

Sales

Overview. Sales increased by 5.7% between 2003 and 2004, from 13,658 million euros to 14,436 million euros. Currency fluctuations had a negative impact of 442 million euros or 3.5% reflecting in particular the strong appreciation of the euro against the majority of other currencies. Changes in the scope of consolidation had a net positive impact of 214 million euros, or 1.5%. Positive scope changes amounted to 392 million euros, including in particular the effect of the increase in the ownership of Lafarge Halla Cement in South Korea, of the acquisition of The Concrete Company (TCC) in the United States with operations both in cement and concrete and of the acquisition of Hupfer Holdings in the aggregate activity in France and Switzerland. Negative scope changes amounted to 178 million euros primarily reflecting the impact of divestments of cement operations in Florida in 2003, as well as various aggregates and concrete activities in North America and the disposal of the remaining lime operations in Europe and road marking activities in the United States. Our sales from continuing operations at constant scope and exchange rates grew by 7.7% benefiting from good weather conditions and strong demand in a number of our markets.

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:

Sales	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(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

The percentage of gross variation as well as variation at constant, scope and exchange rates between December 31, 2004 and 2003 were as follows:

(in million €)	2003		2003		2003		2004		2004		2003 vs 2004	
	Scope effect of disposals		At constant scope		Currency fluctuations effects		On a comparable basis		Scope effect of acquisitions		% Gross change	
	Actual (a)	(b)	(c) = (a)+(b)	(d)	(e) = (c)+(d)	Actual (f)	(g)	(h) = (f)+(g)	(i) = (f-a)/(a)	(j) = (h-e)/(e)	% Change at constant scope and exchange rates	
Cement	6,383	(54)	6,329	(286)	6,043	6,810	(209)	6,601	6.7	9.2		
Aggregates & Concrete	4,465	(68)	4,397	(113)	4,284	4,747	(137)	4,610	6.3	7.6		
Roofing	1,510	(1)	1,509	(13)	1,496	1,493	(12)	1,481	-1.1	-1.0		
Gypsum	1,194	—	1,194	(29)	1,165	1,340	(34)	1,306	12.2	12.0		
Other	106	(55)	51	(1)	50	46	—	46	(56.6)	-8.1		
Total	13,658	(178)	13,480	(442)	13,038	14,436	(392)	14,044	5.7	7.7		

Cement

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

Sales	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Western Europe	2,204	32.4	5.0	2,099	32.9
North America	1,338	19.6	(0.5)	1,345	21.1
Central & Eastern Europe	457	6.7	11.7	409	6.4
Mediterranean Basin	430	6.3	(2.5)	441	6.9
Latin America	372	5.5	(10.6)	416	6.5
Sub-Saharan Africa	944	13.9	23.2	766	12.0
Asia	1,065	15.6	17.4	907	14.2
Total	6,810	100.0	6.7	6,383	100.0

Sales of the Cement Division increased by 6.7% between 2003 and 2004 to 6,810 million euros, up from 6,383 million euros in 2003. Currency fluctuations had a negative impact on sales of 4.9% and amounted to 286 million euros. Positive scope changes amounted to 209 million euros, including in particular the effect of the increase in our ownership of Lafarge Halla Cement and the acquisition of the cement operations of The Concrete Company (TCC), while negative scope changes amounted to 54 million euros primarily reflecting the impact of divestments of cement operations in Florida in 2003. Overall changes in the scope of consolidation increased sales by 2.4%. At constant scope and exchange rates, our sales grew by 9.2%.

The total volumes sold by the Division in 2004 increased by 11% to 119.4 million tonnes (including 2.4 million tonnes of special products such as road binders, special cements and ground slag reported for the first time in 2004).

In Western Europe, sales totaled 2,204 million euros, an increase of 5.0% compared to 2003. The volumes sold in the region increased by 5% to 32.0 million tonnes (including 0.7 million tonnes of special products such as road binders, special cements and ground slag reported for the first time in 2004). France delivered a 14% sales growth, with sustained volume increase throughout the year coupled with a favorable

pricing environment. In the United Kingdom, volumes were slightly down in a market that saw slower construction growth overall and increased imports. Despite this environment, sales were up by 1%, benefiting from the slight appreciation of the British pound versus the euro. In Spain, sales were up by 8% with positive trends in construction spending allowing for good price increases. In Germany, the construction market and cement volumes weakened once again in 2004, but this was more than offset by the steady recovery in prices from the low level of 2003, and sales were up by 10%. In Greece, sales were down by 4%, adversely affected by the slowdown in volumes after the completion of Olympics' related building projects, although pricing showed good levels of increase. In Italy sales were marginally down.

In North America, we achieved sales of 1,338 million euros, a decrease of 0.5% compared to 2003. The strengthening of the euro versus the U.S. dollar and the Canadian dollar adversely affected the evolution of our sales in the region as reported in euros. Changes in the scope of consolidation had an overall unfavorable impact, the negative scope effect resulting from the divestment of our cement operations in Florida in 2003, being partly compensated by the positive scope effect resulting from the acquisition in 2004 of the cement activity of The Concrete Company (TCC). Our sales volumes in the region increased by 17% to 21.0 million tonnes (including 1.5 million tonnes of special products such as road binders, special cements and ground slag reported for the first time in 2004). Favorable economic conditions supported strong levels of demand across markets throughout the year, and we also benefited from more favorable weather conditions at both the start and the end of the year. High levels of demand particularly in the first half of the year, led to increased imports to meet customer demand. Pricing trends continued to be positive, with successful price increases achieved in the majority of markets during the first half. In several US markets, a second price increase was also realized later in the year.

In emerging markets, our sales increased by 11.2% to 3,267 million euros, with these markets accounting for 48% of the Division's sales in 2004, compared to 46% in 2003. The strengthening of the euro against the majority of other currencies adversely affected the evolution of our sales in these regions as reported in euros. Conversely, the scope changes, in particular the increase of the ownership in Lafarge Halla Cement and to a lesser extent the full year effect of the acquisition in 2003 of Ural Cement in Russia and of the new Chongqing plant in China had a favorable impact.

Our sales in Central and Eastern Europe rose by 11.7% to 457 million euros, but this progression was held back by the negative impact of foreign currency fluctuations on currencies of the region. Our sales volumes in the region increased by 12% to 10.1 million tonnes. Sales grew by 11% in Romania, in a favorable market environment where residential, commercial and infrastructure building continued to develop. In Poland, sales remained stable, despite negative foreign exchange impacts, with volumes particularly strong in the first part of the year in anticipation of the large increase in the value added tax. In Russia, Slovenia and Ukraine, sales progressed in spite of the negative foreign exchange impact. In Russia, sales were favorably affected by the scope effect resulting from the acquisition of Ural Cement.

In the Mediterranean Basin, we saw a 2.5% decline in sales to 430 million euros. Our reported sales were adversely affected by foreign currency fluctuations. Our sales volumes in the region decreased by 2% to 9.7 million tonnes. In Morocco, sales were down by 4% despite good volumes with prices adversely affected by the new cement tax imposed on cement manufacturers. In Jordan, where public sector projects and the buoyant construction market for residential housing translated into booming volumes, sales were up by 14%. In Egypt, despite a very positive price variance, sales growth was limited by lower volume and adverse foreign exchange impact. In Turkey where the market grew strongly, sales were up although the progression was held back by the negative exchange rate impact. Export sales to Algeria were strongly reduced.

Our sales in Latin America were down by 10.6% to 372 million euros. This primarily reflects the impact of the appreciation of the euro against the various regional currencies. Our sales volumes in the region fell by 3% to 6.0 million tonnes. In Brazil, demand was weak and prices were lower in the face of increased competition and also were adversely affected by the recent implementation of a value added type sales tax. This unfavourable environment combined with the fall in the Brazilian real led to sales being down by 18%. Cement demand has been strong in Venezuela due to a high level of public spending and sales grew by 13% despite the adverse foreign currency impact. Our sales in Chile increased by 19% with positive volume trends

and appreciation of the Chilean peso versus the euro. In Mexico, sales were down by 3% as a result of the foreign exchange impact, but otherwise sales grew strongly.

In the Sub-Saharan Africa region, our sales grew by 23.2% to 944 million euros. Our sales volumes in the area increased by 11% to 12.4 million tonnes of cement. Currency fluctuations had a negative impact on sales generated in many countries in the region but with the significant exception of South Africa where the rand's appreciation against the euro combined with a buoyant residential building sector delivered sales growth of 41%. In Nigeria, the local dynamics of the market were further improved by a significant reduction in imports as a result of the sharp rise in shipping costs. Good pricing conditions and volume growth supported by increased local production output led to a 32% sales growth despite the negative currency impact. In Kenya, with strong domestic market conditions, sales increased by 14% and in Uganda sales decreased marginally after the negative currency impact. Sales in Cameroon grew by 14% with particularly strong volumes. South East Africa, which covers Zambia, Malawi, Tanzania and Zimbabwe contributed a 24% increase in sales with strong volume increases in Zambia and Tanzania and good pricing conditions in all countries.

Our operations in Asia saw sales grow by 17.4% to 1,065 million euros benefiting from the positive scope changes affecting our operations in South Korea and China. Sales volumes in the region increased by 22% to 28.2 million tonnes. In the Philippines, significant price increases were successfully implemented throughout the year but with volumes slightly lower and a negative currency impact, sales growth was limited to 14%. In Malaysia sales, which fell by 15%, suffered from the depreciation of the ringgit against the euro and were also affected by lower volumes and prices. Public sector spending especially in infrastructure and the steel bar scarcity in the beginning of the year led to reduced demand and price weakness. In South Korea, sales increased as the result of the change in consolidation method, from proportionate to full, of Lafarge Halla Cement following the acquisition of an additional 10.2% equity interest in January 2004. This positive scope effect was partly offset by the won's depreciation against the euro and by lower sales volumes and declining prices in a difficult market. The construction industry was badly affected by government initiatives to dampen property price inflation, which led to a sharp fall in construction orders and increased competition between domestic producers and importers. In India, markets were well oriented and sales increased by 17% despite the negative currency impact. Sales growth in China at 20% benefited from the positive scope effect resulting from the full-year operation of the Chongqing plant. In Indonesia, sales were down 6%, due to the negative currency impact while they progressed in local monetary units, due to positive market conditions. After the tsunami in December 2004, we continued to supply local market needs from other countries in Asia.

Aggregates & Concrete

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

Sales	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Aggregates	2,179	45.9	6.3	2,050	45.9
Concrete	2,568	54.1	6.3	2,415	54.1
Total Aggregates & Concrete	4,747	100	6.3	4,465	100
Western Europe	1,958	41.2	6.1	1,845	41.3
North America	2,220	46.8	4.2	2,130	47.7
Other regions	569	12.0	16.1	490	11.0
Total	4,747	100.0	6.3	4,465	100.0

Sales of the Aggregates & Concrete Division increased by 6.3% to 4,747 million euros in 2004 from 4,465 million euros in 2003. Currency fluctuations had a negative impact on sales of 2.7% and amounted to 113 million euros. Positive scope changes amounted to 137 million euros, including in particular the effect of the acquisition of The Concrete Company (TCC), in Alabama, in the United States and the acquisition of Hupfer Holdings with operations in France and Switzerland. Negative scope effects amounted to 68 million euros primarily reflecting the impact of various divestments in North America. Overall changes in the scope of consolidation increased sales by 1.4%. At constant scope and exchange rates, our sales grew by 7.6%.

Sales of our aggregates operations were up by 6.3% between 2003 and 2004, to 2,179 million euros. The negative impact of currency fluctuations was partly offset by overall favorable scope effects. Our sales volumes of aggregates rose by 9% to 234.2 million tonnes in 2004.

Our aggregates sales in Western Europe grew by 8% to 855 million euros, benefiting from the positive scope effect of the Hupfer Holdings acquisition. In addition at constant scope, France recorded good volume growth particularly in Southern regions with good pricing conditions. In the United Kingdom, sales were slightly up due to the appreciation of the British pound against the euro. Excluding this favorable currency effect sales were down, suffering from the decline in infrastructure spending which strongly affected our asphalt and paving activities. In Spain, sales were down affected more specifically by the closure of a quarry in Catalonia and by difficult market conditions around Madrid.

In North America, sales rose by 3% to 1,214 million euros, despite the negative impact of the decline of the U.S. dollar and the Canadian dollar versus the euro. In all product lines pure aggregates, asphalt and paving, sales at constant scope and exchange rates delivered solid growth under the combined effect of relatively strong economics and good weather conditions.

Sales of our concrete operations, were up by 6.3% between 2003 and 2004, from 2,415 million euros to 2,568 million euros. The negative impact of currency fluctuations was partly offset by overall favorable scope effects. Our sales volumes of concrete increased by 8% to 37 million cubic meters.

In Western Europe concrete sales increased by 5% to 1,103 million euros. In France, sales grew strongly due to the combination of high levels of residential housing in most regions and favorable pricing trends supported by increased sales of special quality concretes. In the United Kingdom, concrete sales delivered a robust growth with improved pricing trends supported also by improved product mix. In Portugal, volumes improved, while in Spain they declined, affected by the difficult market conditions in the Madrid area. Sales in Greece were down affected by the construction activity slowdown after the completion of the Olympic games projects.

In North America, sales increased by 5% from 955 million euros in 2003 to 1,006 million euros in 2004. The overall positive scope effect resulting primarily from the acquisition of The Concrete Company (TCC) was almost entirely offset by the negative impact of currency fluctuations. Sales at constant scope and exchange rate benefited from sustained volume growth, and overall positive pricing conditions. Demand was particularly strong in Western Canada and in the eastern part of the United States.

In the rest of the world, concrete sales were up by 13%. Sales growth was strong in South Africa, helped by the rand's appreciation against the euro and in Latin America, particularly in Brazil and Chile. Sales were down in Malaysia suffering from the depreciation of the ringgit against the euro.

Roofing

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

Sales	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Western Europe	1,107	74.1	(2.7)	1,138	75.4
Germany	385	25.8	(12.3)	439	29.1
Other countries in Western Europe	722	48.3	3.3	699	46.3
Other regions	386	25.9	3.8	372	24.6
Total	1,493	100.0	(1.1)	1,510	100.0

The Roofing Division saw sales decline by 1.1% between 2003 and 2004, from 1,510 million euros to 1,493 million euros. At constant scope and exchange rates sales dropped by 1.0%.

Sales of concrete tiles were down 3% to 741 million euros, and clay tiles sales decreased by 2% to 261 million euros. Roof system components grew by 1% to 253 million euros. Chimney sales increased by 9% to 189 million euros. Other sales decreased by 9% to 49 million euros.

In Western Europe, sales were down by 2.7% to 1,107 million euros. Sales of both concrete and clay tiles were down. In Germany, where sales decreased by 12.3%, the third and fourth quarter were particularly difficult, both in the concrete and clay tile activities. High demand was generated at the end of 2003 and in the first half of 2004, following the announcement of the end of public subsidies to private house builders. A counter effect was recorded in the second half of 2004 and demand overall weakened. Prices remained under pressure. In the Benelux (the Belgium-Netherlands-Luxembourg region), increased competition led to a sharp decline in sales particularly pronounced in concrete tiles. In the United Kingdom, sales benefited from the positive impact of currency fluctuations. Soft market trends particularly in the second part of the year affected negatively volumes of concrete tiles. Clay tile sales performed better due to successful commercial efforts and chimneys sales remained strong despite tough competition in Ireland. In France, the market recovery compared to 2003 and successful commercial efforts led to good growth in volumes and prices, both in concrete and clay tiles. Italy delivered solid sales growth with particularly strong volumes in concrete tiles, and strong chimneys sales.

In North America, sales increased by 3%, the negative effect of the U.S. dollar's depreciation against the euro being more than offset by the sales growth in local monetary units. Strong growth was recorded in all markets, with the largest increases being observed in Southern California and Nevada.

In other regions sales were up by 4%. Good growth was recorded in South Africa. In Central and Eastern Europe sales were slightly up. In Asia, the level of sales was impacted by the negative currency fluctuations, but also by difficult market conditions in Japan and Malaysia.

Gypsum

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

Sales	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Western Europe	723	54.0	10.0	657	55.0
North America	263	19.6	16.4	226	18.9
Other regions	354	26.4	13.8	311	26.1
Total	1,340	100.0	12.2	1,194	100.0

Sales of the Gypsum Division increased by 12.2% from 1,194 million euros in 2003 to 1,340 million euros in 2004. At constant exchange rates and scope of consolidation, sales grew by 12.0%. Changes in the scope of consolidation increased sales by 2.9% and currency fluctuations had a negative impact on sales of 2.7%. The volumes of wallboard grew by 7% to 675 million square meters.

In Western Europe, sales grew by 10.0% to 723 million euros with solid sales growth in France driven by better construction environment with favorable pricing. In the United Kingdom volumes were strong, driven by high demand. In Germany, pricing continued to be negative but sales levels were strong in the fourth quarter in anticipation of price increases in 2005.

In North America, sales grew by 16.4% to 263 million euros from 226 million euros despite the negative effect of the exchange rate variation. The continued strong activity in residential housing and renovation work allowed our plants to run at full capacity. Price increases were implemented in all of our markets throughout the year.

In our other zones our sales rose overall by 13.8% to 354 million euros benefiting from a positive scope effect. In Asia, sales were down affected by the decline in the South Korean construction market, but good levels of activity were recorded in Poland, Romania, Turkey and China.

Other

Sales of our other operations fell by 56.6% between 2003 and 2004, from 106 million euros to 46 million euros following further divestments made in the lime and road marking activities.

Operating income on ordinary activities

Operating income on ordinary activities takes into account Sales, Cost of Goods Sold, Selling and Administrative Expenses and Depreciation. We do not report Cost of Goods Sold, Selling and Administrative Expenses and Depreciation by segment.

Cost of Goods Sold increased by 6% between 2003 and 2004, from 9,088 million euros to 9,633 million euros. The net changes in the scope of consolidation increased Cost of Goods Sold by 259 million euros while currency fluctuations accounted for a net decrease of 276 million euros. At constant scope and exchange rates Cost of Goods Sold increased by 562 million euros. Selling and Administrative Expenses increased by 1.4% between 2003 and 2004, from 1,750 million euros in 2003 to 1,775 million euros in 2004. The net changes in the scope of consolidation increased Selling and Administrative Expenses by 17 million euros while currency fluctuations accounted for a net decrease of 45 million euros. At constant scope and exchange rates Selling and Administrative Expenses increased by 53 million euros.

Depreciation increased by 2.0% between 2003 and 2004, from 886 million euros to 904 million euros. Net changes in the scope of consolidation increased Depreciation by 35 million euros, while currency fluctuations accounted for a net decrease of 26 million euros. At constant scope and exchange rates, Depreciation increased by 9 million euros.

Operating income on ordinary activities grew by 9.8% between 2003 and 2004, from 1,934 million euros to 2,124 million euros. The appreciation of the euro against the majority of other currencies had a negative impact of 57 million euros. Changes in the scope of consolidation accounted for a net increase of 9 million euros and are essentially due to the additional interest acquired in Lafarge Halla in South Korea and the acquisition of Hupfer Holdings in the Aggregates and Concrete Division, being offset by the divestment of cement operations in 2003 in Florida. At constant scope and exchange rates, operating income on ordinary activities from our ongoing operations recorded an increase of 12.8%. As a percentage of our sales, operating income on ordinary activities represented 14.7% in 2004, compared to 14.2% in 2003.

Contributions to our operating income on ordinary activities by segment for the years ended December 31, 2004 and 2003, and the related percentage changes between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Cement	1,567	73.8	6.9	1,466	75.8
Aggregates & Concrete	337	15.9	19.1	283	14.6
Roofing	150	7.0	5.6	142	7.3
Gypsum	129	6.1	53.6	84	4.3
Other	(59)	-2.8	—	(41)	-2.0
Total	2,124	100.0	9.8%	1,934	100.0

The percentage of gross variation as well as variation at constant scope and exchange rates between December 31, 2003 and 2004 were as follows:

(in million €)	2003		2003		2003		2004		2004		2003 vs 2004	
	Actual disposals (a)	Scope effect of disposals (b)	At constant scope (c) = (a)+(b)	Currency fluctuations effects (d)	On a comparable basis (e) = (c)+(d)	Actual Acquisitions (f)	Scope effect of Acquisitions (g)	On a comparable basis (h) = (f)+(g)	Gross change Actual (i) = (h)-(a)	% Change at constant scope and exchange rates (j) = (h-e)/(e)		
Cement	1,466	(11)	1,455	(49)	1,406	1,567	(12)	1,555	6.9	10.6		
Aggregates & Concrete	283	3	286	(7)	279	337	(7)	330	19.1	18.3		
Roofing	142	—	142	(1)	141	150	(1)	149	5.6	5.7		
Gypsum	84	—	84	—	84	129	(3)	126	53.6	50.0		
Other	(41)	(3)	(44)	—	(44)	(59)	+3	(56)	—	—		
Total	1,934	(11)	1,923	(57)	1,866	2,124	(20)	2,104	9.8	12.8		

Cement

Contributions to our Cement operating income on ordinary activities by geographic regions for the years ended December 31, 2004 and 2003, and the related percentage changes between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Western Europe	624	39.8	3.0	606	41.4
North America	260	16.6	5.3	247	16.8
Central & Eastern Europe	104	6.6	15.6	90	6.1
Mediterranean Basin	152	9.7	25.6	121	8.3
Latin America	144	9.2	(12.2)	164	11.2
Sub-Saharan Africa	184	11.8	36.3	135	9.2
Asia	99	6.3	(3.9)	103	7.0
Total	1,567	100.0	6.9	1,466	100.0

Operating income on ordinary activities of the Cement Division grew by 6.9% to 1,567 million euros in 2004 compared to 1,466 million euros in 2003. At constant scope of consolidation and exchange rates, operating income on ordinary activities rose by 10.6%. Currency fluctuations had a negative impact of 3.7% or 49 million euros. Changes in the scope of consolidation had almost no net impact on operating income on ordinary activities with negative scope effects, in particular the divestment of cement operations in Florida in 2003, being offset by positive scope effects, primarily the increased shareholding in Lafarge Halla in South Korea. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities remained stable at 21.2%. Overall, 2004 benefited from a favorable environment with good weather conditions, strong economics and favorable pricing trends in some of our main markets. These positive factors were however mitigated by a sharp rise in energy costs and in certain areas by additional transportation and purchase costs to absorb the surge in demand.

Operating income on ordinary activities in Western Europe increased by 3.0% to 624 million euros compared to 606 million euros in 2003. The strengthening of the British Pound versus the euro had a favorable impact of 2 million euros. Operating income on ordinary activities at constant scope of consolidation and exchange rates rose by 2.6% compared to 2003. The evolution of operating income on ordinary activities was mixed across the region. The strong construction market led to robust growth in operating income on ordinary activities in France and in Spain, despite higher energy expenses. The steady improvement in prices in Germany allowed for losses incurred in 2003 to be greatly reduced in 2004. In the United Kingdom, a soft market environment and the pressure of imports did not allow sufficient price rises to cover the increase in energy costs. In Greece, operating income on ordinary activities was down as a result of the decline in volumes following the Olympic games and the increase in energy costs.

Operating income on ordinary activities in North America grew by 5.3% to 260 million euros compared to 247 million euros in 2003. Currency fluctuations had a negative impact on operating income on ordinary activities of 12 million euros. The net scope effect including the divestment of our operations in Florida and the acquisition of the cement operations of The Concrete Company (TCC) had a negative effect of 14 million euros. At constant scope and exchange rates, operating income on ordinary activities in North America grew by 17.5%. The growth in results reflects the strong general economic conditions and sustained construction activity which led to increased volumes, allowed for higher prices albeit partially offset by additional imports, increased fuel, raw material and distribution costs. Plant fixed costs was kept flat. Several of our plants achieved record production levels for the year.

In emerging markets, operating income on ordinary activities rose by 11.4% to 683 million euros compared to 613 million euros in 2003, representing 44% of the Cement Division's operating income on ordinary activities, compared to 42% in 2003. Currency fluctuations had a negative impact on operating income on ordinary activities of 39 million euros. Changes in the scope of consolidation arising primarily from the increase in ownership of Lafarge Halla Cement in South Korea, from the acquisition of Ural Cement in Russia and from the full-year operation of the Chongqing plant in China had a positive impact of 14 million euros. Operating income on ordinary activities at constant scope and exchange rates grew by 16.3%.

In Central and Eastern Europe, operating income on ordinary activities grew by 15.6% to 104 million euros compared to 90 million euros in 2003. The negative impact of currency fluctuations on the region's operating income on ordinary activities amounted to 4 million euros. Operating income on ordinary activities at constant scope and exchange rates improved by 20.9%, with strong growth in Romania and to a lesser extent in Poland, the Czech Republic and Slovenia. Favorable market trends allowed for price increases to compensate for the increase in energy costs that could not be offset by performance improvement initiatives. In Serbia, delays to the modernization of the production line had a negative impact on operating income on ordinary activities, which was down on 2003. In Russia, despite the favorable effect of the Ural Cement acquisition, operating income on ordinary activities decreased.

Operating income on ordinary activities from the Mediterranean Basin countries increased by 25.6% to 152 million euros compared to 121 million euros in 2003. The negative impact of currency fluctuations on the region's operating income on ordinary activities amounted to 8 million euros. Operating income on ordinary activities at constant scope and exchange rates grew by 34.5% with strong growth in operating income on ordinary activities in Jordan and Turkey in well-oriented markets. In Egypt, operating income on ordinary activities increased strongly driven by higher prices. Operating income on ordinary activities in Morocco was slightly down due to margins being impacted by the need to absorb the implementation of a cement sales tax in early 2004.

The operating income on ordinary activities from Latin America declined by 12.2% from 164 million euros in 2003 to 144 million euros in 2004. The negative impact of currency fluctuations on the region's operating income on ordinary activities amounted to 11 million euros. At constant scope and exchange rates, operating income on ordinary activities was down 6.5%. In Brazil, lower volumes and the decline in prices led to a significant reduction in operating income on ordinary activities. Part of this decline was however mitigated by reductions in production costs. In Venezuela, the strong market recovery allowed for an improvement in operating income on ordinary activities. In Chile operating income on ordinary activities was largely unchanged on 2003. Weak prices in the first half of 2004 in Honduras and higher fuel costs in Mexico led to some slippage in operating income on ordinary activities compared to 2003.

Operating income on ordinary activities in Sub-Saharan Africa increased by 36.3% to 184 million euros in 2004 from 135 million euros in 2003. The negative impact of currency fluctuations on the region's operating income on ordinary activities amounted to 7 million euros. At constant scope of consolidation and exchange rates, operating income on ordinary activities grew by 41.9% with strong growth in Nigeria and South Africa. In Nigeria, where the ramp up of the new Ewekoro plant continued in 2004 we benefited from high volume growth and favorable pricing conditions which helped to pass on to customers the rise of energy costs. In South Africa, the buoyant construction market continued to drive margin growth. Operating income on ordinary activities in Kenya was at a similar level to 2003 despite the unfavorable effect of currency fluctuations. Cameroon and Uganda both increased their operating income on ordinary activities.

Operating income on ordinary activities in Asia declined by 3.9% from 103 million euros in 2003 to 99 million euros in 2004. The negative impact of currency fluctuations on the region's operating income on ordinary activities amounted to 9 million euros. The positive impact of changes in the scope of consolidation as a consequence of the increase in ownership of Lafarge Halla Cement in South Korea and of the full-year operation of the Chongqing plant in China amounted to 13 million euros. At constant scope of consolidation and exchange rates, operating income on ordinary activities declined by 7.4% as a result of the sharp fall in South Korea and Malaysia. Operating income on ordinary activities in the region was favorably impacted by a significant recovery in prices in the Philippines, which led to a strong increase in margins despite unfavorable energy costs. In India also, margin continued to improve, supported by the solid sales growth. Significant weakness was however recorded in South Korea where operating income on ordinary activities collapsed from previous levels as a result of the sharp fall in the construction market and higher energy expenses. In Malaysia also, the disappointingly weak construction market and higher energy costs led to a drop in operating income on ordinary activities. In China, operating income on ordinary activities rose as a result of good performance seen in recent acquisitions. The operating income on ordinary activities generated in Indonesia was marginally down on 2003.

Aggregates & Concrete

Contributions to our operating income on ordinary activities by activity and by main geographic regions for the years ended December 31, 2004 and 2003, and the related percentage changes between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Aggregates	225	66.8	17.8	191	67.5
Concrete	112	33.2	21.7	92	32.5
Total Aggregates & Concrete	337	100.0	19.1	283	100.0
Western Europe	156	46.3	17.3	133	47.0
North America	135	40.1	7.1	126	44.5
Other regions	46	13.6	91.7	24	8.5
Total	337	100.0	19.1	283	100.0

Operating income on ordinary activities of the Aggregates & Concrete Division increased by 19.1% between 2003 and 2004, from 283 million euros to 337 million euros. Currency fluctuations had a negative impact of 2.9% or 7 million euros. Increases in the scope of consolidation, the most significant being the operations of Hupfer Holdings in France and Switzerland and the operations of The Concrete Company in Alabama in the United States had a positive effect of 7 million euros. At constant scope of consolidation and exchange rates, operating income on ordinary activities grew by 18.3%. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities represented 7.1% in 2004, compared to 6.3% in 2003. Operating income on ordinary activities for Aggregates Division totaled 225 million euros up 17.8% from 191 million euros in 2003. Currency fluctuations had a negative impact of 7 million euros. Operating income on ordinary activities for Concrete Division totaled 112 million euros up 21.7% from 92 million euros in 2003. The Division as a whole experienced in 2004 a strong increase in its operating income on ordinary activities under the combined effect of well-oriented markets in most of our countries, more favorable weather patterns, good pricing conditions in the aggregates activities and the development of special quality products in concrete. The overall improvement was however partly mitigated by the pressure on margins in a few competitive markets in North America in the ready-mix and paving activities.

In Western Europe, operating income on ordinary activities grew by 17.3% to 156 million euros. The net positive effect of changes in the scope of consolidation arose to 8 million euros. In France, significant improvements were recorded in both concrete and aggregates activities. In the United Kingdom, operating income on ordinary activities was down. The significant decline in infrastructure spending led to a decrease in operating income on ordinary activities in both the asphalt and paving and the aggregates activities as a result of the weak level of orders received.

In North America, operating income on ordinary activities grew by 7.1% to 135 million euros. The weakening of the dollar against the euro had a negative impact of 9 million euros. Changes in the scope of consolidation had a net positive impact of 2 million euros. Although sales delivered solid growth, operating income on ordinary activities improvement was dampened by the increase in pension costs which totaled 7 million euros, higher fuel costs across all product lines and increased maintenance costs with higher plant activity. The increase in operating income on ordinary activities was driven by the aggregates activity due to strong volumes and solid pricing gains across all regions. This improvement was however partly mitigated by less favorable trends in a few markets in the ready mix and paving activities.

Elsewhere in the world, operating income on ordinary activities continued to grow reaching 46 million euros in 2004 compared to 24 million euros in 2003. In South Africa, operating income on ordinary activities continued to grow significantly driven by the strong construction market, under the combined effect of improved performance and the rand's appreciation against the euro. In Poland and Turkey the operating income on ordinary activities continued to improve.

Roofing

Contributions to our operating income on ordinary activities by main markets for the years ended December 31, 2004 and 2003, and the related percentage changes between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Western Europe	114	76.0	8.6	105	73.9
Germany	39	26.0	(11.4)	44	31.0
Other countries in Western Europe	75	50.0	23.0	61	42.9
Other regions	36	24.0	(2.7)	37	26.1
Total	150	100.0	5.6	142	100.0

The Division's operating income on ordinary activities was up 5.6% to 150 million euros from 142 million euros in 2003. Currency fluctuations had a negative impact of 1 million euros. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities represented 10.0% in 2004, compared to 9.4% in 2003. Further margin improvement was hampered by continued weakness in Germany.

Operating income on ordinary activities in Western Europe rose by 8.6% to 114 million euros. In Germany, however, the weakness in the construction market pushed volumes lower and as a consequence operating income on ordinary activities declined by 11.4% to 39 million euros. In other Western European countries operating income on ordinary activities rose strongly from 61 million euros in 2003 to 75 million euros in 2004. In France, the operating income on ordinary activities benefited from the strong sales development and lower overhead costs. In the United Kingdom, operating income on ordinary activities rose as a result of reduced costs of sales. All other countries recorded improved operating income on ordinary activities with the exception of the Netherlands where increased competition led to a sharp decline.

Outside Western Europe, operating income on ordinary activities declined slightly to 36 million euros in 2004 from 37 million euros in 2003 due to a lower operating income on ordinary activities in Malaysia in the context of the disappointing construction market. This decline was partly offset by improved results in North America. In Central Europe and Eastern Europe operating income on ordinary activities was slightly down.

Gypsum

Contributions to our operating income on ordinary activities by main geographic regions for the years ended December 31, 2004 and 2003, and the related percentage changes between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2004		% Var. 2004/2003	Year ended December 31, 2003	
	(in million €)	%		(in million €)	%
Western Europe	73	56.6	10.6	66	78.6
North America	18	13.9	—	(14)	(16.7)
Other regions	38	29.5	18.7	32	38.1
Total	129	100.0	53.6	84	100.0

Operating income on ordinary activities grew by 53.6% from 84 million in 2003 to 129 million in 2004, following the significant improvement achieved in 2003. Currency fluctuations had no impact on our operating income on ordinary activities. At constant scope, operating income on ordinary activities increased by 50%. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities increased to 9.6% in 2004, from 7.0% in 2003.

Operating income on ordinary activities in Western Europe improved by 10.6% to 73 million euros up from 66 million in 2003. In France, it grew largely as a result of favorable pricing trends and product mix. In the United Kingdom, it fell sharply due to the additional costs associated with the need to import boards from continental Europe to meet high levels of demand. In Germany, stability in the market and increased exports helped offset the effect of lower prices, however losses continued to be incurred.

In North America, the significant increase in market prices and good plant performance ensured that the operations recorded a positive operating income on ordinary activities of 18 million euros, compared to a loss

of 14 million euros in 2003. Prices recovered steadily throughout the year to levels not seen since 2000, but this favorable effect was partly offset by higher paper costs and increased energy expenses. The two high-speed plants at Silver Grove and Palatka performed well running at high levels of output.

In our other regions operating income on ordinary activities rose to 38 million euros in 2004, compared to 32 million euros in 2003. A significant turnaround was recorded in Poland, where after the loss incurred in 2003, break even operating income on ordinary activities was reached due to increased domestic prices and export volumes. Our operating income on ordinary activities in the Asia Pacific region decreased overall due to the weaker market conditions experienced in South Korea and increased competition in Thailand resulting in lower prices in these countries.

Other (including holdings)

The Operating loss on ordinary activities of our other operations rose to a negative 59 million euros in 2004 compared to a negative 41 million euros in 2003 being adversely affected by an increase in pension costs, a decline in the contribution of our properties activities, and a net unfavorable scope effect resulting primarily from the disposal of the remaining lime operations in Europe.

Operating income and net income

Operating income takes into account operating income on ordinary activities, gains (losses) on disposals and other revenues (expenses). The table below shows the evolution of our operating income and net income:

	Year ended December 31, 2004 (in million €)	% Var. 2004/2003	Year ended December 31, 2003 (in million €)
Operating income on ordinary activities	2,124	9.8	1,934
Gains (losses) on disposals, net	41	(85.3)	299
Other income (expenses), net	(210)	20.3	(177)
Operating income	1,955	(4.9)	2,056
Financial expenses, net	(517)	(9.0)	(568)
Income tax	(247)	(41.9)	(425)
Share of net income in equity affiliates	74	100.0	37
Amortization of goodwill	(133)	(1.5)	(135)
Minority interests	(264)	11.4	(237)
Net income	868	19.2	728

Gains (losses) on disposals, net represented a net gain of 41 million euros in 2004, compared to 299 million euros in 2003. The most significant capital gains were earned on the sale of the 40% stake in Carmeuse North America BV. In 2003, gain (losses) on disposals, net included the gains on the sale of certain cement assets in North America for 111 million euros and on the sale of the stake in Materis Participations for 122 million euros.

Other income (expenses), net, represented a net expense of 210 million euros in 2004, compared to a net expense of 177 million euros in 2003. In 2004, the most significant expense items arose from exceptional amortization and depreciation for 109 million euros, including an intangible asset write off of 45 million euros related to real estate development rights, from restructuring charges for 35 million euros split between Cement at 9 million euros, Aggregates & Concrete at 6 million euros, Roofing at 15 million euros and other activities at 5 million euros and from litigation expenses of 27 million euros.

Operating income decreased by 4.9% between 2003 and 2004, from 2,056 million euros to 1,955 million euros. Operating income represented 13.5% of sales in 2004, compared to 15.1% in 2003.

Financial expenses, net decreased by 9.0% between 2003 and 2004, from 568 million euros to 517 million euros. Financial expenses, net are comprised of financial expenses on net debt and other financial income and expenses including foreign exchange gains and losses. Financial expenses on net debt decreased by 12% between 2003 and 2004, from 505 million euros to 443 million euros as the result of the decrease of our net average debt. The average interest rate on our debt was 5.3% on December 31, 2004 as compared to 5.8% on December 31, 2003. Other financial income and expenses was a net loss in 2004 of 74 million euros compared to a net loss of 63 million euros in 2003. Foreign exchange losses amounted to 41 million euros in 2004 and to 75 million euros in 2003.

Income tax decreased by 41.9% between 2003 and 2004, from 425 million euros to 247 million euros. The effective tax rate for 2004 of 17.2% compared to the effective tax rate for 2003 of 28.6%. This reduction resulted principally from 193 million euros of non-recurring tax savings. These tax savings arose from tax efficient restructurings, from asset re-evaluation allowed in several countries and from the enactment of lower tax rates notably in Greece. Excluding these non-recurring tax savings, our effective tax rate would have been 30.6% in 2004.

Share of net income in equity affiliates doubled between 2003 and 2004, from 37 million euros to 74 million euros. The share of net income in equity affiliates in our Cement Division amounted to 40 million euros, of which Cementos Molins accounted for 25 million euros. The share of net income in equity affiliates in our Roofing and Gypsum Divisions amounted to 24 million euros. The share of the net income of Carmeuse North America BV, divested in December 2004, was positive in 2004 at 6 million euros and compared favorably to the share of net loss of 33 million euros recorded in 2003.

Amortization of goodwill declined by 1.5% between 2003 and 2004, from 135 million euros to 133 million euros.

Minority interests increased by 11.4% between 2003 and 2004, from 237 million euros to 264 million euros, reflecting primarily improved net results in Greece, Jordan and Nigeria.

Net income increased by 19.2% between 2003 and 2004, from 728 million euros to 868 million euros. Net income represented 6% of sales in 2004, compared to 5.3% in 2003.

Earnings per Share

Earnings per share were up 4.9% at 5.16 euros compared to 4.92 euros in 2003. The average number of shares outstanding during the year was 168.3 million (170.9 million shares at December 31, 2004), as compared to 147.9 million in 2003 (167.2 million at December 31, 2003). Between December 31, 2003 and December 31, 2004 the increase in the number of shares was essentially due to the 3.5 million shares issued to shareholders opting to reinvest dividends distributed in June 2004. The diluted earnings per share were up 4.8% at 5.00 euros compared to 4.77 euros in 2003.

Results of Operations for the Fiscal Years ended December 31, 2003 and 2002

In the discussion of our results for the years ended December 31, 2003 and 2002 that follows, the sales figures, unless noted otherwise, are consolidated sales by destination and include the contributions of our proportionately consolidated subsidiaries. The gross sales volumes figures we have provided for each Division or geographic zone are the total volumes sold by destination, including the volumes sold to our other Divisions and adjusted for the contributions of our proportionately consolidated subsidiaries.

Sales

Overview. Sales declined by 6.5% between 2002 and 2003, from 14,610 million euros to 13,658 million euros. Currency fluctuations had a significant negative impact of 9.0% reflecting in particular the strong appreciation of the euro against the majority of other currencies. Changes in the scope of consolidation had a net negative impact of 255 million euros, or 2.1%. Positive scope changes amounted to 156 million euros, while negative scope changes amounted to 411 million euros primarily reflecting the impact of divestments of certain cement operations in Spain in 2002 and Florida in 2003, as well as various aggregates & concrete activities in North America. Our sales from continuing operations at constant exchange rates grew by 4.6% after a significant recovery in North America in the second half and sustained levels of growth throughout the year in many emerging markets.

Contributions to our sales by segment for the years ended December 31, 2003 and 2002 and the percentage variation between the two periods were as follows:

Sales	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Cement	6,383	46.7	(8.1)	6,948	47.6
Aggregates & Concrete	4,465	32.7	(6.3)	4,768	32.6
Roofing	1,510	11.1	(1.8)	1,538	10.5
Gypsum	1,194	8.7	4.2	1,146	7.8
Other	106	0.8	(49.5)	210	1.4
Total	13,658	100.0	(6.5)	14,610	100.0

The percentage of gross variation as well as variation at constant, scope and exchange rates between December 31, 2003 and 2002 were as follows:

(in million €)	2002		2002		2002		2003		2003		2002 vs 2003	
	Actual	Scope effect of disposals	At constant scope	Currency fluctuations effects	On a comparable basis	Actual	Scope effect of acquisitions	On a comparable basis	% Gross change	Actual	% Change at constant scope and exchange rates	
	(a)	(b)	(c) = (a)+(b)	(d)	(e) = (c)+(d)	(f)	(g)	(h) = (f)+(g)	(i) = (f-a)/(a)	(j) = (h-e)/(e)		
Cement	6,948	(181)	6,767	(743)	6,024	6,383	(54)	6,329	(8.1)	5.1		
Aggregates & Concrete	4,768	(108)	4,660	(393)	4,267	4,465	(36)	4,429	(6.3)	3.8		
Roofing	1,538	(22)	1,516	(56)	1,460	1,510	(6)	1,504	(1.8)	3.0		
Gypsum	1,146	(5)	1,141	(77)	1,064	1,194	(61)	1,133	4.2	6.4		
Other	210	(95)	115	(18)	97	106	1	107	(49.5)	9.3		
Total	14,610	(411)	14,196	(1,287)	12,909	13,658	(156)	13,500	(6.5)	4.6		

Cement

Contributions to our sales by geographic regions for the years ended December 31, 2003 and 2002 and the percentage variation between the two periods were as follows:

Sales	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Western Europe	2,099	32.9	(7.7)	2,274	32.7
North America	1,345	21.1	(14.8)	1,579	22.7
Central & Eastern Europe	409	6.4	2.0	401	5.8
Mediterranean Basin	441	6.9	(3.1)	455	6.6
Latin America	416	6.5	(17.1)	502	7.2
Sub-Saharan Africa	766	12.0	1.3	756	10.9
Asia	907	14.2	(7.5)	981	14.1
Total	6,383	100.0	(8.1)	6,948	100.0

Sales of the Cement Division declined by 8.1% between 2002 and 2003, to 6,383 million euros, down from 6,948 million euros in 2002. This decline was in large part due to the appreciation of the euro against the majority of other currencies. Currency fluctuations had a negative impact on sales of 11.0% which amounted to 743 million euros. Overall changes in the scope of consolidation at constant exchange rates decreased sales by 2.2% representing 127 million euros. At constant scope and exchange rates, our sales grew by 5.1%.

The total volumes sold by the Division in 2003 increased by 2% to 108 million tonnes of cement.

In Western Europe sales totaled 2,099 million euros, a decrease of 7.7% compared to 2002. The divestment in 2002 of certain operations in Spain decreased sales by 115 million euros. The volumes sold in the region decreased by 7% to 30.6 million tonnes reflecting the impact of the divestment in Spain. Volumes in France were down due to contrasting regional markets, but favorable pricing trends resulted in sales being stable for the year. Volumes in the United Kingdom declined in a rather weak market. In addition imports put some pressure on volumes and prices. However the majority of the 17% decline in sales resulted from the translation impact of the appreciation of the euro against the British pound. Sales in Spain were down by 28% reflecting the divestment of the cement operations in Andalusia in 2002. The remaining operations in

Spain recorded another year of solid growth in a buoyant construction market. In Italy sales were marginally up from the previous year. Greece showed strong levels of growth in sales, up 15%, in the run up to the Olympic Games and due to a very buoyant residential housing market. In Germany, sales were negatively impacted by a severe price war throughout the year and were down by 15%. The situation finally stabilized towards year end.

In North America, we achieved sales of 1,345 million euros, a decrease by 14.8%. The strengthening of the euro versus the U.S. dollar and the Canadian dollar adversely affected the evolution of our sales in the region. In addition the negative scope effect resulting from the divestment of our cement operations in Florida in 2003 had an unfavorable impact. Our sales volumes in the region increased by 3% to 18.0 million tonnes. The construction market in the United States in 2003 was mixed. While residential construction remained robust throughout the year, activity in the non-residential sector was weak and the many individual State budget deficits impacted the level of infrastructure spending. The strong recovery in the second half compensated for the shortfall in volumes experienced in the first half beset by unfavorable weather conditions. Exceptionally strong gains in sales were recorded across the United States in the last quarter with particularly strong growth in the Great Lakes, the Mississippi River region, the West and the North East. Prices however remained under some pressure and declined for the year as a whole particularly in the Southeast, Northeast and Mississippi River districts. In Canada demand was strong for the year overall, with the Western provinces showing the most favorable trends. A solid increase in prices was achieved in Canada in the year.

In emerging markets we experienced a decline of 5.0% to 2,938 million euros, with these markets accounting for 46% of the Division's sales in 2003, compared to 45% in 2002. The drop in sales was almost entirely derived from the appreciation of the euro against the majority of local currencies.

Our sales in Central and Eastern Europe rose by 2.0% to 409 million euros, but this progression was held back by the negative impact of foreign currency fluctuations on all currencies in the region. Our sales volumes in the region increased by 11% to 9 million tonnes. Sales grew by 12% in Romania, in a context of high demand and increased prices. In Poland sales were down by 18% as a result of foreign exchange impact and as the recession in the building industry continued to affect volumes and prices. In Serbia, Russia, Slovenia and Ukraine, sales progressed favorably in spite of the negative foreign exchange impact.

In the Mediterranean Basin we saw a 3.1% decline in sales to 441 million euros. Our reported sales were adversely affected by foreign exchange fluctuation. Our sales volumes in the region increased by 4% to 9.9 million tonnes. In Morocco, the construction market was healthy throughout the year and despite a negative foreign exchange impact, sales increased by 8%. In Jordan the construction market for residential housing was very buoyant in the year and sales which were down by 5% would have risen strongly before the negative foreign exchange impact. In Egypt, market conditions and prices in local currency improved gradually in the year. However the devaluation of the Egyptian pound resulted in our sales being down by 30%. In Turkey where the market improved in the second part of the year, our sales were up at constant scope of consolidation and exchange rates.

Our sales in Latin America were down by 17.1% to 416 million euros. This primarily reflects the impact on sales in the region of the appreciation of the euro against the various regional currencies in the year. Our sales volumes in the region fell by 5% to 6.2 million tonnes of cement. Volumes were down in Brazil due to slower demand in the South and South-East, but despite the favorable impact of price increases put in place in the second half of 2002, the fall in the real led to sales being down by 13%. In the context of the political and economic turmoil and the collapse of the bolivar, sales in Venezuela fell by 41%. The operations in Chile performed well with both positive volume and price trends, but the negative foreign exchange impact led to a drop in sales of 15%. In Mexico sales were down by 9% as a result of the foreign exchange impact, otherwise sales grew strongly.

In the Sub-Saharan Africa region our sales grew by 1.3% to 766 million euros. Our sales volumes in the area increased by 10% to 11.2 million tonnes of cement. Currency fluctuations had a negative impact on sales generated in many countries in the region but with the significant exception of South Africa where the rand's strong appreciation against the euro and buoyant market conditions delivered sales growth of 49%. In Nigeria, sales grew strongly on the back of improved prices and some volume growth, but after negative currency

impacts were down by 8%. In Kenya and Uganda, sales fell by 13% in each country due to negative currency impacts, although strong domestic market conditions and prices allowed for good growth in sales in local currency. Sales in Cameroon remained stable. South East Africa, which covers Zambia, Malawi, Tanzania and Zimbabwe contributed a 3% increase in sales.

Our operations in the Asia region saw sales fall by 7.5% to 907 million euros as a consequence of negative foreign currency fluctuations. Our sales volumes in the region increased by 9% to 23.1 million tonnes. In South Korea, sales continued to show strong growth in local currency which was offset by the won's depreciation against the euro. Domestic sales volumes were strong as construction spending continued to increase and prices developed favorably over the year. In Malaysia, sales decreased by 7% primarily as a result of the devaluation of the ringgit against the euro. Volumes improved on increased domestic demand, thanks to the resolution of the foreign construction labor issue in 2002 and continued economic development. Intense competition had a negative impact on selling prices. In the Philippines sales fell by 15% in large part as a consequence of the devaluation of the peso. Sales were also adversely affected by severe price competition in the first half of the year, but improved along with volumes during the second half. In India sales dropped by 16% largely due to negative currency fluctuations. Favorable pricing trends helped to offset lower volumes on sales. China has continued to deliver a strong growth in sales of 69% benefiting from the full-year operation of the Dujiangyan plant into the Greater Chengdu market and of the acquisition of the Chongqing plant in 2003. In Indonesia, sales were down 4%, due to currency fluctuations while they progressed in local monetary units, due to positive market conditions.

Aggregates & Concrete

Contributions to our sales by activity and by main geographic regions for the years ended December 31, 2003 and 2002 and the percentage variation between the two periods were as follows:

Sales	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Aggregates	2,050	45.9	(6.6)	2,196	46.1
Concrete	2,415	54.1	(6.1)	2,572	53.9
Total Aggregates & Concrete	4,465	100.0	(6.3)	4,768	100.0
Western Europe	1,845	41.3	(0.6)	1,856	38.9
North America	2,130	47.7	(11.4)	2,405	50.5
Other regions	490	11.0	(3.4)	507	10.6
Total	4,465	100.0	(6.3)	4,768	100.0

Sales of the Aggregates & Concrete Division dropped by 6.3% to 4,465 million euros in 2003 from 4,768 million euros in 2002. This decline was primarily due to the appreciation of the euro against other currencies. At constant scope and exchange rates, our sales rose by 3.8%. Changes in the scope of consolidation decreased sales by 1.7%. In Western Europe our sales declined by 0.6% to 1,845 million euros. In North America, our sales fell by 11.4% to 2,130 million euros.

Sales of our aggregates operations, which also include our asphalt and road contracting businesses, were down by 6.6% between 2002 and 2003, to 2,050 million euros. At constant scope and exchange rates our sales from our operations rose by 2.8%. Currency fluctuations had a negative impact of 8.9% on sales. Our sales volumes of aggregates rose by 3% to 214 million tonnes in 2003.

Our aggregates sales in Western Europe were stable at 791 million euros. In France sales rose as a consequence of a number of small acquisitions in the Western and South Western regions. Excluding these acquisitions, sales were at a similar level to the previous year, but with Northern France showing a marked decline compared to a growing South-West market. Volumes were down but prices however followed a favorable trend across all regions. In the United Kingdom, sales were down by 3% as a consequence of the depreciation of British pound against the euro. Excluding this factor sales grew on the back of good pricing in aggregates and asphalt and paving operations benefiting from major road contracts. With the healthy construction market in Spain, sales continued to grow in 2003.

In North America, sales fell by 12% to 1,175 million euros. Currency fluctuations were behind this decline with an 11% negative impact on sales in euros. Sales at constant scope and exchange rates were almost flat but with contrasting markets. After a slow first half, due to poor weather conditions and slower construction activity in some markets, the second half brought stronger sales driven by a recovery in the United States. The Southern and Eastern United States showed strong sales growth by the end of the year. Eastern Canada also grew favorably, but the Western United States suffered from a declining activity in paving projects. Pricing improved with increases recorded in most markets and particularly in Canada.

Sales of our concrete operations which include ready mix concrete and our pre-cast concrete products, declined by 6.1% between 2002 and 2003, from 2,572 million euros to 2,415 million euros. At constant scope and exchange rates our sales increased by 4.7%. Currency fluctuations had a negative impact on sales of 8.0%. Our sales volumes of concrete decreased by 3% to 34 million cubic meters.

In Western Europe concrete sales dropped slightly by 1% to 1,054 million euros. In France, sales grew despite a decline in volumes, due to good pricing resulting from an increase in sales of higher value products and improved client mix. In the United Kingdom, at constant exchange rates, sales grew favorably in a number of markets and prices were sustained by sales of high value products. The favorable construction sector in Spain more than offset the impact of reduced public spending in Portugal. Sales in Greece were down mainly due to the poor weather in the first quarter. Sales in Germany decreased to 3 million euros from 21 million euros following our withdrawal and the closure of our operations in that country.

In North America, sales were down by 11% from 1,069 million euros in 2002 to 955 million euros in 2003. Currency fluctuations had a negative impact on sales of 12%. In the United States, sales suffered from weak demand in Colorado but were helped by growth in Louisiana driven by a large project work. In Canada sustained residential demand and increased project work in the energy and minerals sector led to strong levels of sales growth in local currency.

In the rest of the world, sales declined largely as a result of the negative foreign exchange impact. Sales at constant scope of consolidation and exchange rates grew strongly in Latin America, particularly in Chile. In South Africa sales grew strongly, however sales were down in Malaysia following the completion of a major project.

Roofing

Contributions to our sales by markets for the years ended December 31, 2003 and 2002 and the percentage variation between the two periods were as follows:

Sales	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Western Europe	1,138	75.4	(2.1)	1,162	75.6
Germany	439	29.1	(2.0)	448	29.1
Other countries in Western Europe	699	46.3	(2.1)	714	46.5
Other regions	372	24.6	(1.1)	376	24.4
Total	1,510	100.0	(1.8)	1,538	100.0

The Roofing Division saw sales decline by 1.8% between 2002 and 2003, from 1,538 million euros to 1,510 million euros. At constant scope and exchange rates sales rose by 3.0%. Currency fluctuations had a negative impact on sales of 3.7%.

Sales of concrete tiles were down 4% to 764 million euros, but clay tiles were up by 5% to 267 million euros. Roof System Components grew by 2% to 251 million euros. Chimney sales increased by 5% to 174 million euros.

In Western Europe sales (including chimneys) were down by 2.1% to 1,138 million euros. In Germany sales declined overall with a further drop in concrete tiles but with an increase in clay tiles. Furthermore the favorable trends in the second half of the year resulting from the acceleration of the construction of private houses, in anticipation of an abolition of subsidies for home building had a positive impact. Sales grew strongly in the United Kingdom, excluding the foreign exchange impact. In France sales were down overall

as demand for concrete tiles dropped not only due to a weaker market but also in the face of growing preference for clay tiles for which sales rose. In Italy, sales of concrete tiles and of clay tiles were well above last year, but overall sales decreased as the result of the reduction of the sales of the other activities.

In North America, sales were down by 10% as a result of the negative impact of the U.S. dollar's depreciation against the euro. Otherwise sales grew strongly in the context of the favorable residential housing market.

In other regions sales were up by 3%. Good growth was recorded in Eastern European countries overall. In Asia, the level of sales was impacted by the negative currency fluctuations, but improved in local currency terms.

Gypsum

Contributions to our sales by main geographic regions for the years ended December 31, 2003 and 2002 and the percentage variation between the two periods were as follows:

Sales	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Western Europe	657	55.0	8.8	604	52.7
North America	226	18.9	(7.8)	245	21.4
Other regions	311	26.1	4.7	297	25.9
Total	1,194	100.0	4.2	1,146	100.0

In 2003, sales of the Gypsum Division continued to recover growing by 4.2% from 1,146 million euros in 2002 to 1,194 million euros in 2003. At constant exchange rates and scope of consolidation sales grew by 6.4%. Changes in the scope of consolidation at constant exchange rates increased sales by 5.2% as a result of the acquisition in February 2003 of the plasterboard businesses of Gyproc in Germany and Poland from the British building materials company BPB. Currency fluctuations had a negative impact on sales of 7.4%. The volumes of wallboard grew by 13% to 632 million square meters with strong rises in the United Kingdom, in Germany due to the integration of Gyproc, in the United States and in Asia.

In Western Europe, sales grew by 8.8% to 657 million euros with strong sales growth in the United Kingdom reflecting a very buoyant wallboard market throughout the year. The integration of Gyproc resulted in a significant improvement in Germany despite a declining market.

In North America, sales dropped by 7.8% to 226 million euros from 245 million euros as a result of a 39 million euros negative foreign exchange impact offsetting a good recovery. Volumes sold rose as the efficiency of our plants increased and at the same time a solid recovery in prices was realized, particularly in the second half of the year. Prices reached 105 U.S. dollars per thousand square feet (1,000 square feet is roughly 93 square meters) in December, the highest level since 2000 although annual average prices were only up to 97 U.S. dollars per thousand square feet in the United States compared to 96 U.S. dollars in 2002.

In our other zones our sales in the Division rose 4.7% to 311 million euros. In Asia all markets showed sustained growth but the full impact was held back due to the negative impact of currency fluctuations. Eastern Europe grew as a result of the increase in sales in Romania where our operations were expanded. We increased our stake from 50% to 90% in Lafarge Arcom Gips in Romania.

Other

Sales of our other operations fell by 50% between 2002 and 2003, from 210 million euros to 106 million euros following further divestments made, principally being construction operations in Spain as we continue to divest and wind down these non-strategic operations.

Operating income on ordinary activities

Operating income on ordinary activities takes into account Sales, Cost of Goods Sold, Selling and Administrative Expenses and Depreciation. We do not report Cost of Goods Sold, Selling and Administrative Expenses and Depreciation by segment.

Cost of Goods Sold declined by 6.6% between 2002 and 2003, from 9,734 million euros to 9,088 million euros. Currency fluctuations and changes in the scope of consolidation decreased Cost of Goods Sold by 826 and 204 million euros, respectively. Cost of Goods Sold was adversely affected by an increase in pension cost of 28 million euros. At constant scope and exchange rates Cost of Goods Sold increased by 4.3%.

Selling and Administrative Expenses remained almost stable, amounting to 1,750 million euros in 2003 compared to 1,775 million euros in 2002. Currency fluctuations and changes in the scope of consolidation decreased Selling and Administrative Expenses by 137 and 8 million euros, respectively. At constant scope and exchange rates Selling and Administrative Expenses increased by 7.4%, adversely affected by a significant increase of pension costs in the United Kingdom and North America, which amounted to 71 million euros. At constant scope and exchange rates Selling and Administrative Expenses, excluding the pension increase effect, increased by 3.0%.

Depreciation decreased by 8.6% between 2002 and 2003, from 969 million euros to 886 million euros. Currency fluctuations and changes in the scope of consolidation decreased Depreciation by 84 and 6 million euros, respectively. At constant scope and exchange rates, Depreciation remained almost constant.

Operating income on ordinary activities declined by 9.3% between 2002 and 2003, from 2,132 million euros to 1,934 million euros. The appreciation of the euro against the majority of other currencies had a negative impact of 185 million euros. Changes in the scope of consolidation accounted for a net decrease of 46 million euros and are essentially due to the divestments of cement operations in 2002 in Spain and in 2003 in Florida. At constant scope and exchange rates, operating income on ordinary activities from our ongoing operations recorded a limited increase of 1.7%. As a percentage of our sales, operating income on ordinary activities represented 14.2% in 2003, compared to 14.6% in 2002. Excluding the effect of the 99 million euros increase in pension cost, our operating income on ordinary activities, expressed as a percentage of sales, would have been 14.9% in 2003.

Contributions to our operating income on ordinary activities by segment for the years ended December 31, 2003 and 2002, and the percentage change between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Cement	1,466	75.8	(8.7)	1,606	75.3
Aggregates & Concrete	283	14.6	(15.8)	336	15.8
Roofing	142	7.3	7.6	132	6.2
Gypsum	84	4.3	64.7	51	2.4
Others	(41)	-2.0	—	7	0.3
Total	1,934	100.0	(9.3)	2,132	100.0

The percentage of gross variation as well as variation at constant, scope and exchange rates between December 31, 2003 and 2002 were as follows:

(in million €)	2002		2002		2002		2003		2003 vs 2003	
	Actual	Scope effect of disposals (b)	At constant scope (c) = (a)+(b)	Currency fluctuations effects (d)	On a comparable basis (e) = (c)+(d)	Actual	Scope effect of acquisitions (g)	On a comparable basis (h) = (f)+(g)	% Gross change Actual (i) = (f-a)/(a)	% Change at constant scope and exchange rates (j) = (h-e)/(e)
Cement	1,606	(45)	1,561	(149)	1,412	1,466	3	1,469	(8.7)	4.0
Aggregates & Concrete	336	2	338	(27)	311	283	(1)	282	(15.8)	(9.3)
Roofing	132	(1)	131	(6)	125	142	1	143	7.6	14.4
Gypsum	51	1	52	—	52	84	(3)	81	64.7	55.8
Other	7	(3)	4	(3)	1	(41)	—	(41)	—	—
Total	2,132	(46)	2,086	(185)	1,901	1,934	—	1,934	(9.3)	1.7

Cement

Contributions to our Cement operating income on ordinary activities by geographic regions for the years ended December 31, 2003 and 2002, and the percentage change between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Western Europe	606	41.4	(7.6)	656	40.8
North America	247	16.8	(25.2)	330	20.5
Central & Eastern Europe	90	6.1	4.7	86	5.4
Mediterranean Basin	121	8.3	8.0	112	7.0
Latin America	164	11.2	(18.8)	202	12.6
Sub-Saharan Africa	135	9.2	12.5	120	7.5
Asia	103	7.0	3.0	100	6.2
Total	1,466	100.0	(8.7)	1,606	100.0

Operating income on ordinary activities of the Cement Division declined by 8.7% to 1,466 million euros in 2003 compared to 1,606 million euros in 2002. At constant scope of consolidation and exchange rates, operating income on ordinary activities rose by 4.0%. Currency fluctuations had a negative impact of 9.3% or 149 million euros. Changes in the scope of consolidation had a negative impact of 3.4% or 48 million euros. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities represented 21.2% in 2003, compared to 21.4% in 2002.

We estimate that the synergy programs launched after the acquisition of Blue Circle Industries are on target. They contributed to the improvement of our operating income on ordinary activities, but were partially offset by adverse market effects such as the price war in the Philippines and the unfavorable environment in the Northeast and Southeast regions in the United States.

Operating income on ordinary activities in Western Europe declined by 7.6% to 606 million euros compared to 656 million euros in 2002. Currency fluctuations had a negative impact of 12 million euros. The effect of changes in the scope of consolidation resulting from the divestment of the Cement operations in Andalusia in 2002 amounted to 30 million euros. Operating income on ordinary activities at constant scope of consolidation and exchange rates declined by 1% compared to 2002, primarily reflecting the impact of a highly competitive pricing environment in Germany and the weak market environment in the United Kingdom. In the United Kingdom operating income on ordinary activities was further impacted by a 7 million euros increase in pension costs. These adverse effects were partly compensated by the strong level of domestic sales in Greece, in the run up to the Olympic Games, improved margins in France and solid sales growth in Spain. Improved industrial performance throughout the region contributed positively.

Operating income on ordinary activities in North America declined by 25.2% to 247 million euros compared to 330 million euros in 2002. Currency fluctuations had a negative impact on operating income on ordinary activities of 40 million euros. The scope effect resulting from the divestment of our operations in Florida amounted to 7 million euros. At constant scope and exchange rates, operating income in North America was down by 13%. Higher volumes and higher prices in Canada were offset by an increase in pension costs of 14 million euros, weaker U.S. prices, particularly in the Southeast, Northeast and Mississippi River regions and an unfavorable inventory variation effect. Manufacturing costs improved year-on-year due to a reduction in maintenance costs, as well as to the absence of the exceptional costs incurred in 2002 for the startup of the Sugar Creek, Missouri, and Roberta, Alabama, plants, and the strike at the Bath plant in Ontario.

In emerging markets, operating income on ordinary activities declined by 1.1% to 613 million euros compared to 620 million euros in 2002, representing 42% of the Cement Division's operating income on ordinary activities, compared to 39% in 2002. Currency fluctuations and changes in the scope of consolidation had a negative impact of respectively 97 and 11 million euros. Operating income on ordinary activities at constant scope and exchange rates grew by 20%.

In Central and Eastern Europe operating income on ordinary activities grew by 4.7% to 90 million euros compared to 86 million euros in 2002. The negative impact of currency fluctuations and of changes in the scope of consolidation on the region's operating income on ordinary activities amounted, respectively, to 11

and 6 million euros. Operating income on ordinary activities at constant scope and exchange rates grew by 28%, with strong margin improvement in Romania and to a lesser extent in Russia, Serbia and Slovenia. In Poland, where we opened a new production line at the Kujawy plant in the Summer of 2003, the adverse volume and price effects were entirely offset by reductions in manufacturing costs. In the Czech Republic operating income on ordinary activities was unfavorably affected by the decline in volumes and deterioration in prices which occurred both on the domestic market and in Germany, the main export market.

Operating income on ordinary activities from the Mediterranean Basin countries increased by 8.0% to 121 million euros compared to 112 million euros in 2002. The negative impact of currency fluctuations and of changes in the scope of consolidation on the region's operating income on ordinary activities amounted, respectively, to 14 and 4 million euros. Operating income on ordinary activities at constant scope and exchange rates grew by 29% with well oriented markets in Jordan and in Morocco. In Egypt and in Turkey operating income on ordinary activities was favorably affected by a progressive improvement in prices.

The operating income on ordinary activities from Latin America declined by 18.8% from 202 million euros in 2002 to 164 million euros in 2003. The negative impact of currency fluctuations and of changes in the scope of consolidation on the region's operating income on ordinary activities amounted, respectively, to 45 and 4 million euros. At constant scope and exchange rates, operating income on ordinary activities grew by 7% with improved margins in Brazil despite slower demand. In Venezuela, the local turmoil and bolivar devaluation resulted in operating income on ordinary activities being down by 42%. In Honduras, a weak local market and unfavorable foreign exchange impact resulted in operating income on ordinary activities declining by 35%. A decline was recorded in Chile as the result of the negative foreign exchange impact. In Mexico, operating income on ordinary activities remained stable compared to 2002.

Operating income on ordinary activities in Sub-Saharan Africa region increased by 12.5% from 120 million euros in 2002 to 135 million euros in 2003. The negative impact of currency fluctuations and changes in the scope of consolidation on the region's operating income on ordinary activities amounted, respectively, to 9 and 1 million euros. At constant scope of consolidation and exchange rates, operating income on ordinary activities grew by 23% with improvements particularly noticeable in Nigeria and South Africa. In Nigeria where the new Ewekoro plant started in the second part of the year we benefited from favorable pricing conditions, but our operations were penalized by a general strike and the poor performance of the Sagamu plant. In South Africa the strengthening of the rand and increased margins have resulted in operating income on ordinary activities being up by 39%. Operating income on ordinary activities in Kenya was down primarily as a result of the negative currency fluctuation. Cameroon increased its operating income on ordinary activities.

Operating income on ordinary activities in the Asia region increased by 3.0% from 100 million euros in 2002 to 103 million euros in 2003. The negative impact of currency fluctuations on the region's operating income on ordinary activities amounted to 18 million euros. The positive impact of changes in the scope of consolidation amounted to 4 million euros. At constant scope of consolidation and exchange rates, operating income on ordinary activities increased by 21% with strong growth in Malaysia, South Korea and Indonesia. Operating income on ordinary activities benefited from the significant volume growth in Malaysia, from favorable market conditions in South Korea, improved margins in Indonesia and plant performance improvements with improved kiln reliability in Indonesia and in the Philippines in particular. The small loss incurred in Indonesia in 2002 was reversed to record an operating profit. In India, improved industrial performance had a positive effect on margins, but operating income on ordinary activities was adversely affected by higher local taxes, while the impact of the fall in volumes was entirely compensated by improved pricing. Despite plant performance improvements, operating income on ordinary activities in the Philippines was weak due to deteriorated pricing. In China operating income on ordinary activities benefited from the favorable effect of changes in the scope of consolidation with the full-year operation of the Dujiangyan plant and the acquisition in 2003 of the Chongqing plant.

Aggregates & Concrete

Contributions to our Aggregates & Concrete operating income on ordinary activities by activity and by main geographic regions for the years ended December 31, 2003 and 2002, and the percentage change between the periods were as follows:

Operating income on ordinary activities	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Aggregates and related products	191	67.5	(22.4)	246	73.2
Ready mix concrete and concrete products	92	32.5	2.2	90	26.8
Total Aggregates & Concrete	283	100.0	(15.8)	336	100.0
Western Europe	133	47.0	(10.1)	148	44.0
North America	126	44.5	(29.2)	178	53.0
Other regions	24	8.5	140.0	10	3.0
Total	283	100.0	(15.8)	336	100.0

Operating income on ordinary activities of the Aggregates & Concrete Division declined by 15.8% between 2002 and 2003, from 336 million euros to 283 million euros. Currency fluctuations had a negative impact of 7% or 27 million euros. The net effect of changes in the scope of consolidation, primarily resulting from divestments in North America and from the withdrawal from Germany, amounted to 3 million euros. At constant scope of consolidation and exchange rates, operating income on ordinary activities declined by 9%. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities represented 6.3% in 2003, compared to 7.0% in 2002. Operating income on ordinary activities for aggregates totaled 191 million euros down 22.4% from 246 million euros in 2002. Currency fluctuations had a negative impact of 8% being 23 million euros. Operating income on ordinary activities for Concrete totaled 92 million euros up 2.2% from 90 million euros in 2002. Currency fluctuations had a negative impact of 4 million euros.

In Western Europe, operating income on ordinary activities dropped by 10.1% to 133 million euros with the decline occurring essentially in France where operating income on ordinary activities was impacted by the weaker market and an increase in production costs. In the United Kingdom operating income on ordinary activities was down as a result of the negative currency fluctuation; otherwise operating income on ordinary activities grew as operating margins improved in the concrete activities.

In North America, operating income on ordinary activities was down by 29.2% to 126 million euros. The impact on operating income on ordinary activities of the weakening of the dollar against the euro amounted to 24 million euros or 11%. The net effect of changes in the scope of consolidation on operating income on ordinary activities was 2 million euros. The increase in pension costs which totaled 15 million euros contributed to the decline in operating income on ordinary activities. The remainder of the decline in operating income on ordinary activities resulted in particular from weak business conditions during the first half of the year as well as the exit cost of our highway paving business in New Mexico. All regions, with the exception of the Western United States, saw a significant improvement in the last quarter.

Elsewhere in the world, operating income on ordinary activities continued to improve to 24 million euros in 2003 compared to 10 million euros in 2002. In South Africa, operating income continued to grow strongly under the combined effect of improved performance and of the rand's appreciation against the euro. In Turkey, the operating loss was reduced, with margins favorably affected by the continued improvements in performance.

Roofing

Contributions to our operating income on ordinary activities in our Roofing Division by main markets for the years ended December 31, 2003 and 2002, and the percentage change between the periods were as follows:

	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Operating income on ordinary activities	105	73.9	1.9	103	78.0
Western Europe	105	73.9	1.9	103	78.0
Germany	44	31.0	33.3	33	25.0
Other countries in Western Europe	61	42.9	(12.9)	70	53.0
Other regions	37	26.1	27.6	29	22.0
Total	142	100.0	7.6	132	100.0

The Division's operating income on ordinary activities was up 7.6% to 142 million euros from 132 million euros in 2002 as a result of the cost management efforts and extensive restructuring carried out across the operations, particularly in Germany. Currency fluctuations had a negative impact of 6 million euros. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities represented 9.4% in 2003, compared to 8.6% in 2002.

Operating income on ordinary activities in Western Europe rose by 1.9% to 105 million euros. In Germany, following the extensive restructuring, operating income on ordinary activities increased by 33.3% from 33 million euros to 44 million euros despite a persistent weak market. In other Western European countries operating income on ordinary activities declined from 70 million euros in 2002 to 61 million euros in 2003. In the United Kingdom operating income on ordinary activities benefited from strong sales development. However this was more than offset by the impact of unfavorable market trends in France and in the Netherlands. In addition, higher pressure on prices in Austria and Benelux hampered improvements in margins.

Outside Western Europe, operating income on ordinary activities increased to 37 million euros in 2003 from 29 million euros in 2002. Major contributors were Central and Eastern Europe, and in particular the Czech Republic, and North America.

Gypsum

Contributions to our Gypsum operating income on ordinary activities by main geographic regions for the years ended December 31, 2003 and 2002, and the percentage change between the periods were as follows:

	Year ended December 31, 2003		% Var. 2003/2002	Year ended December 31, 2002	
	(in million €)	%		(in million €)	%
Operating income on ordinary activities	66	78.6	11.9	59	115.7
Western Europe	66	78.6	11.9	59	115.7
North America	(14)	(16.7)	N/A	(28)	(54.9)
Other regions	32	38.1	60.0	20	39.2
Total	84	100.0	64.7	51	100.0

Operating income on ordinary activities grew by 64.7% from 51 million in 2002 to 84 million in 2003. This remarkable growth follows the significant improvement achieved in 2002, after the very difficult year in 2001. Currency fluctuations had no impact on our operating income on ordinary activity. The positive scope effect resulting from the acquisition of Gyproc in Germany amounted to 3 million euros. At constant scope, operating income on ordinary activities increased by 56%. This was primarily due to the reduction of losses in North America, helped by better pricing and a better operational performance from our factories. As a percentage of the Division's gross sales (see Note 3(a) to our consolidated financial statements), operating income on ordinary activities represented 7.0% in 2003, compared to 4.4% in 2002.

Operating income on ordinary activities in Western Europe improved by 11.9% to 66 million euros up from 59 million in 2002. At constant scope of consolidation and exchange rates, operating income on ordinary activities increased by 7%. Benefiting from better volumes and improved industrial performance, operating income on ordinary activities in France improved despite an increase in energy costs, while, in the United Kingdom, operating income on ordinary activities recorded a noticeable increase due to the buoyant

market and a better performance. In Germany, we benefited from the action plan launched in 2002 together with the acquisition of Gyproc. Operating losses were reduced despite difficult market conditions.

In North America, a combination of manufacturing performance improvements, the closure of the Wilmington plant and price increases reduced the operating loss in 2003 to 14 million euros, compared to a loss of 28 million euros in 2002. With improved plant performance we were able to supply the increased demand for wallboard, despite having ceased operations at the Wilmington plant. Prices recovered by the end of the year to levels not seen since 2000, but this favorable effect was partly offset by higher natural gas prices and fuel costs. The two high speed plants at Silver Grove and Palatka performed well, allowing a significant decrease in operating costs.

In our other regions operating income on ordinary activities rose to 32 million euros in 2003, compared to 20 million euros in 2002. Most of this improvement was attributable to Poland, which benefited from the combined effects of increased volumes following the Gyproc acquisition, the recovery of prices and lower selling and administrative expenses. After a few months of ramp-up and after the closure of the old Gacki plant, the new Gacki plant performed well. Our operating income on ordinary activities in the Asia Pacific region increased slightly with increased volumes and improved profitability in most countries offset by currency fluctuations.

Other (including holdings)

Operating income on ordinary activities of our other operations decreased by 48 million euros between 2002 and 2003, from a profit of 7 million euros to a loss of 41 million euros. In the United Kingdom our holdings were adversely affected by an increase in pension costs of 62 million euros.

Operating income and net income

Operating income takes into account operating income on ordinary activities, gains (losses) on disposals and other revenues (expenses). The table below shows the evolution of our operating income and net income:

	Year ended December 31, 2003 (in million €)	% Var. 2003/2002	Year ended December 31, 2002 (in million €)
Operating income on ordinary activities	1,934	(9.3)	2,132
Gains on disposals, net	299	38.4	216
Other income (expenses), net	(177)	—	(525)
Operating income	2,056	12.8	1,823
Financial expenses, net	(568)	9.0	(521)
Income tax	(425)	(5.1)	(448)
Share of net income in equity affiliates	37	12.1	33
Amortization of goodwill	(135)	(14.6)	(158)
Minority interests	(237)	(13.2)	(273)
Net income	728	59.6	456

Gains on disposals, net represented a net gain of 299 million euros in 2003, compared to 216 million euros in 2002. The most significant capital gains were earned on the sale of certain cement assets in North America which generated capital gains of 111 million euros and the sale of our stake in Materis Participations which generated capital gains of 122 million euros.

Other income (expenses), net, represented a net loss of 177 million euros in 2003, compared to a net loss of 525 million euros in 2002. The most significant expense items were the costs relating to exceptional amortization of 35 million euros and to restructuring charges of 65 million euros split between Roofing at 29 million euros, Cement at 24 million euros, Aggregates & Concrete at 11 million euros and Gypsum at 1 million euros. In 2002, Other income (expenses), net included a provision of 300 million euros recorded to cover the risks related to the European Commission decision against our Gypsum activities in Europe, and in anticipation of the German competition authority's (*Bundeskartellamt*) decision to fine our subsidiary Lafarge Zement for its Cement activities in Germany, both of which Lafarge has appealed against.

Operating income increased by 12.8% between 2002 and 2003, from 1,823 million euros to 2,056 million euros. Operating income represented 15.1% of sales in 2003, compared to 12.5% in 2002.

Financial expenses, net increased by 9.0% between 2002 and 2003, from 521 million euros to 568 million euros. Financial expenses, net is comprised of financial expenses on net debt and other financial income and expenses including in particular foreign exchange gains and losses. Financial expenses on net debt decreased by 12% between 2002 and 2003, from 577 million euros to 505 million euros as the result of the significant decrease of our net debt. The average interest rate on our debt was 5.8% on December 31, 2003 as compared to 5.2% on December 31, 2002. Other financial income and expenses was a net loss in 2003 of 63 million euros compared to a net gain of 56 million euros in 2002. In 2003, we were adversely affected by a 75 million euros foreign exchange loss, while in 2002, we benefited from a foreign exchange gain of 66 million euros.

Income tax decreased by 5.1% between 2002 and 2003, from 448 million euros to 425 million euros. The effective tax rate for 2003 of 28.6% decreased by 5.8 points compared to the effective tax rate for 2002 of 34.4%. This is mainly due to the exceptional provision of 300 million euros that was recorded in 2002 (in connection with the competition law issues discussed above) and which is not tax deductible. Our world wide tax agreement with the French Tax Authorities, which had been renewed for three years in 2001, expired on December 31, 2003. We decided not to renew this agreement beyond December 31, 2003 (see Note 8 to our consolidated financial statements).

Share of net income in equity affiliates grew by 12.1% between 2002 and 2003, from 33 million euros to 37 million euros. The share of net income in equity affiliates in our Cement Division amounted to 42 million euros, of which Cementos Molins accounted for 27 million euros. The share of net income in equity affiliates in our Roofing and Gypsum Divisions amounted to 20 million euros. The share of the net loss of Carmeuse North America amounted to 33 million euros.

Amortization of goodwill declined by 14.6% between 2002 and 2003, from 158 million euros to 135 million euros. This decrease primarily reflects the impact of currency fluctuations.

Minority interests decreased by 13.2% between 2002 and 2003, from 273 million euros to 237 million euros, reflecting primarily the negative impact of currency fluctuations on our reported results.

Net income increased by 59.6% between 2002 and 2003, from 456 million euros to 728 million euros, reflecting primarily the impact of the 2002 exceptional provision of 300 million euros. Net income represented 5.3% of sales in 2003, compared to 3.1% in 2002.

Earnings per Share

Earnings per share were up 39.8% at 4.92 euros compared to 3.52 euros in 2002. The average number of share outstanding during the year was 147.9 million, as compared to 129.6 million in 2002.

Liquidity and Capital Resources

During the three-year period ended December 31, 2004, our main sources of liquidity have been:

- Cash provided by operating activities;
- Cash provided by the divestment of non strategic assets; and
- Cash provided by the issuance of debt and the increase of the amount of our share capital.

These funds have been mainly used to finance a significant investment program (capital expenditures and acquisitions) and to reduce further the level of our net debt.

Components of our cash flows are set forth below:

	Year ended December 31,		
	2004	2003	2002
	(in million €)		
Net cash provided by operating activities	1,736	2,089	1,791
Net cash used in investing activities	(893)	(673)	(774)
Net cash (used in) provided by financing activities	(793)	(866)	(926)
Net increase (decrease) in cash and cash equivalents	50	550	91

We believe, based on our current financial projections, that we have sufficient resources for our ongoing operations in both the near term and the long term.

Net cash provided by operating activities

Net cash provided by operating activities decreased by 353 million euros in 2004 to 1,736 million euros. This compares to 2,089 million euros in 2003 and 1,791 million euros in 2002. The decrease arose from additional working capital requirements of 377 million euros between December 31, 2003 and December 31, 2004, as opposed to a reduction of working capital requirements of 290 million euros between December 31, 2002 and December 31, 2003. Between December 31, 2003 and December 31, 2004, the increase in working capital needs was primarily due to the absence of any securization activity at year-end 2004 in North America and to a net increase of other receivables over other payables related to the payment of acquisitions and divestitures. Excluding working capital variations, net cash provided by operating activities rose strongly by 17.5%.

Net cash used in investing activities

Funds used in investing activities amounted to 893 million euros in 2004 (compared to 673 million euros and 774 million euros in 2003 and 2002, respectively). Investing activities is comprised of investment in consolidated companies, investment in non-consolidated companies, disposals, capital expenditures and the net variation in long-term receivables.

In 2004, investment in consolidated companies amounted to 309 million euros, including cash acquired. The most significant acquisitions included (amounts are converted using the average yearly exchange rates):

- The acquisition for 57 million euros of an additional 10.2% stake in Lafarge Halla Cement, in South Korea. Cash acquired amounted to 41 million euros and debt acquired amounted to 54 million euros;
- The acquisition of the cement and concrete operations of The Concrete Company of Columbus, Georgia, United States for 87 million euros;
- The acquisition of Hupfer Holdings for 69 million euros with operations in France and Switzerland in aggregates activities;
- 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.

Investment in non-consolidated companies includes investments accounted for using the cost method. In 2004, these investments amounted to 111 million euros and included the acquisition on December 29, 2004 of Cementos Selva Alegre for 98 million euros (Ecuador) which will be consolidated starting January 1st, 2005.

Our disposals in 2004 amounted to 574 million euros. The most significant disposals included:

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

Capital expenditures totaled 1,133 million euros in 2004, compared to 864 million euros in 2003 and 1,149 million euros in 2002. Of these capital expenditures 56% were in the Cement Division, 25% were in the Aggregates & Concrete Division, 11% were in the Roofing Division, 4% were in the Gypsum Division and 4% were for holdings and other activities.

Our capital expenditures for the ongoing upgrading and modernization of our existing facilities totaled 783 million euros in 2004, compared to 536 million euros in 2003 and 704 million euros in 2002. In 2004, 51% of these capital expenditures were in the Cement Division, 28% were for Aggregates & Concrete, 10% were for Roofing, 5% were for Gypsum, with the rest for holding companies and other activities.

In 2004, we also invested 350 million euros in capital expenditures for additional production capacity, including major projects such as:

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

Long-term receivables, which include, in particular, prepaid pension assets, subordinated deposits for our securitization agreements and loans to our equity affiliates and to companies consolidated proportionately decreased by 86 million euros.

Net cash (used in) provided by financing activities

Net cash used in financing activities (in particular debt reimbursement) amounted to 793 million euros in 2004 (compared to cash used in financing activities of respectively 866 million euros and 926 million euros in 2003 and 2002).

We emphasize diversification of funding sources. In general, we meet our long-term financing needs through bond issuances and the use of long-term instruments such as our Euro Medium-Term Note program and bank loans. We currently have a Euro Medium-Term Notes program with a maximum available amount of 7,000 million euros, with approximately 2,790 million euros of debt outstanding at December 31, 2004. In addition, we issued the following debt securities in 2004, 2003, 2002:

- On July 16, 2004, 612 million euros of bonds in partial exchange for outstanding bonds with 2008 maturity. The new bonds bear a fixed interest rate of 5% with a 10-year maturity;
- On December 4, 2003, 500 million euros in partial exchange for existing bonds with maturities ranging from 2005 to 2007. The new bonds bear a fixed interest rate of 5.448% with a 10-year maturity;
- On November 29, 2002, 200 million in British pound bonds bearing a fixed interest rate of 6.625% with a 15-year maturity.

In 2004, two bond issues totaling 652 million euros were reimbursed at maturity (respectively 152 million euros in April 2004 and 500 million euros in July 2004).

Short-term needs are mainly met through the issuance of domestic commercial paper as well as the use of credit lines. We currently have two commercial paper programs:

- A euro denominated Commercial Paper program, with a maximum available amount of 3,000 million euros. At the end of 2004, 494 million euros of commercial paper were outstanding under this program;
- A U.S. dollar denominated Commercial Paper program, set up by our subsidiary Lafarge North America Inc., for a maximum amount of 300 million dollars (220 million euros). At year end 2004, there were 90 million dollars (66 million euros) of commercial paper outstanding under this program.

We also maintain committed long-and-medium-term credit lines with various banks at the parent and subsidiary level to ensure the availability of funding on an as-needed basis. At December 31, 2004, these committed credit lines on a consolidated basis amounted to 3,802 million euros (compared to approximately 3,400 million euros and 4,000 million euros, respectively, at December 31, 2003 and 2002). Of this amount, 3,682 million euros were available at December 31, 2004 (compared to approximately 3,380 million and 3,800 million respectively, at December 31, 2003 and 2002). The average maturity of these credit facilities was approximately 3.5 years at the end of 2004 versus 3.6 years at the end of 2003. The stabilization in the maturity of our credit facilities reflects the signing during 2004 of a 1,850 million euro syndicated credit facility with a 5-year maturity.

We have also increased our equity over the last three years. In July 2003 we raised 1,305 million euros (1,262 million euros net of issuance expenses), through the issuance of 31,831,528 new shares at a price of 41 euros a share in a 4 for 17 underwritten rights offering to our shareholders. In 2002, 2003 and 2004, we also raised a total of 460 million euros, through the issuance of 7,275,010 shares, as a result of the exercise by shareholders of their option to reinvest their dividends in shares.

Because we use external sources to finance a significant portion of our capital requirements, our access to global sources of financing is important. The cost and availability of unsecured financing are generally dependent on our short term and long-term credit rating. Factors that are significant in the determination of our credit ratings or that otherwise could affect our ability to raise short-term and long-term financing include: our level and volatility of earnings, our relative positions in the markets in which we operate, our global and product diversification, our risk management policies, and our financial ratios such as net debt to total equity and cash flow from operations to net debt. We expect credit rating agencies will focus, in particular, on our ability to generate sufficient operating cash flows to provide for the repayment and possibly for future reductions in our debt. A deterioration in any of the previously mentioned factors or combination of these factors may lead rating agencies to downgrade our credit ratings, thereby increasing our costs in obtaining unsecured financing. See “Item 3. Risk Factors”. Conversely, an improvement of these factors may lead rating agencies to upgrade our credit ratings.

As of the date of filing of this report, the credit ratings for our short and long-term debt were as follows:

	<u>Short-term</u>	<u>Long-term</u>
Standard & Poor’s	A-2	BBB (stable)
Moody’s	NR	Baa2 (stable)

Level of debt at December 31, 2004 and related covenants

Our senior management establishes our overall funding policies. The intent of these policies is to ensure our capability to meet our obligations by maintaining a strong financial structure. This policy takes into consideration, our expectations on the required level of leverage, coverage ratios, the average maturity of debt, and the acceptable sensitivity of our results to interest rate fluctuations. These targets are monitored on a regular basis. As a consequence of this policy a significant portion of our debt is issued on a long-term basis. Most of this debt has been raised at fixed rates or has been converted into fixed rates using interest rate derivatives. We constantly maintain a significant amount of unused long-term committed credit lines.

We are subject to limited foreign exchange risks as a result of our subsidiaries’ transactions in currencies other than their operating currencies. Our general policy is for subsidiaries to borrow and invest excess cash in the same currency as their functional currency. We, however, promote the investment of excess cash

balances in U.S. dollars or euros in emerging markets. Typically, a portion of our subsidiaries' debt funding is borrowed in euros at the parent company level then converted into foreign currencies through currency swaps.

At December 31, 2004, our total debt amounted to 8,152 million euros (compared to 8,695 million euros and to 11,325 million euros respectively, in 2003 and 2002). At the end of 2004, we reclassified 600 million euros of short-term debt (89 million euros and 1,664 million euros respectively at the end of 2003 and 2002) into long-term debt, on the basis of our ability to refinance this obligation using the available funding provided by medium and long-term committed credit lines. Long-term debt (excluding current portion) totaled 6,948 million euros compared with 7,370 million euros and 10,271 million euros respectively, at year-end 2003 and year-end 2002. Approximately 35% of the 2004 long-term debt (excluding current portion) will mature after 2009. Long-term debt largely comprises fixed rate debt (after taking into account interest rate swaps). Most of this debt is denominated in euros, partially converted into foreign currencies through currency swaps (see "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and Notes 23 and 24 to our consolidated financial statements for further discussion of our financial debt).

Our net financial debt totaled 6,499 million euros at December 31, 2004 (7,061 million euros and 10,216 million euros at December 31, 2003 and 2002 respectively). Our cash and cash equivalents amounted to 1,653 million euros at year-end and are mainly denominated in euros, U.S. dollars and Canadian dollars. At December 31, 2004, the average interest rate on our debt was 5.3% compared to 5.8% and 5.2% at December 31, 2003 and 2002, respectively.

Our net-debt-to-equity ratio stood at 59% at December 31, 2004 (compared to 67% and 110% at December 31, 2003 and 2002 respectively). Our cash flow from operations to net debt ratio increased from 25.5% at December 31, 2003 to 32.5% at December 31, 2004. For a reconciliation of our net debt, see "Item 5. Reconciliation of non-GAAP Financial Measures Utilized — Net Debt — Total Equity and Cashflow from Operations".

At December 31, 2004, our short-term debt (including the current portion of long-term debt) amounted to 1,204 million euros. We are subject to fluctuation of our short-term debt due to the significant seasonality of our operations. We usually experience a slowdown in building activity during winter season in our principal markets in Western Europe and North America, while working capital requirements tend to increase during the first semester.

Some of our loan agreements contain restrictions on the ability of subsidiaries to transfer funds to the parent company in certain specific situations. The nature of these restrictions can be either regulatory, when the transfers of funds are subject to approval of local authorities, or contractual, when the loan agreements include restrictive provisions such as negative covenants on the payment of dividends. However, we do not believe that any of these covenants or restrictions will have any material impact on our ability to meet our obligations. See "Item 3. Risk Factors."

As at December 31, 2004, certain of our subsidiaries had financing contracts with provisions requiring on-going compliance with financial covenants. These subsidiaries are located in Brazil, Great Britain, India, Malaysia, Philippines, United States, Vietnam and South Africa, and the debt associated with such covenants represented approximately 6% of the Group's total debt. Given the dispersal of these contracts among various subsidiaries and the quality of the Group's liquidity protection through its access to committed credit facilities, we believe that such covenants do not have a material impact on the Group financial situation. See Note 23 (e) to our consolidated financial statements.

Cash surpluses

We do not operate a full worldwide centralized cash management program, and each unit within the Group manages its own cash surpluses in accordance with policies set by senior management, including a provision to maximize cash recycling within the Group. In order to ensure that cash surpluses are used efficiently we have adopted in a number of cases cash pooling structures on a country-by-country basis. Moreover, with the introduction of the euro, we have established a centralized cash management process for most of the euro-zone countries.

As a general policy, cash surpluses are to be invested in liquid short-term instruments with at least two-thirds of any cash surplus being invested in instruments with a maturity of less than 3 months.

Effect of currency fluctuations on our results and balance sheet

We publish our consolidated financial statements in euros. In 2004, approximately 30% of our sales were realized in euro-zone countries. The principal portion of our assets, liabilities, sales and earnings are denominated in currencies other than the euro, particularly the U.S. dollar and U.S. dollar-influenced currencies, such as certain South American and Asian currencies as well as the British pound. As a result, we are exposed to fluctuations in the values of such currencies against the euro, with respect to the translation into euros of amounts to be reflected in our consolidated financial statements. See “Item 11. Quantitative And Qualitative Disclosures About Market Risk — Foreign Currency Risk”.

Disclosure about contractual and contingent commitments including tabular disclosure

The following table sets forth an estimate of our exposure to significant contractual obligations with respect to repayment of debt, payments under capital lease obligations and operating leases, exercisable purchase obligations held by third party shareholders and other purchase obligations and payments under other commitments.

	Payment due per period			At December 31,		
	Less than 1 year	1-5 years	More than 5 years	2004	2003	2002
	(in million €)					
Debt (1)	1,204	4,492	2,456	8,152	8,695	11,325
<i>Of which Capital lease obligations</i>	5	10	19	34	32	14
Operating leases	145	335	244	724	723	735
Capital expenditures and other purchase obligations	491	296	191	978	782	613
Other commitments	75	114	30	219	92	138
TOTAL	1,915	5,237	2,921	10,073	10,292	12,811

(1) Excludes accrued interest and includes convertible debt. See Note 23(a) to our consolidated financial statements.

We expect to have the ability to refinance our debt obligations as they fall due. Our short-term debt commitments due in 2005 amounted to 1,204 million euros at December 31, 2004 (including the current portion of long-term debt).

Capital expenditures and other purchase commitments amounted to 978 million euros at December 31, 2004 (compared to 782 million euros and 613 million euros at December 31, 2003 and 2002 respectively). For more information about expected capital expenditures, please see the subsections entitled “Capital Expenditures” in the description of each of our Divisions in “Item 4. Information on Lafarge”.

As part of the acquisition process of certain entities, we have granted third party shareholders the option to require us to purchase their shares at a predetermined price, according to fair market value. These shareholders are either international institutions, such as the European Bank for Reconstruction and Development, or private investors, which are essentially financial or industrial investors or the former shareholders of the relevant companies. In the event these shareholders exercise these options, our percentage ownership interest in the relevant company would increase. Assuming that all of these options were exercised, the purchase price to be paid by the Group, including net debt acquired, would amount to 328 million euros as of December 31, 2004. Based upon the terms of these agreements, a portion of the total amount could be exercised in 2005 and 2006 for 215 million euros and 39 million euros, respectively. The residual 74 million euros can be exercised commencing in 2007.

Subsequent to the 2004 closing of our financial statements, we purchased minority interests held by State of Wisconsin Investment Board (“SWIB”) in our cement activities in South Korea, India and Japan, in accordance with the partnership agreements concluded five years ago. The transaction worth \$141million (104 million euros) included a 20.3% stake in Lafarge Halla Cement in South Korea, taking our total stake to 71.5%, a 23.6% stake in Lafarge India Private Ltd, taking our total stake to 94.4% and a 43% stake in

Lafarge Japan Holdings, taking our total stake to 100%. Lafarge Japan Holdings owns 39.4% of Lafarge Aso Cement Ltd. After taking this acquisition into consideration and assuming that all of the options were exercised, the purchase price to be paid by the company, including net debt acquired, would amount to 224 million euros of which 111 million euros would be payable pursuant to options exercisable in 2005.

We do not expect all of these options to be exercised as soon as they become exercisable. Some of these options have expiry dates. It is likely that those options will be exercised by such dates.

At December 31, 2004, we had outstanding collateral and other guarantees amounting to 659 million euros, comprised of 5 million euros of pledged assets and other assets, 446 million euros of mortgages over property and 208 million euros of other guarantees provided.

Finally, the Group has granted indemnification commitments in relation to disposals of assets. Its exposure under these commitments is considered remote. The total amount of capped indemnification commitments still in force at December 31, 2004 was 369 million euros.

Off Balance sheet arrangements

We have no commitments or contingent liabilities which meet the definition of off-balance sheet arrangements under Item 5 of Form 20-F.

Derivative instruments

Our policy is in general to use derivative instruments to hedge against our exposure to exchange rates, interest rates, and from time to time commodity risks. With the prior authorization of our senior management, we have occasionally entered into agreements to reduce our or another party's exposure to equity risk.

We have defined strict policies and procedures to measure, manage and monitor our market risk exposures. Our policies do not permit any speculative market position. We have instituted management rules based on a segregation of operations, financial and administrative control and risk measurement. We have also instituted, for all operations managed at corporate level, an integrated system that permits real time monitoring of hedging strategies. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk", and Note 24 of our consolidated financial statements.

Discussion of differences in Operating income under French GAAP and U.S. GAAP

We prepare our financial statements in accordance with French GAAP, which differs in certain significant respects from U.S. GAAP, as discussed in Note 30 to Note 33 to the consolidated financial statements. The individual differences discussed in Notes 30 and 31 describe the main adjustments to the French GAAP consolidated financial statements.

Reclassification between French GAAP and U.S. GAAP of fully consolidated and proportionately consolidated entities

We account for various entities as either proportionately consolidated or fully consolidated for purposes of French GAAP and as equity method investees for U.S. GAAP. The statement of income and balance sheet effects of these and other U.S. GAAP reclassifications and adjustments are included in the condensed U.S. GAAP financial statements presented in Note 31 to the consolidated financial statements.

If the above noted entities were accounted for under the equity method in our French GAAP financial statements, we would have reported revenues of 13,371 million euros (1,065 million euros less than under French GAAP) for the year ended December 31, 2004, 12,468 million euros (1,190 million euros less than under French GAAP) for the year ended December 31, 2003 and 13,406 million euros (1,204 million euros less than under French GAAP) for the year ended December 31, 2002.

Our operating income after reflecting our proportionately consolidated and fully consolidated entities as equity method investees would have been 1,784 million euros (171 million euros less than under French GAAP), 1,835 million euros (221 million euros less than under French GAAP) and 1,624 million euros (199 million euros less than under French GAAP) for the years ended December 31, 2004, 2003 and 2002, respectively.

Adjustments on operating income related to differences in accounting principles between French GAAP and U.S. GAAP

The variation between French and U.S. GAAP operating income, apart from the effect of the proportionately consolidated and fully consolidated entities discussed above was primarily due to the following items:

Adjustments related to differences in accounting for business combinations under French GAAP and U.S. GAAP

We present the impact of negative goodwill amortization as non-operating in French GAAP, whereas under U.S. GAAP, negative goodwill is offset against long-lived assets, which in turn impacts depreciation expense recorded as operating expense. The impact of this adjustment is an increase in operating income of 20 million euros, 20 million euros and 23 million euros, for the years ended December 31, 2004, 2003 and 2002 respectively.

Adjustments resulting from accounting for stock based compensation and employee stock plans under U.S. GAAP

We do not record compensation expense under French GAAP for our employee stock compensation plans. Under U.S. GAAP we record the change in intrinsic value for the period as compensation expense or recovery of prior period expense. Besides, under French GAAP, no compensation expense is recorded for the discount offered on shares to employees, related to the plan "Lafarge in Action". Under U.S. GAAP, such discount must be recorded as compensation expense pursuant to APB 25 with a corresponding increase in additional paid-in capital. The effect upon operating income under U.S. GAAP was a decrease of 2 million euros, a decrease of 2 million euros and an increase of 35 million euros, for the years ended December 31, 2004, 2003 and 2002 respectively.

Adjustments related to differences in accounting for restructuring provisions under French GAAP and U.S. GAAP

Differences between French and U.S. GAAP with respect to accounting for restructuring provisions results in a decrease to French GAAP operating income of 4 million euros, 7 million euros and 87 million euros, for the years ended December 31, 2004, 2003 and 2002 respectively.

Adjustments related to differences in accounting for derivative instruments under French GAAP and U.S. GAAP

French GAAP does not require the recognition of the fair value of derivatives instruments in the financial statements. Under U.S. GAAP, derivative instruments are marked to market. As a result of the application of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", we recorded as an increase of the operating income 12 million euros and 17 million euros, for the years ended December 31, 2004 and 2003 respectively, which relate to the fair value of embedded derivatives on forward purchase contracts for electricity.

Other adjustments between French GAAP and U.S. GAAP

The net impact on operating income of other adjustments is an increase of 1 million euros, a decrease of 9 million euros and a decrease of 15 million euros, for the years ended December 31, 2004, 2003 and 2002 respectively.

Summary

Our operating income under U.S. GAAP taking into consideration the above effects, totaled 1,811 million euros (144 million euros lower than under French GAAP), 1,854 million euros (202 million euros lower than under French GAAP), 1,580 million euros (243 million euros lower than under French GAAP), for the years ended December 31, 2004, 2003 and 2002, respectively.

Forward Looking Discussion of Available Trend Information

We are confident that most of our markets should continue to show favorable trends, in both volumes and pricing, in 2005.

In Cement, we are confident that these favorable trends will continue in most of our markets in 2005, with clearly once again the benefit of our well-spread and well-balanced geographical portfolio being key to sustained organic growth. We expect in Western Europe markets to remain broadly stable, with the exception of post Olympic Greece and Germany where the construction market looks like it is entering a further year of weakness. However, we believe that cement prices should continue to improve progressively in Germany. Elsewhere pricing conditions should remain favorable across the region with price increases being implemented in most countries during the first quarter. With regard to North America, the level of demand in 2004 was high and weather conditions favorable and following a strong year-end, we expect a continuation of solid demand and positive pricing trends. Around the rest of the world we expect the good levels of growth to continue in 2005. The only countries of concern will continue to be Brazil where the difficult competitive environment will bring further pressure on prices, and South Korea where difficult market conditions should remain in 2005.

For Aggregates and Concrete, we expect to see further growth overall in 2005, with good pricing trends continuing in most of our markets.

In Roofing, many markets with the exception of Germany are expected to show favorable market trends, with further growth in the share of roofing components.

In Gypsum, 2005 should bring another year of sustained growth and well oriented prices overall.

As far as costs are concerned, after the record increases of 2004, we expect our energy and ocean freight costs to increase again in 2005. Both solid fuel and ocean freight markets should remain strong in 2005 as the consequence of the Chinese economic boom. Diesel and gas oil 2005 prices should also stay at high level. As in previous years, risk management policies and performance programs should help to mitigate the impact of these increases.

With respect to income taxes, our majority owned subsidiary Lafarge North America Inc. has announced that it will take advantage of new legislation reducing among other things the tax rate on foreign earnings repatriated to the United States, and intends to repatriate in 2005 around 1 billion U.S. dollars in cash from Canada to the United States. This money represents accumulated after-tax earnings associated with normal operations in Canada. Lafarge North America Inc. will record a one-time charge associated with the repatriation of between \$100 million to \$120 million during the first quarter of 2005. This adverse effect should however be compensated at Group level by the favorable tax effect resulting from asset re-evaluation allowed in some countries and certain tax efficient restructurings.

The paragraphs above contain forward-looking statements regarding, among other matters, our expectations for future volume and pricing trends, demand for our products and other market developments, energy and ocean freight costs and the tax consequences of anticipated asset re-evaluations allowed in some countries and tax restructurings. These forward-looking statements reflect management's estimates and beliefs based on currently available information and historical trends. However, actual results may differ significantly from the expectations expressed. Our business and financial results are exposed to the cyclical activity of the construction sector, the effects of weather and other climactic conditions, competition, developments in emerging markets and other risks and uncertainties described under Item 3. Key Information — Risk Factors.

TRANSITION TO IFRS (1)

European Regulation n° 1606/2002 issued July 19, 2002, requires all European companies listed on a regulated market to use International Accounting Standards endorsed at the European level (IAS or IFRS (1) standards) to prepare their consolidated financial statements, effective 2005. Accordingly, the 2005 consolidated financial statements of the Group will be prepared in accordance with this set of standards, which requires 2004 comparative data to be presented on the same basis.

In order to provide this comparative data, the Group established an opening balance sheet as of January 1, 2004, the starting date for application of the IFRS standards as published as of March 31, 2004. The effects of the transition are recorded in the opening IFRS equity.

In accordance with the recommendation issued by the AMF related to the guidance regarding the transition to IFRS, Lafarge decided to present the quantitative impacts of the transition on its 2004 financial statements in this document.

Nevertheless, the Group could have to review some accounting treatments used for the purpose of this publication if the IASB was to publish new positions on existing standards until the Group's first IFRS publication (2005' interim reporting). Such positions would concern a very limited number of issues.

The information enclosed has been examined by the Board of Directors on February 23, 2005. Our auditors have audited the IFRS accompanying financial statements and related narrative disclosures and have issued an unqualified opinion on this information in their Special Purpose Auditor's report on this preliminary IFRS financial information.

Basis for preparation of Group's first IFRS financial statements

For the purpose of the transition to IFRS the Group elected an early application for part of the standards issued as at end of March 2004 as detailed:

- Revised IAS 32 & IAS 39, *Financial Instruments*: for the purpose of the transition the Group applies these revised standards starting January 1, 2004;
- IFRS 2, *Share Based Payments*: the Group applies this standard starting January 1, 2004 to instruments granted after November 7, 2002 and not vested as at January 1, 2004;
- IFRS 3, *Business Combinations*, revised IAS 36, *Impairment of assets* and revised IAS 38, *Intangible assets*: the Group applies these standards starting January 1, 2004.

Exemptions from other IFRSs

IFRS 1, *First-time adoption of International Financial and Reporting Standards* allows First Time adopters to elect to use exemptions from other IFRSs (mainly to avoid retrospective application of some standards). The Group examined the treatments available and elected to use the following exemptions:

(a) Business Combinations

Business Combinations prior to January 1, 2004 are not restated retrospectively for compliance with IFRS 3. For information, the Group has applied the purchase method to all its business combinations since January 1, 1989.

(b) Employee Benefits

For all gains and losses arising from a change in actuarial assumptions for pension commitments measurement subsequent to January 1, 2004, the Group will maintain the current "corridor" accounting method. Furthermore, the Group used the exemption permitted by IFRS 1 to include all actuarial differences not recognized as of December 31, 2003 in equity as of January 1, 2004. Quantitative impacts of this election are presented in the reconciliation note below (see *Summary of differences between Accounting Principles followed by the Group (French GAAP) and International Accounting Standards — 1.*).

(1) *International Financial Reporting Standards* ("IFRS") is the new label of IAS effective May 2002.

(c) **Cumulative translation differences**

The Group elected to “reset to zero” previous cumulative translation differences arising from translation into euros of foreign subsidiaries’ financial statements denominated in foreign currency. Quantitative impacts of this election are presented in the reconciliation note below (see *Summary of differences between Accounting Principles followed by the Group (French GAAP) and International Accounting Standards — 5.(a)*).

The Group did not elect to use other exemptions available. Among other, the Group has elected to not adopt the option which consists in measuring at their fair value some tangible or intangible assets in the opening balance sheet.

Impact of the transition on the consolidated Financial Statements

The following is a summary reconciliation of Shareholders’ equity and Net income as reported under French GAAP to Shareholders’ equity and Net income as adjusted for the effects of the application of International Accounting Standards starting January 1, 2004.

		January 1, 2004	Net income 2004	Other 2004	Transl adjustment 2004	December 31, 2004
Shareholders’ equity as reported	<i>Note</i>	8,185	868	(166)	(410)	8,477
Pension and other employee benefits	1.	(1,234)	83	(5)	16	(1,140)
Investments available for sale	2.(c)	(44)	—	9	—	(35)
Compound instruments	2.(a)	58	(27)	—	—	31
Derivative instruments	2.(b)	(79)	4	61	(1)	(15)
Treasury shares	2.(f)	(64)	—	2	—	(62)
Effective interest method on debts	2.(f)	2	4	—	—	6
Goodwill depreciation & impairment	3.(a)	—	117	(2)	(4)	111
Business combinations	3.	—	—	1	—	1
Share based payments	4.	—	(15)	15	—	—
Disposal of investments	5.(a)	—	50	2	(52)	—
Goodwill related to the acquisition of foreign subsidiaries	5.(b)	(289)	—	—	289	—
Deferred tax hyperinflation Turkey	6.(b)	(9)	1	—	1	(7)
Deferred charges	7.(a)	(12)	3	—	—	(9)
Investment subsidies	7.(b)	(26)	2	—	—	(24)
Provision for unrealized foreign exchange losses	7.(e)	(28)	1	—	2	(25)
Severe currency devaluations capitalized	7.(f)	(7)	—	—	(1)	(8)
Total IAS adjustments before income tax and minority interests	—	(1,732)	223	83	250	(1,176)
Tax effect of the above IAS adjustments	—	439	(21)	(22)	(10)	386
Minority Interests	—	132	(24)	(1)	(12)	95
Shareholders’ equity according to IFRS	—	7,024	1,046	(106)	(182)	7,782

A summary reconciliation of the Group’s Consolidated financial statements as reported under French GAAP to its Consolidated financial statements under IFRSs are presented for:

- (i) Consolidated Balance sheet as at the date of transition to IFRS, that is January 1, 2004;
- (ii) Consolidated Balance sheet as at the end of December 2004; and
- (iii) Consolidated Income Statement for the year ended December 31, 2004.

Narrative disclosures are presented after this reconciliation (*Summary of differences between Accounting Principles followed by the Group (French GAAP) and International Accounting Standards*).

(i) Summary reconciliation of Balance Sheets

At January 1, 2004

	French GAAP under IFRS format	IAS 19 Employee benefits	IAS 32&39 Financial Instruments	IFRS 3 Business Combinations, IAS 36 & 38	IAS 21 Effects of Changes in For. Ex. Rates	IAS 12 Income Taxes	Others	Total impact of transition to IFRS	Restated under IFRS
	(in million €)								
	19,048	(561)	(134)	—	(289)	251	(160)	(893)	18,155
Non-current assets									
Goodwill	4,149	—	13	2,421	(271)	—	(233)	1,930	6,079
Intangible assets	2,823	—	—	(2,421)	—	—	(102)	(2,523)	300
Property, plant and equipment	10,402	—	—	—	(18)	—	(96)	(96)	10,306
Investment in associates	383	—	—	—	—	—	234	216	599
Other financial assets	730	—	(147)	—	—	—	1	(146)	584
Pension asset	561	(561)	—	—	—	—	—	(561)	—
Deferred income tax asset, net	—	—	—	—	—	251	—	251	—
Restricted cash	—	—	—	—	—	—	36	36	36
Current assets	5,787	—	183	—	—	—	(64)	119	5,906
Inventories	1,422	—	—	—	—	—	—	—	1,422
Trade receivables	1,754	—	351	—	—	—	—	351	2,105
Other receivables	977	—	—	—	—	—	(28)	(271)	706
Derivative instruments	—	—	146	—	—	—	—	146	146
Cash and cash equivalents	1,634	—	(71)	—	—	—	(36)	(107)	1,527
TOTAL ASSETS	24,835	(561)	49	—	(289)	251	(224)	(774)	24,061
Capital and reserves									
Common stock	669	—	—	—	—	—	—	—	669
Additional paid-in-capital	5,798	—	—	—	—	—	—	—	5,798
Treasury shares	(33)	—	(71)	—	—	—	—	(71)	(104)
Retained earnings	4,086	(1,036)	(41)	—	(2,614)	352	(72)	(3,411)	675
Other reserves	—	—	(20)	—	—	6	—	(14)	(14)
Foreign currency translation	(2,335)	—	—	—	2,335	—	—	2,335	—
Shareholders' equity	8,185	(1,036)	(132)	—	(279)	358	(72)	(1,161)	7,024
Minority interests	2,191	(198)	(204)	—	(10)	72	(1)	(341)	1,850
Other equity	118	—	—	—	—	—	(118)	(118)	—
Total equity	10,494	(1,234)	(336)	—	(289)	430	(191)	(1,620)	8,874
Non-current liabilities	9,859	673	18	—	—	(179)	(33)	479	10,338
Deferred income tax liability	870	—	—	—	—	(179)	—	(178)	692
Pensions and other employee benefits provisions	622	673	—	—	—	—	1	674	1,296
Other provisions	997	—	(86)	—	—	—	(1)	(87)	910
Long-term debt	7,370	—	8	—	—	—	(34)	(26)	7,344
Derivative instruments	—	—	96	—	—	—	—	96	96
Put options on shares of subsidiaries	—	—	222	—	—	—	—	222	222
Current liabilities	4,482	—	145	—	—	—	—	145	4,627
Pensions and other employee benefits provisions, current portion	117	—	—	—	—	—	—	—	117
Other provisions, current portion	121	—	—	—	—	—	—	—	121
Trade payables	1,234	—	—	—	—	—	—	—	1,234
Other payables	1,560	—	(120)	—	—	—	—	(120)	1,440
Income tax payable	125	—	—	—	—	—	—	—	125
ST debt & current portion of LT debt	1,325	—	248	—	—	—	—	248	1,573
Derivative instruments	—	—	17	—	—	—	—	17	17
TOTAL EQUITY AND LIABILITIES	24,835	(561)	49	—	(289)	251	(224)	(774)	24,061

Reclassifications between French GAAP published Balance sheet and French GAAP balances presented under the IFRS format may be summarized as follows :

- (a) Lines "Other Investments" (481 million euros) and "Other LT assets" (810 million euros) have been merged in line "Other financial assets" except for the pension prepaid asset (561 million euros) that is presented under IFRS on a separate line
- (b) Treasury shares that are deducted from equity under French GAAP were presented within "Retained earnings" in the French GAAP Balance Sheet. They are isolated in the IFRS format on the line "Treasury shares".
- (c) "Provisions" (1,857 million euros) have been split between "Pension & other employee benefits provision" (739 million euros) and "Other provisions" (1,118 million euros) and the part that will be reversed within twelve months is presented in the Current Liabilities section (117 million euros for Pension & Other Employment Benefit provision and 121 million euros for Other Provisions)
- (d) "Income Tax Payable" (125 million euros) is shown separately from "Other Payables" in the IFRS format
- (e) French GAAP "Current portion of LT debt" (985 million euros) and "Short-term bank borrowings" (340 million euros) have been merged into IFRS line "ST debt & current portion of LT debt"

(i) Summary reconciliation of Balance Sheets

At December 31, 2004

Narrative disclosure reference	French GAAP under IFRS format							IAS 19 Employee benefits				IAS 32&39 Financial Instruments		IFRS 3 Business Combinations, IAS 36 & 38		IFRS 2 Share Based Payments		IAS 21 Effects of Changes in For. Ex. Rates		IAS 12 Income Taxes		Others		Total impact of transition to IFRS		Restated under IFRS				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	
	18,653	(573)	112	—	—	280	(203)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18,241	
Goodwill	3,718	—	2,377	—	—	—	(131)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,998	
Intangible assets	2,760	—	(2,270)	—	—	—	(182)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	308	
Property, plant and equipment	10,641	—	—	—	—	—	(54)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10,587	
Investment in associates	236	—	5	—	—	—	131	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	372	
Other financial assets	722	—	—	—	—	—	(1)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	659	
Pension asset	576	(573)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3	
Deferred income tax asset, net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	280	
Restricted cash	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	34	
Current assets	6,119	—	198	—	—	—	(58)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	140	6,259	
Inventories	1,509	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,509	
Trade receivables	2,054	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,054	
Other receivables	903	—	—	—	—	—	(24)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	727	
Derivative instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	209	
Cash and cash equivalents	1,653	—	—	—	—	—	(34)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,550	
TOTAL ASSETS	24,772	(573)	170	—	—	—	(261)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	24,500		
Capital and reserves	684	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	684		
Common stock	6,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,013	
Additional paid-in-capital	(33)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(69)	
Treasury shares	4,571	(979)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,337	
Retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,234)	
Other reserves	(2,745)	16	(3)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	32	
Foreign currency translation	8,477	(965)	102	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,559	
Shareholders' equity	2,479	(177)	10	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	318	
Minority interests	116	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(360)	
Other equity	11,072	(1,140)	112	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(116)	
Total equity	9,370	567	15	—	—	—	(182)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	379	
Non-current liabilities	11,402	—	—	—	—	—	(79)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(99)	
Deferred income tax liability	731	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(99)	
Pensions and other employee benefits provisions	667	567	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	567	
Other provisions	1,024	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,234	
Long-term debt	6,948	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(104)	
Derivative instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	11	
Put options on shares of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	29	
Current liabilities	4,330	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	299	
Pensions and other employee benefits provisions, current portion	121	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	196	
Other provisions, current portion	118	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	121	
Trade payables	1,424	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	118	
Other payables	1,417	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,424	
Income tax payable	46	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(30)	
ST debt & current portion of LT debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	46
Derivative Instruments	1,204	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	183	
TOTAL EQUITY AND LIABILITIES	24,772	(573)	170	—	—	—	(261)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	280	(272)	

Reconciliations between French GAAP published Balance sheet and French GAAP balances presented under the IFRS format may be summarized as follows :

- (a) Lines "Other Investments" (560 million euros) and "Other LT assets" (738 million euros) have been merged in line "Other financial assets" except for the pension prepaid asset (576 million euros) that is presented under IFRS on a separate line
- (b) Treasury shares that are deducted from equity under French GAAP were presented within "Retained earnings" in the French GAAP Balance Sheet. They are isolated in the IFRS format on the line "Treasury shares"
- (c) "Provisions" (1,930 million euros) have been split between "Pension & other employee benefits provision" (788 million euros) and "Other provisions" (1,142 million euros) and the part that will be reversed within twelve months is presented in the Current liabilities section (121 million euros for Pension & Other Employment Benefit provision and 118 million euros for Other Provisions)
- (d) "Income Tax Payable" (46 million euros) is shown separately from "Other Payables" in the IFRS format
- (e) French GAAP "Current portion of LT debt" (991 million euros) and "Short-term bank borrowings" (213 million euros) have been merged into IFRS line "ST debt & current portion of LT debt"

(ii) Summary reconciliation of Consolidated Income Statements

For the year ended December 31, 2004

Narrative disclosure reference	French GAAP	IAS 19	IAS 32/39	IFRS 3 Business	IFRS 2	IAS 21 Effects	IAS 12	Others	Total impact of	Restated under
	under IFRS	Employee	IAS 32/39	IFRS 3 Business	Share Based	of Changes in	Income Taxes		transition to	IFRS
	format	benefits	Financial	Combinations,	Payments	For. Ex. Rates			IFRS	
		(1)	Instruments	IAS 36 & 38	(4)	(5)	(6)	(7)		
				(3)	(in million €)					
Revenues	14,436	—	—	—	—	—	—	—	—	14,436
Cost of sales	(10,432)	16	12	—	(3)	—	—	—	30	(10,402)
Selling & administrative expenses	(1,880)	59	—	—	(12)	—	—	—	47	(1,833)
Operating Margin	2,124	75	12	—	(15)	—	—	—	77	2,201
Gains on disposal, net	41	—	—	—	—	52	—	—	50	91
Other operating income (expenses)	(343)	8	—	117	—	—	—	—	125	(218)
Operating income	1,822	83	12	117	(15)	52	—	—	252	2,074
Finance (costs) / income	(517)	—	(31)	—	—	—	—	—	1	(547)
Income from associates	74	—	—	—	—	—	—	—	—	74
Income before income tax and min. int.	1,379	83	(19)	117	(15)	52	—	—	4	1,601
Income tax	(247)	—	—	—	—	—	(21)	—	1	(267)
Income after tax	1,132	83	(19)	117	(15)	52	(21)	—	5	1,334
Minority interests	(264)	(20)	(5)	(10)	2	—	8	—	1	(288)
Net income	868	63	(24)	107	(13)	52	(13)	—	6	1,046

Reclassifications between French GAAP published Statement of income and French GAAP balances presented under the IFRS format may be summarized as follows :

- (a) The line "Depreciation" presented on the face of the French GAAP Income statement has been allocated to "Cost of Sales" (799 million euros) and "Selling & administrative expenses" in the IFRS format (105 million euros) based on the nature of the underlying assets
- (b) "Goodwill depreciation" is reclassified within the "Operating Income" on the line "Other operating income (expenses)" in the IFRS formats. Most of this depreciation is then reversed as part of IFRS adjustments
- (c) Previously denominated as "Operating income on Ordinary Activities" under French GAAP

Summary of differences between Accounting Principles followed by the Group (French GAAP) and International Accounting Standards

All figures presented in the narrative disclosures hereafter are before tax and minority interests, unless specified.

1. IAS 19 — *Employee benefits*

Lafarge has elected to use the option available in IFRS 1 under which any difference existing as at January 1, 2004 between defined benefit plans liabilities and the fair value of dedicated assets can be recognized through equity, except the non vested portion of unrecognized past service costs. The impact of this election is the main source of difference between French GAAP and IFRS financial statements in the area of employee benefits (1,183 million euros negative impact on January 1, 2004 equity, 73 million euros positive impact on 2004 earnings and 1,132 million euros negative impact on December 31, 2004 equity).

Group valuation and accounting principles in respect of pension and other commitments have been almost fully aligned with existing U.S. GAAP in this area (SFAS 87-88, SFAS 106 and SFAS 112) since the group flotation on the New York Stock Exchange (“NYSE”). IAS 19 is the corresponding standard applicable to employee benefits under IAS / IFRS. A limited number of discrepancies between these two sets of standards have been identified. They concern:

- the valuation of dedicated plans assets (U.S. GAAP authorize the smoothing of the fair value of plans assets over time, whereby IAS 19 requires the use of year end fair value for assets);
- measurement dates for liabilities and dedicated assets (under U.S. GAAP, valuation dates can be set before year end, whereby IAS 19 requires the use of year end measurement dates);
- transitional provisions which are specific to each set of standards;
- the recognition of past / prior service costs (under U.S. GAAP, the effects of plan amendments can be recognized over the average remaining active life of plans participants, whereby IAS 19 requires the immediate recognition, in the profit and loss account, of any effect of plan amendments on benefits already vested);
- the limitations applicable, under IAS 19 (asset ceiling), to prepaid pension cost amount to be recognized on the employer’s balance sheet in respect of the overfunding of a plan’s liabilities by its dedicated assets, which have no direct equivalent under U.S. GAAP;
- the allocation method for defined benefit costs over the periods of services rendered by beneficiaries (under certain circumstances, U.S. GAAP allow for an allocation of costs over the entire expected active career of beneficiaries, whereby IAS 19 requires the recognition of these costs over the periods of service over which benefits become vested, occasionally shorter than the entire expected active career);
- the valuation of death and disability benefits covering active employees (IAS 19 does not require to provide for this type of benefits as long as they do not relate to services rendered by beneficiaries: costs are then expensed as incurred);
- the valuation of « constructive » obligations which is explicitly required by IAS 19, whereby U.S. GAAP valuation requirements are limited to the obligations in respect of formal benefit plans.

Based on this list of potential discrepancies, Lafarge has carried out, with the support of its actuaries, a specific review of the necessary restatements of the existing U.S. GAAP information in respect of the most significant benefit plans of the Group (95% of group obligations have been covered).

Following this review, the Group has recorded a net decrease in equity as at January 1, 2004 of 51 million euros, an increase in earnings of 10 million euros and a net decrease in equity as at December 31, 2004 of 8 million euros.

The results of this review have been integrated into Group valuation and accounting processes.

The total impact of the application of IAS 19 revised for the Group is respectively a decrease in equity of 1,234 million euros and 1,140 million euros as at January 1, 2004 and December 31, 2004 and an increase in 2004 earnings of 83 million euros.

2. IAS 32 / 39 — Financial instruments

The impact of the application of IAS 32 / 39 on the Group's Balance sheets can be summarized as follows:

	At January 1, 2004						At December 31, 2004							
	Total impact	OCEANE	Deriv. Instr.	Avail. for sale invest.	Securiti-zation	Put options	Others	Total impact	OCEANE	Deriv. Instr.	Avail. for sale invest.	Securiti-zation	Put options	Others
	(in million €)													
Non-current assets	(134)	—	—	(44)	(103)	13	—	(28)	—	—	(35)	(27)	34	—
Goodwill	13	—	—	—	—	13	—	34	—	—	—	—	34	—
Other financial assets	(147)	—	—	(44)	(103)	—	—	(62)	—	—	(35)	(27)	—	—
Current assets	183	—	(97)	—	352	—	(72)	198	—	57	—	210	—	(69)
Trade receivables	351	—	—	—	352	—	(1)	210	—	—	—	210	—	—
Other receivables	(243)	—	(243)	—	—	—	—	(152)	—	(152)	—	—	—	—
Derivative instruments	146	—	146	—	—	—	—	209	—	209	—	—	—	—
Cash and cash equivalents	(71)	—	—	—	—	—	(71)	(69)	—	—	—	—	—	(69)
TOTAL ASSETS	49	—	(97)	(44)	249	13	(72)	170	—	57	(35)	183	34	(69)
Treasury shares	(71)	—	—	—	—	—	(71)	(69)	—	—	—	—	—	(69)
Retained earnings	(41)	(55)	5	—	—	—	9	(67)	(82)	2	—	—	—	13
Other reserves	(20)	113	(89)	(44)	—	—	—	51	113	(27)	(35)	—	—	—
Foreign currency transl.	—	—	—	—	—	—	—	(1)	—	(1)	—	—	—	—
Shareholders' equity	(132)	58	(84)	(44)	—	—	(62)	(86)	31	(26)	(35)	—	—	(56)
Minority interests	(204)	—	5	—	—	(209)	—	(254)	—	11	—	—	(265)	—
Total equity	(336)	58	(79)	(44)	—	(209)	(62)	(340)	31	(15)	(35)	—	(265)	(56)
Non-current liabilities	18	(58)	86	—	—	—	(10)	15	(31)	59	—	—	—	(13)
Other provisions	(86)	(69)	(10)	—	—	—	(7)	(104)	(97)	—	—	—	—	(7)
Long-term debt	8	11	—	—	—	—	(3)	90	66	30	—	—	—	(6)
Derivative instruments	96	—	96	—	—	—	—	29	—	29	—	—	—	—
Put opt. on shares of subs.	222	—	—	—	—	222	—	299	—	—	—	—	299	—
Current liabilities	145	—	(104)	—	249	—	—	196	—	13	—	183	—	—
Other payables	(120)	—	(121)	—	—	—	1	(30)	—	(30)	—	—	—	—
ST debt & cur. port of LT debt	248	—	—	—	249	—	(1)	183	—	—	—	183	—	—
Derivative instruments	17	—	17	—	—	—	—	43	—	43	—	—	—	—
TOTAL EQUITY & LIABILITIES	49	—	(97)	(44)	249	13	(72)	170	—	57	(35)	183	34	(69)

(a) Compound Instruments : OCEANE

Under IAS 32, *Financial Instruments: Disclosure and Presentation*, if a financial instrument contains components with characteristics of both liabilities and equity elements, the issuer shall classify the component parts separately according to the definitions for the various considered items. Therefore, a separate presentation of liability and equity created by a single financial instrument is required.

This category includes financial instruments that creates a debt for the issuer and grants an option to its holder to convert it into an equity instrument of the issuer

When the initial carrying amount of a compound instrument is allocated to its equity and liability elements, the equity component is assigned the residual carrying amount after deducting from the instrument as a whole the amount separately determined for the liability component. This liability component is determined by measuring the fair value of a similar liability, without associated equity component.

As at June 29, 2001 the Group issued 10,236,221 bonds convertible into common shares for a total nominal amount of 1,300,000,067 euros, bearing interest at an annual rate of 1.5% ("OCEANES"). The maturity of this convertible bonds is January 1, 2006.

As part of the transition, the Group calculated retrospectively the liability and equity component of this instrument at inception and determined the liability value that shall be recognized as at January 1, 2004. The equity component that would have been recognized at inception directly in equity amounts to 113 million

euros. Under the effective interest rate method, the cumulative interest expense that would have been recognized on the liability component as at January 1, 2004 amounts to 181 million euros. Under French GAAP, the Group recorded a cumulative interest expense (including linear amortization for redemption premium and transaction costs) of 126 million euros. The cumulative difference is a decrease in retained earnings of 55 million euros. For the year ended 2004, the Group recorded in its IFRS earnings an additional financial expense amounting to 27 million euros.

The combined effect of the recognition of the equity component and the cumulative difference on financial expenses is respectively an increase of 58 million euros in equity as at January 1, 2004, a decrease of 27 million euros in 2004 earnings and an increase of 31 million euros in equity as at December 31, 2004.

(b) Derivative Instruments and hedge relationships

Under French GAAP, the fair value of derivative instruments is recorded in the Group's accounting records when the assets and liabilities of an acquiree are fair valued as the result of a business combination. In all other situations, French GAAP does not require the recognition of the fair value of derivative instruments.

For the purpose of the transition, pursuant to the guidance in revised IAS 39 and IAS 32 that the Group applies starting January 1, 2004 as described in paragraph *Basis for preparation of Group's first IFRS financial statements* above, the Group records in its IAS financial statements financial instruments which meet the criteria for recognition as derivatives. Derivative instruments are marked to market and recorded on the balance sheet. The accounting for changes in fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Group designates its derivative based on the criteria established by IAS 39. For a derivative designated as a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributed to the risk being hedged. For a derivative designated as a cash flow hedge, the effective portion of the derivatives gain or loss is initially recognized directly in equity and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. For embedded derivatives, the gain or loss is recognized in earnings in the period of the change in fair value.

As a result of the application of hedge accounting pursuant to the guidance included in revised IAS 39, as at January 1, 2004, the Group recorded a net decrease in equity of 79 million euros (of which 84 million euros affects negatively the Shareholders' equity and 5 million euros positively the Minority interests). As a result, the Group recorded current derivative assets for 146 million euros, non-current derivative liabilities for 96 million euros and current derivative liabilities for 17 million euros.

For the year ended 2004, accounting for the change in fair value of derivatives resulted in an increase recorded directly in equity of 61 million euros and an increase in earnings for the period of 4 million euros. As at end of December 31, 2004, derivative instruments set on the balance sheet of the Group in current assets for an amount of 209 million euros, in non-current liabilities for 29 million euros and in current liabilities for 43 million euros.

(c) Investments in marketable securities

In accordance with French GAAP, as described in the Notes to the Consolidated Financial Statements, the Group's policy is to value marketable securities and other equity securities at the lower of historical cost or net realizable value with any resulting unrealized losses recorded in the statement of income. French GAAP does not permit upward adjustments in the value of these securities to reflect their fair market value.

Under revised IAS 39, that the Group applies for the purpose of the transition starting January 1, 2004, investments in marketable securities shall be classified in three categories: trading (securities that are bought and held principally for the purpose of selling them in the near term), held to maturity (securities with fixed or determinable payments and fixed maturity that the Group has a positive intent and ability to hold to maturity), and securities available for sale (all other securities). Most of the marketable debt and equity securities of the Group are classified as available for sale with unrealized gains and losses excluded from

earnings and reported as a component of Shareholders' equity (cumulated changes in fair value of financial instruments).

In 2000, the Group acquired 9.99 % of the common shares of the Portuguese cement producer Cimpor for 319 million euros, which represented an average 4.75 per share. In December 2003, the Group purchased an additional 2.65% of the common shares of Cimpor common stock at 4.06 euro per share. The market value of all shares was 348 million euros at December 31, 2003, and 353 million euros at December 31, 2004.

Until 2004, the Group has not recorded an other-than-temporary impairment on this investment as it has the intent and ability to retain its investment for a period of time sufficient for the recovery in market value. The Group has viewed, and continues to view, its investment in Cimpor as a strategic investment. The Group derives certain benefits from its investment that are not reflected in Cimpor's share price. These benefits include an industrial and technical cooperation agreement with Cimpor management to enhance the efficiency and create operating synergies for both operations. The Group monitors the value of its investment in Cimpor and evaluate it for possible impairment on a regular basis. This review has led the Group to book in its French GAAP 2004 profit and loss an impairment loss of 4 million euros.

This impairment has been kept in IFRS profit and loss and the difference between the market value and the carrying value after impairment has been recorded in a separate component of equity.

The unrealized gains and losses on securities available for sale included in this separate component of equity relate to the investment in Cimpor and represent an unrealized loss of 44 million euros and 35 million euros respectively as at January 1, 2004 and December, 31 2004.

(d) Securitization agreements

The Group was involved in two major receivables securitization programs (in France and in the United States) as at January 1, 2004 to provide a cost-effective source of working capital and short-term financing. Under the programs, the subsidiaries agree to sell on a revolving basis, certain of their accounts receivable. Under the terms of the arrangements, the subsidiaries involved in these programs do not maintain control over the assets sold and there is no entitlement nor obligation to repurchase the sold receivables. In these agreements, the purchaser of receivables holds a subordinated retained interest in the receivables not sold to third parties as usually granted in similar commercial transactions. Consequently, the receivables securitization transactions have been accounted for under French GAAP as sales (with the subordinated interest being classified as long-term financial asset) and as a result, the related receivables and debt have been excluded from the Balance Sheet.

Under revised IAS 39, that the Group applies for the purpose of its transition starting January 1, 2004, financial assets could be derecognized only if substantially all risks and rewards attached to the assets have been transferred. The subordinated retained interest held by the purchaser in the receivables not sold to third parties represents a breach in the transfer of all risks and rewards. As a consequence, these accounts receivable should not be derecognized in the Balance Sheet and these operations should be treated as a secured financing.

This restatement results in a decrease in LT financial assets of respectively 103 million euros and 27 million euros as at January 1, 2004 and December 31, 2004, an increase in Accounts receivable-trade of respectively 352 million euros and 210 million euros as at January 1, 2004 and December 31, 2004 , and an increase in short-term debt of respectively 249 million euros and 183 million euros as at January 1, 2004 and December 31, 2004.

(e) Put options on shares of subsidiaries

As part of the acquisition process of certain entities, the Group has granted third party shareholders the option to require the Group to purchase their shares at predetermined conditions. Assuming that all of these options were exercised, the purchase price to be paid by the Group, including net debt acquired, would amount to respectively 448 million euros and 328 million euros as at January 1, 2004 and December 31, 2004.

Under IAS 32, put option granted to minority interests of subsidiaries shall be considered as a debt. Out of the total options granted by the Group, the options granted to minority interests amounted to respectively 222 million euros and 299 million euros as at January 1, 2004 and December 31, 2004, the remaining options being granted on shares of equity affiliates or joint ventures.

As a consequence, until the IFRIC issues specific guidance, the Group recorded a specific debt in the IFRS balance sheet by reclassifying the underlying minority interests and recording a goodwill for any difference between the carrying value of minority interests and the value of the debt. No impact has been recorded in the IFRS Statement of income.

The result of this treatment is a debt related to put options granted to minority interests of respectively 222 million euros and 299 million euros, a decrease in minority interests of respectively 209 million euros and 265 million euros and an increase in goodwill of respectively 13 million euros and 34 million euros as at January 1, 2004 and December 31, 2004.

Out of the outstanding debt at 2004 year end (299 million euros), 210 million can be exercised in 2005 based upon the terms of these agreements and 99 million have already been exercised in January 2005 (put options on Lafarge Halla Cement and Lafarge India Ltd).

(f) Others

i. Treasury shares

As required by French GAAP, cost of treasury shares that are intended for distribution to the employees is classified in investments in marketable securities (included in “Cash & cash equivalents”), and accounted for as described in the Notes to the Consolidated Financial Statements. Remaining treasury shares are recorded as a reduction of shareholders’ equity at acquisition cost.

For French GAAP purposes, a provision is recorded for unrealized losses on shares which are classified as investments in marketable securities. Changes in the provision, including any subsequent recovery in value, if any, are recorded as financial income or expense.

As at December 31, 2003, the Company was carrying 1,856,266 of its own shares out of which (i) 1,058,296 were classified as investments in marketable securities at a cost of 71 million euros and (ii) 797,970 were classified as a reduction of the Shareholders’ equity for 33 million euros. A charge of 7 million euros was recognized in the Group’s French GAAP consolidated financial statements to account for unrealized losses on the Group’s own shares accounted for as investments in marketable securities.

As of December 31, 2004, the Company carries 1,834,396 of its own shares out of which 1,036,426 are classified as investments in marketable securities at a cost of 69 million euros.

Under IAS, treasury shares are accounted for as a reduction of Shareholders’ equity at acquisition cost and no further recognition is given for changes in fair value. When treasury shares are resold, any difference between the cost and fair value are generally recorded directly to Shareholders’ equity. As at January 1, 2004, the impact on Shareholders’ equity would have been an increase of 7 million euros related to the cancellation of the provision and a decrease of 71 million euros related to the reclassification of treasury shares classified in investments in marketable securities under French GAAP.

For the year ended December 31, 2004, the impact on Shareholders’ equity is an increase of 7 million euros related to the cancellation of the provision and a decrease of 69 million euros related to the reclassification of treasury shares classified in investments in marketable securities under French GAAP.

ii. Effective interest rate method

IAS 39, *Financial Instruments: Recognition and Measurement* requires to measure a financial liability after initial recognition at amortized cost using the effective interest method. That computation includes all fees and points paid between parties to the contract.

Under this method, the costs directly attributable to the acquisition of the financial liability are recognized in net income according to the effective interest rate method. Under French GAAP, they are mainly recognized on a linear basis over the life of the debt.

The cumulative impact of measuring financial debt (excluding OCEANE detailed above) at amortized cost using the effective interest rate method is a reduction of respectively 2 million euros and 6 million euros in Long-term debt as at January 1, 2004 and December 31, 2004 and a corresponding increase in equity. The impact of this difference on the 2004 earnings is an increase of 4 million euros.

3. IFRS 3, IAS 36 & IAS 38 — *Business Combinations, Impairment of assets & Intangible assets*

The impact of the application of these standards on the Group's Balance sheets can be summarized as follows:

	At January 1, 2004				At December 31, 2004			
	Total impact	Goodwill deprec.	Business Combin.	Market Shares	Total impact	Goodwill deprec.	Business Combin.	Market Shares
	(in million €)							
Non-current assets	—	—	—	—	112	111	1	—
Goodwill	2,421	—	—	2,421	2,377	106	1	2,270
Intangible assets	(2,421)	—	—	(2,421)	(2,270)	—	—	(2,270)
Investments in associates	—	—	—	—	5	5	—	—
TOTAL ASSETS	—	—	—	—	112	111	1	—
Capital and reserves								
Retained earnings	—	—	—	—	105	104	1	—
Foreign currency translation	—	—	—	—	(3)	(3)	—	—
Shareholders' equity	—	—	—	—	102	101	1	—
Minority interests	—	—	—	—	10	10	—	—
Total equity	—	—	—	—	112	111	1	—
TOTAL EQUITY AND LIABILITIES	—	—	—	—	112	111	1	—

(a) Goodwill amortization

Under French GAAP, acquired goodwill is amortized over the expected period of benefit, which does not exceed forty years. In the context of the transition to IFRS, Lafarge decided to apply revised IAS 36 and IFRS 3 starting January 1, 2004. As required by IFRS 3 and the revised IAS 36, subsequent to January 1, 2004, all previously recorded goodwill is no longer amortized but is tested for impairment at least annually. All goodwill acquired in a purchase combination completed after January 1, 2004 is not to be amortized. The French GAAP amortization of goodwill is reduced by 117 million euros for the year ended December 31, 2004 in IFRS earnings.

(b) Market Shares on acquisition

Under French GAAP, market shares have been separately identified on the acquisition of cement subsidiaries. Under revised IAS 38, that the Group applies starting January 1, 2004, market shares are not considered as a separately identifiable intangible asset, but as a component of goodwill. These market shares have been reclassified for their carrying value to goodwill as at January 1, 2004 and December 31, 2004 (respectively 2,421 and 2,270 million euros) and accounted for based upon the provisions of revised IAS 36, as described above.

4. IFRS 2 — *Share Based Payments*

Under French GAAP, compensation cost is not recorded for stock option and stock purchase plans.

Under IFRS 2 *Share Based Payments*, a company shall record in its financial statements a compensation expense for all share based compensation granted to its employee.

In the Group, stock option plans are maintained in Lafarge SA and in Lafarge North America Inc, a 53 %-owned subsidiary of the Group.

The options granted after November 2002 and not vested at January 1, 2004 have been valued at the grant date using the Black-Scholes option — pricing model and the compensation expense is to be recognized ratably over the vesting period.

As a result, for the year ended December 31, 2004, a compensation cost of 15 million euros has been expensed in the IFRS earnings (out of which 2 million euros impact Minority interests). The equity has been increased accordingly.

5. IAS 21 — *The Effects of Changes in Foreign Exchange Rates*

The impact of the application of this standard on the Group's Balance sheets can be summarized as follows:

	At January 1, 2004			At December 31, 2004		
	Total impact	Cumulative transl. adjustment	Goodwill on Foreign subs	Total impact	Cumulative transl. adjustment	Goodwill on Foreign subs
	(in million €)					
Non-current assets	(289)	—	(289)	—	—	—
Goodwill	(271)	—	(271)	—	—	—
Investments in associates	(18)	—	(18)	—	—	—
TOTAL ASSETS	(289)	—	(289)	—	—	—
Capital and reserves						
Retained earnings	(2,614)	(2,335)	(279)	(2,559)	(2,559)	—
Foreign currency translation	2,335	2,335	—	2,559	2,559	—
Shareholders' equity	(279)	—	(279)	—	—	—
Minority interests	(10)	—	(10)	—	—	—
Total equity	(289)	—	(289)	—	—	—
TOTAL EQUITY AND LIABILITIES	(289)	—	(289)	—	—	—

(a) Cumulative translation adjustment

The Group applies the IFRS 1 option allowing companies to “reset to zero” previous cumulative translation differences arising from the translation into euros of foreign subsidiaries. An amount of 2,614 million euros (including 279 million euros for Group share retrospectively calculated on goodwill previously recorded in the currency of the acquirer — see (b) below) has been reclassified in retained earnings as at January 1, 2004. This reclassification has no impact on Shareholder's equity.

In 2004, the Group sold some foreign operations and transferred in its French GAAP profit & loss the cumulative translation difference related to these operations. The part of this difference existing as at January 1, 2004 (a loss amounting to 52 million euros) is excluded from the IFRS earnings.

(b) Goodwill relating to the acquisition of foreign subsidiaries

The Group recorded goodwill relating to the acquisition of part of its foreign subsidiaries, joint ventures and equity affiliates in the currency of the acquirer. Under IAS, such goodwill is recorded in the currency of the acquiree. The French GAAP Goodwill on subsidiaries and joint ventures was reduced by 271 million euros as at January 1, 2004 (out of which 10 million euros impacted the minority interests) and on equity affiliates by 18 million euros. In 2004, the Group transferred all such goodwill in its French GAAP accounts in the currency of the acquiree, creating a reversal of the opening difference.

6. IAS 12 — *Deferred taxes*

	At January 1, 2004				At December 31, 2004			
	Total impact	Gross up of deferred tax	Hyperinfl countries	Tax effect of all IAS adjustments	Total impact	Gross up of deferred tax	Hyperinfl countries	Tax effect of all IAS adjustments
	(in million €)							
Non-current assets	251	251	—	—	280	280	—	—
Deferred tax asset, net.....	251	251	—	—	280	280	—	—
TOTAL ASSETS	251	251	—	—	280	280	—	—
Capital and reserves								
Retained earnings	352	—	(9)	361	346	—	(8)	354
Other reserves	6	—	—	6	(19)	—	—	(19)
Foreign currency translation	—	—	—	—	(9)	—	1	(10)
Shareholders' equity	358	—	(9)	367	318	—	(7)	325
Minority interests.....	72	—	—	72	61	—	—	61
Total equity	430	—	(9)	439	379	—	(7)	386
Deferred tax liability	(179)	251	9	(439)	(99)	280	7	(386)
TOTAL EQUITY AND LIABILITIES	251	251	—	—	280	280	—	—

(a) Gross up of deferred tax assets and liabilities

IAS 12 revised permits to offset deferred tax assets and liabilities if the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority. Based on this criteria, the Group reclassified respectively 251 million euros and 280 million euros as at January 1, 2004 and December 31, 2004 as deferred tax assets that were previously offset against deferred tax liabilities.

(b) Deferred taxes in hyperinflationary countries

Under French GAAP, the Group recorded a deferred tax liability only to the extent of the basis differences created as a result of allocating the excess of the purchase price over the carrying value of non-monetary assets acquired in highly inflationary economies (essentially fixed assets). IAS 12 revised requires to recognize deferred tax assets and liabilities for temporary differences related to assets and liabilities that are remeasured at each balance sheet date in accordance with the provisions of IAS 29, *Financial Reporting in Hyperinflationary Economy*. Deferred taxes have been calculated accordingly, resulting in the recognition of a deferred tax liability of respectively 9 million euros and 7 million euros as at January 1, 2004 and December 31, 2004. The effect of this difference on 2004 earnings is an increase of 1 million euros.

(c) Tax effect of all IAS adjustments

The Group recorded deferred taxes on all adjustments to IFRS that create a temporary difference between taxable basis and carrying value of assets and liabilities.

It mainly led to the recognition of a deferred tax asset on the pension adjustment amounting to respectively 403 million euros and 369 million euros as at January 1, 2004 and December 31, 2004.

7. Other differences

The impact of other differences may be detailed as follows:

	At January 1, 2004							At December 31, 2004						
	Total impact	Deferred charges	Investm. subsidies	Restrict Cash	GW on affiliat.	Prov for forex losses	Severe deval capital	Total impact	Deferred charges	Investm. subsidies	Restrict Cash	GW on affiliat	Prov for forex losses	Severe deval capital
	(in million €)													
Non-current assets	(160)	(47)	(144)	36	—	—	(7)	(203)	(88)	(140)	34	—	—	(8)
Goodwill	(233)	—	—	—	(233)	—	—	(131)	—	—	—	(131)	—	—
Intangible assets	(102)	(102)	—	—	—	—	—	(182)	(181)	—	—	—	—	—
Property, plant & equip.	(96)	55	(144)	—	—	—	(7)	(54)	93	(140)	—	—	—	(8)
Investments in associates	234	—	—	—	233	—	—	131	—	—	—	131	—	—
Other financial assets	1	—	—	—	—	—	—	(1)	—	—	—	—	—	—
Restricted cash	36	—	—	36	—	—	—	34	—	—	34	—	—	—
Current assets	(64)	—	—	(36)	—	(28)	—	(58)	—	—	(34)	—	(25)	—
Other receivables	(28)	—	—	—	—	(28)	—	(24)	—	—	—	—	(25)	—
Cash & cash equiv.	(36)	—	—	(36)	—	—	—	(34)	—	—	(34)	—	—	—
TOTAL ASSETS	(224)	(47)	(144)	—	—	(28)	(7)	(261)	(88)	(140)	—	—	(25)	(8)
Capital and reserves														
Retained earnings	(72)	(11)	(26)	—	—	(28)	—	(67)	(9)	(24)	—	—	(26)	(8)
Foreign curr. Transl.	—	—	—	—	—	—	—	1	—	—	—	—	1	—
Shareholders' equity	(72)	(11)	(26)	—	—	(28)	(7)	(66)	(9)	(24)	—	—	(25)	(8)
Minority interests	(1)	(1)	—	—	—	—	—	—	—	—	—	—	—	—
Other equity	(118)	—	(118)	—	—	—	—	(116)	—	(116)	—	—	—	—
Total equity	(191)	(12)	(144)	—	—	(28)	(7)	(182)	(9)	(140)	—	—	(25)	(8)
Non-current liabilities	(33)	(35)	—	—	—	—	—	(79)	(79)	—	—	—	—	—
Deferred tax liabilities	1	—	—	—	—	—	—	—	—	—	—	—	—	—
Pension provisions	1	—	—	—	—	—	—	—	—	—	—	—	—	—
Other provisions	(1)	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term debt	(34)	(35)	—	—	—	—	—	(79)	(79)	—	—	—	—	—
TOTAL EQUITY AND LIABILITIES	(224)	(47)	(144)	—	—	(28)	(7)	(261)	(88)	(140)	—	—	(25)	(8)

(a) Deferred charges

Under French GAAP certain expenses were to be classified in intangible assets as “deferred charges”. Based on their natures these expenses have been reclassified or written off.

55 million euros as at January 1, 2004 and 93 million euros as at December 31, 2004 have been reclassified in Property, plant & equipment because they were costs directly attributable to fixed assets (mainly quarry stripping costs — 52 million euros as at January 1, 2004 and 76 million euros as at December 31, 2004).

35 million euros as at January 1, 2004 and 79 million euros as at December 31, 2004 have been accounted for under IAS as a reduction of long-term debt as they were redemption premiums (representing the difference between the instruments' issue price and future redemption amount) resulting from debenture loans (except OCEANE).

12 million euros as at January 1, 2004 and 9 million euros as at December 31, 2004 have been written off against equity as they were not meeting the definition of an asset (mainly start-up costs capitalized under French GAAP). The net effect of new capitalization expensed and reversal of depreciation of previously written off assets is an increase in earnings of 3 million euros in 2004.

(b) Investment subsidies

(i) Reclassification of French GAAP investment subsidies

Under French GAAP, the Group classifies its investment subsidies in the liabilities as “Other equity”. Under IAS, the Group presents such subsidies as a reduction of the Property, plant & equipment. This reclassification decreases the value of Property, plant & equipment by 118 million euros as at January 1, 2004 and 116 million euros as at December 31, 2004.

(ii) Depreciation of investment subsidies

Under French GAAP, certain government investment subsidies were recorded in income when received, or were deferred and amortized over the remaining service periods of the employees at the related facilities. Under IAS, investment subsidies are deferred and amortized over the useful lives of the property, plant & equipment in which the funds were invested.

(c) Restricted cash

IAS 1 requires to classify in Non-current assets cash & cash equivalents that are restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date. The Group holds cash in bank balances that are secured from use in its insurance subsidiaries for twelve months or more. This balances, representing a cumulated amount of respectively 36 million euros and 34 million euros as at January 1, 2004 and December 31, 2004, are reclassified to Non-current assets (under Restricted cash).

(d) Goodwill on equity affiliates

Under IAS 28, under the equity method, the investment in an associate is initially recognized at cost. Under French GAAP, the Group, when acquiring an investment in an associate recorded the difference between the share in net equity and the purchase price in the line Goodwill. These amounts are reclassified into the Investment in associates resulting in an increase by respectively 233 million euros and 131 million euros as at January 1, 2004 and December 31, 2004.

(e) Provisions for unrealized foreign exchange losses

French GAAP allows for the limitation of foreign currency exchange losses on debt negotiated in foreign currencies where the interest rate on the foreign debt is less than that available on the local currency. In such situations, the loss is limited to the difference between the actual interest expense recorded and the amount of interest expense that would have been recorded if the debt was originally negotiated in the local currency.

IAS requires to include the foreign currency translation gain or loss on the foreign denominated debt in income for the period. The decrease in equity amounts to 28 million euros and 25 million euros as at January 1, 2004 and December 31, 2004 respectively. The impact on 2004 earnings is insignificant.

(f) Severe devaluation of foreign currency capitalized in PP&E

Under French GAAP and in accordance with criteria set in SIC 11, the Group recorded in the past in the cost of certain assets foreign exchange losses on liabilities denominated in a foreign currency that resulted from the acquisition of the related assets. Under revised IAS 21, such a capitalization is not permitted anymore.

Consequently, the Group reversed the effect of this treatment for the purpose of the transition. The effect of this reversal is a decrease in Property, plant & equipment of 7 million euros as at January 1, 2004. Opening IAS equity is decreased accordingly. The impact on 2004 earnings is insignificant.

8. Impacts of IFRS adjustments on cash-flow statement

Most of the IFRS adjustments do not have any impact on the Group's cash-flows (adjustments to record non-cash changes in fair values of assets and liabilities).

The only one that have a material impact on the cash flow statement presentation relates to the securitization programs. Actually, the reconsolidation of the securitized receivables neutralizes the implied changes in working capital requirement and generates a mirror change in short-term debt. The change in cash & cash equivalents is not impacted by this adjustment.