

Opinion of our Stakeholder Panel on the 2008 Sustainability Report

Our mission is to serve as “critical friends” who challenge Lafarge’s sustainability strategy and reporting practices, suggest improvements and form each year an opinion on Lafarge’s accountability. We highlight below key areas of progress made during 2008 and remaining challenges for Lafarge both in sustainability performance and in its report. However, we do not verify the data or deliver any kind of assurance on performance.

Report as a communication tool

Lafarge’s 2008 report builds on a steady positive trend initiated when this Panel was formed in 2003: in this five-year period, the company has shown ever-greater responsiveness to the key issues raised in our meetings. This report reflects both better substance and a more accessible style, including more succinct coverage of more issues and efficient use of web links. However, we feel that it tends to focus on achievements and good practice examples, and gives relatively shallow coverage of failures, incidents of poor practice or remedial actions taken. We have held frank discussions with Lafarge on both fundamental policy issues, including climate change, persistent pollutants, safety and human rights, and specific incidents (e.g. the Dura Quarry in Uganda and Brittany sands); we are pleased to see the outcome of these debates reflected in the report. Dr Frank Rose joined the Panel this year following our recommendation to include a member with expertise in environmental and occupational health. We welcome Lafarge’s unambiguous declaration of continued commitment to sustainable business practices despite the current economic downturn. However, we encourage the Group to be more specific about how its retrenchment in the face of slumping demand will affect progress against its Sustainability Ambitions – most particularly the effect of capex reductions on plant upgrades, as well as human resources policies to retain key staff. With government stimulus packages focusing on infrastructure and green development, we hope to see Lafarge define its recovery strategy so as to capitalize on its sustainability leadership and build on it further as a competitive differentiator.

Climate change

Lafarge has performed well against certain targets in its Sustainability Ambitions, in particular climate change; however, given the urgent imperative to try and stay within the 2°C maximum temperature increase that Lafarge rightly cites, the company urgently needs to set further challenging targets, and should not wait until the current Ambitions expire in 2012 to announce them. We are also pleased with the inclusion of responsible governance issues, such as with customers and competition policy, and the focus on exercising a positive influence on customers in favor of more sustainable choices.

Supply and value chains

Increasing the positive impact of the built environment is a process involving many actors and changing many practices. Lafarge can have a significant influence on its own suppliers, contractors and business partners. While we welcome the manner in which the issue is raised in the report, we still would like to see more involvement from Lafarge, not only as a producer, but as a partner using its influence, e.g. to push for the introduction of buildings that are

optimal in each climate region from a sustainable point of view. We appreciate that Lafarge has, at our urging, emphasized sustainable construction, as the most significant part of the environmental impact of buildings resides in their use. We commend this, and we would like a specific focus on integrated and sustainable building solutions, involving the relevant construction industry stakeholders as partners to be included in next year’s report.

Corporate governance

As a prominent actor in its sector, Lafarge has the opportunity to influence practices and public policies. On the important subject of regulation such as the EU Emissions Trading Scheme, we urge the company to ensure its lobbying positions strengthen its commitment to climate change in a way that both maximizes CO₂ reductions and confronts the threat of carbon leakage. Another key subject, given the changing face of Lafarge and its increasing presence in emerging countries, is the support given to local managers in the implementation of the Group’s Code of Business Conduct. This past year we have discussed, and been impressed by, a new version of the Code of Business Conduct training package that will be rolled out across sites in the coming months. We pushed for the inclusion of an external third party to investigate allegations of potential breaches of the code; and we urged disclosure of data related to the usage of the ethics hotline as we would like to see evidence that the hotline is known about and being used. The panel is aware of the 2008 anti-competitive issues summarized in the Lafarge Annual Report on page 14 and Note 29, but we have not yet had access to any detailed information or the opportunity to discuss these and therefore cannot express an opinion. Lafarge have agreed to our request to put these matters on the agenda for the next Panel meeting so that they may be discussed in depth.

Health and Safety

We notice that progress on safety performance is limited, and behind expectations, with significantly higher total fatalities for workers engaged in Lafarge processes directly or indirectly. Whilst employee fatalities have reduced, contractor fatalities have more than doubled from 2007. We welcome the important focus placed on subcontractors in the report, even though we urge the Group to take a strong stance in communicating that such fatalities are unacceptable – and perhaps drawing up an exclusion list of subcontractors whose standards fall below Lafarge’s expectations. We welcome the move to develop and implement a comprehensive health policy for employees.

Persistent pollutants

Progress on Persistent Pollutants is on track with the current commitment to characterise emissions from all kilns by the end of 2010, but more clarity is needed

with regard to medium and long-term intentions, and involvement of local stakeholders. The process for achieving such clarity needs to be worked out within the Stakeholder Panel as advised by expertise especially from the WWF partnership, taking into account risk assessments, legal requirements, and the most relevant stakeholders, notably the kiln neighbors. We also welcome the commitment to implement Best Manufacturing Practices to reduce emissions of the top emitters by 2010. We recognize the complexity of these commitments and that Lafarge cannot do everything overnight, but we do want them to be explicit with us about plans for reductions of emissions.

Orascom and China

We welcome the report on the significant acquisitions of Orascom Cement and L&T Concrete in 2008, since they are changing the face of Lafarge in many ways including its presence in emerging countries. We welcome the opportunity that this provides for Lafarge to raise the level of the playing field for the industry worldwide. We expect more detailed information on the important issues this evolution raises in terms of human rights, bribery, health, safety, dialog and relationship with local stakeholders, and environmental standards, with examples of how Lafarge deals with these new challenges. As Lafarge supports the Universal Declaration of Human Rights and its principles, we would also like to be given more details about how workers’ rights, especially freedom of association, are promoted in the group’s own facilities and ensured in non-democratic countries, where Lafarge’s presence is now significantly higher. We welcome the focus on emerging economies and China as a response to one of the Panel’s demands, but we would appreciate further details on Lafarge’s broader strategy for those countries, and its role in promoting the application of higher standards. We can see that commitment to raise standards is evident at head office level, but we would like to be kept informed of how effectively this is followed through all the way down to the factory floor or quarry face in distant locations. As the Panel’s primary purpose is to serve as critical friends, we are heartened to note that our role has evolved in a way that has frequently made our Panel discussions over the past year deeply satisfying. We consider that these discussions, often going much further than can be reflected in a report, manifest a real commitment and trust on behalf of all parties concerned to wrestle with challenging issues, and we respect the manner in which Lafarge listens to and responds to our input. Lafarge has power and influence and should use it across the industry sector to effect positive sustainable change: we strongly encourage the Group to pursue and intensify its efforts in this way. We believe that this will give Lafarge a competitive edge, but it will do so because it will enhance the Group’s integrity and the cohesion, including the pride of all its stakeholders.