



9 CONTROLS AND PROCEDURES

9.1 Report of the Chairman of the Board of Directors on internal control procedures

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This report on internal control procedures implemented by the Company was established under the responsibility of the Chairman of the Board pursuant to the article L. 225-37 of the French Commercial Code.

This report was prepared with support of the Group internal control department and Group audit department.

This report was examined by the Audit Committee in its meeting of February 12, 2008 and approved by the Board of Directors in its meeting of February 13, 2008.

Given the fact that the activities of the Company are made through subsidiaries, this report covers controlled companies included in the Group consolidation scope.

The information of this report is organized as follows:

- general organization of internal control;
- internal control procedures related to the preparation of accounting and financial information.

Sections 5.3 (Remuneration and other benefits) and 5.4 (Organization of the activities of the Board and Committees) of the Annual Report are part of this report.

Internal control related to the preparation and treatment of financial and accounting information is denominated bellow “internal control over financial reporting”.

1. General organization of internal control

Internal control framework chosen by the Group

In conformity with the definition of the COSO Report⁽¹⁾, which is the framework chosen by the Group, the internal control process consists in implementing and permanently adapting appropriate management systems, aiming at giving the administrators and management a reasonable insurance on the reliability of financial information, on the compliance with laws and internal regulations and the effectiveness and efficiency of major Company processes. One of the objectives of internal control is to prevent and monitor risks of errors and frauds. As all systems of control, because of its inherent limitation, the internal control process cannot guaranty that all risks of errors or frauds are fully eliminated or controlled.

Group internal control environment

The Group internal control environment is based on Group key documents such as Group Principles of Action, principles of organization and code of business conduct, which have to be strictly applied by Group employees:

- *The Group Principles of Actions* present Group commitments towards customers, employees, shareholders and other Group stakeholders and define what the “Lafarge Way” is, being management philosophy;
- *The principles of organization* define responsibilities at all levels within the organization (business units, Divisions and Group), the various components of management cycle as well as the key principles driving performance improvement;
- *The Code of business conduct* defines rules applicable in the following areas: compliance with law and regulations, prevention of conflicts of interest, respect of people and environment, safeguarding of Group assets, financial transparency, importance of internal control, implementation of behavioral rules and of applicable sanctions.

Those documents are completed by rules and policies established by the Group defining orientations for each main Group functions. Such rules state among other things that implementing a robust internal control process is one of the major responsibilities of the Executive Committee of each legal or operational entity.

Risk analysis implemented by the Group

The internal control process is based on various risk analysis approaches:

- a *Group risk mapping* implemented in 2007 and presented to the Audit Committee and with major identified risks duly followed up;
- *strategic reviews* performed regularly by the executive committees of operational units, of divisions and of the Group;



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- a formalized analysis of risks related to financial reporting, safeguard of assets and detection and prevention of frauds, which conducted to the definition of key controls covering such risks. Those key controls compose the Group “Internal Control Standards”;
- the annual audit plan prepared by Group internal audit and approved by the Audit Committee, which is based on various approach aiming at analyzing risks.

Control activities

Control activities are implemented at every level in the Group, in conformity with rules and policies described above. Internal control activities over major processes impacting the reliability of Group financial information, are documented and tested as described in section 2 below.

Information and communication

The major key documents of the Group are available on Group intranet. Function leaders are responsible for diffusing rules, policies and procedures applicable Group-wide.

Controls and procedures over key processes impacting Group financial reporting are subject to formal documentation and test procedures described in section 2 below.

Monitoring of internal control in the Group

Monitoring of internal control is taking place at all levels of the Group. The roles of major stakeholders are described below.

BOARD OF DIRECTORS AND SPECIAL COMMITTEES

The Board of Directors and its special committees, and in particular, the Audit Committee monitor the implementation of Group internal control policy.

See Sections 5.1 (Board of Directors), 5.3 (Remuneration and other benefits) and 5.4 (Organization of the activities of the Board and Committees).

GROUP EXECUTIVE COMMITTEE

The Executive Committee ensures that the internal control policy of the Group is effectively implemented, through:

- the monitoring and follow-up of internal control procedures performed throughout the Group, and in particular the follow-up of identified action plans;
- the review of annual synthesis of Group internal audit reports.

GROUP FUNCTIONS AND DIVISIONS

As regards processes impacting the preparation of financial reporting, Group functions managers, with in particular managers of the Group Finance function, have been designated at Division and Group level, in order to:

- document their processes at division and Group level and verify that “Internal Control Standards” over such processes are effectively implemented;
- define and update the standards of internal control applicable to business units.

BUSINESS UNITS

In application of Group internal control policy, internal control is under the direct responsibility of the Executive Committee of business units.

In each of the major business units of the Group, “Internal Control Coordinators” are in charge of the animation of internal control. Their role is to continuously improve internal control and consists mainly in supporting the implementation of “Internal Control Standards” of the Group and to coordinate procedures related to “internal control over financial reporting” in their unit. Their action is coordinated by the Group inside control department presented below.



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GROUP INTERNAL AUDIT

The Group internal audit department (38 auditors) is responsible of performing an independent assessment of the quality of internal control at all levels in the organization, following the annual audit plan approved by Group Chief Executive Officer and Audit Committee.

Reports are issued to business units and to their hierarchy at completion of fieldwork. An annual synthesis of such reports is presented to Group CEO and to the Audit Committee, which obtain from Group external auditors their comments on internal control if any.

Furthermore, follow-up missions are organized in order to verify that internal audit recommendations have been put in place.

GROUP INTERNAL CONTROL DEPARTMENT

A Group internal control department (10 persons) was created as part of the Group Finance function in order to sustain all the work performed in the framework of Sarbanes-Oxley project. This department is in charge of animating internal control and of monitoring all procedures related to "internal control over financial reporting".

This department leads the definition of "Internal Control Standards" mentioned above. It supports business units and the heads of Group functions in the implementation of such standards and in the documentation and tests of controls over financial reporting presented in section 2 below. More generally, its action aims at continuous improvement of processes.

An operational committee gathering the key finance managers at Group level, Group audit director and headed by the Group Chief Finance Officer, following the work performed on "internal control over financial reporting".

2. Procedures related to "internal control over financial reporting"

Key processes with an impact on the reliability of Group financial information

Processes having a direct impact on the production of financial information, for which key controls were defined as part of the analysis presented above, relate to the following areas: finance (consolidation process, legal and tax management...), purchases (from bidding process to recording and payment of invoices), sales (from orders receipt to revenue recognition and collection), IT (security management, among others), payroll and management of various employee benefits, management of tangible and intangible assets, management of inventories (physical count, valuation...) and treasury and financing activities.

Documentation and tests of "controls over financial reporting"

In 2005 and 2006, in-depth procedures were performed under provision of section 404 of the Sarbanes-Oxley Act to complete an assessment of "internal control over financial reporting". Based on these assessments, management reported that internal control over financial reporting was effective as of December 31, 2005 and as of December 31, 2006.

In 2007, in the context of the voluntary delisting from the NYSE, it was decided to maintain in depth procedures, in order to maintain high standards of internal control in the Group.

Those procedures are implemented by business units, divisions and at Group level, on key controls contributing to the reliability of financial information and encompass:

- a description of key processes impacting the reliability of Group financial information as presented above;
- a detailed description of key controls defined in the "Internal Control Standards" presented above;
- tests of controls aiming at checking the operational effectiveness of such controls; the scope of such tests being defined based on the materiality and risk level of each entity.
- an internal certification process aiming at confirming management responsibility at business units, Divisions and Group level on the quality of both internal control and financial information.

Those procedures are part of the process of continuous improvement of internal control and include the preparation of specific action plans, identified through the activities described above, as well as through internal and external audits. The implementation of action plans is followed up by relevant upper management. The outcomes of such procedures have been presented to the Audit Committee.



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Preparation of published financial information

Specific procedures are put in place in order to ensure the reliability of published financial information, as follows:

- a consolidation and financial reporting system is used to prepare Group financial reporting;
- a formal process of reporting and analysis of other published information included in the Annual Report of the Group (*Document de Référence*) is implemented.

This process is monitored by the Disclosure Committee, composed of the main heads of Group functions, which verify the content of the financial disclosures and reports, before they are submitted to the Audit Committee and to the Board of Directors.

Paris, March 28, 2008

French original signed by

Bruno Lafont

Chairman of the Board of Directors



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9.2 Statutory auditors' report on the report of the Chairman of the Board of Directors on internal control procedures

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STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF FRENCH COMMERCIAL CODE (CODE DE COMMERCE), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF LAFARGE, S.A. ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

Year ended December 31, 2007

This is a free translation into English of a report issued in French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Lafarge S.A. ("the Company"), and in accordance with article L. 225-235 of French Commercial Code (*Code de commerce*), we report to you on the report prepared by the Chairman of the Board of Directors of your Company in accordance with article L. 225-37 of French Commercial Code (*Code de commerce*) for the year ended December 31, 2007.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors' work are prepared and organized and of the internal control procedures in place within the Company.

It is our responsibility to report our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with the relevant professional standard applicable in France. This standard requires us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted in:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of financial and accounting information, on which the information presented in the Chairman's report is based, as well as reviewing supporting documentation;
- obtaining an understanding of the work performed to prepare this information, as well as reviewing supporting documentation;
- ensuring that material weaknesses in internal control procedures relating to the preparation and processing of financial and accounting information detected in the course of our engagement have been properly disclosed in the Chairman's report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman's report, prepared in accordance with article L. 225-37 of French Commercial Code (*Code de commerce*).

Neuilly-sur-Seine and Paris – La Défense, March 28, 2008

The Statutory Auditors

DELOITTE & ASSOCIÉS

ERNST & YOUNG Audit

French original signed by

French original signed by

Arnaud de Planta

Jean-Paul Picard

Christian Mouillon

Alain Perroux