

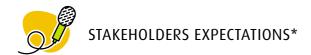
BUILDING VALUE IN THE LONG RUN

2002 SUSTAINABILITY REPORT

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LEGEND











DIVISION COVERED IN THE SECTION OR CASE STUDY

- Cement
- Aggregates and Concrete
- Roofing
- Gypsum

- $\bullet \, 2000 \hbox{-} 2002 \, consultation \, interviews \, made \, by \, Utopies$
- 2002 Feedback session held in Paris on the 2001 Sustainability report
- Further ongoing discussion with our partners (the WWF, the IFBWW, etc.)

 $^{{\}it *STAKEHOLDERS\,EXPECTATIONS\,IDENTIFIED\,THROUGH}$

BEFORE READING THIS REPORT

This report covers our economic, social and environmental performance over the 2002 period. It is designed for a large range of stakeholders: our employees, shareholders, customers and suppliers as well as end-users, public authorities, trade unions, NGOs, the media and other companies. It has been prepared in accordance with the 2002 Global Reporting Initiative guidelines (GRI): you will find a cross-reference index on the flap. The reason why we decided not to report on some of the GRI indicators is explained in the "How did we report" section (page 56).

CHANGES SINCE THE LAST REPORT

After the publication of our first report in 2001, we consulted our stakeholders in order to improve our approach, and modified it according to their recommendations.

Transparency

The first report was designed as a tool for dialogue: various external views were included even if they had not been endorsed by Lafarge. Consequently, issues were mentioned even if they were not yet taken into account by our management systems. Therefore, several stakeholders found some elements rather unclear as to Lafarge's position. In order to clarify those points in this year's contribution, emerging issues are clearly identified with a symbol. We are still exploring such questions, and considering policies and management strategies at the Group level. Some of these problems are successfully dealt with at the local level or perhaps without formalized procedure. The section entitled "Sustainability Management" describes how each department functions to attain our vision of sustainability.

Data

Data collection has been improved and a few new indicators have been defined (see Contents). Data consolidation is a long process, especially in the social field. For each on-going issue, we have provided an update of the key data. For more details, please refer to our web-site or to our first Sustainability report, where you will find a comprehensive description of the issues, as well as various external perspectives.

Our objectives

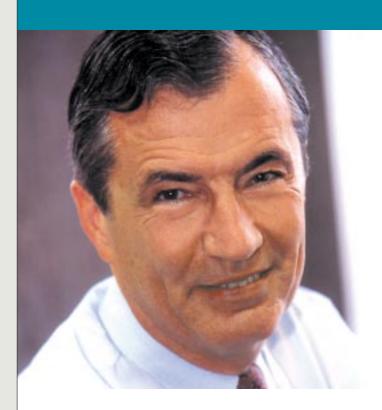
In our first report, we set 17 Group objectives. These objectives are group-wide and result from consolidations of all of our worldwide operations. Therefore, achieving these global objectives doest not, imply that each plant will reach the same performance locally. New implementation schedules have been disclosed to clarify them. You will find a follow-up table on page 18 summarizing our progress in 2002. In addition, new social and economic objectives have been defined; they are marked with a symbol within the report. Each objective will be included in our Sustainability reports until we succeed.

Sustainability and economics

The economic dimension is sometimes overlooked in sustainability reporting, as it was the case in our first report. Whereas companies report in detail on their financial performance, they do not generally explain how their activities contribute to the economy or how their sustainability performance contributes to financial performance. We tried to address these points in particular by studying the business case related to quarry rehabilitation and CO2 commitments.

We have also explored our economic impact locally and at the Group level.

MESSAGE FROM BERTRAND COLLOMB



or a company like Lafarge, progressing in sustainability is like running a marathon: the public would enjoy a start as fast as an 100-meters dash, but we must resist the temptation and go for the long run. A strategy which might seem less spectacular but which we believe is more efficient. In 2001, we published our first sustainability report along with our performance objectives, which were seen by many stakeholders as a good start in the field of accountability. Since then, the image of the marathon has guided both our management approach to sustainable development and the way we report on our performance. In line with our goal to pursue long-term performance, we have decided this year to set only a few new targets (mostly regarding the social issues), in order to focus our efforts and consolidate what is already being achieved. In the same spirit, we focused this second report on the follow-up of our objectives, while the first one was more dedicated to the exploration of the issues and challenges.

GATHERING MOMENTUM WITHIN OUR MANAGEMENT SYSTEMS

Opening this report, you will find a new section in which we try to evaluate how we can gather momentum for our approach within our management systems. Since the publication of our last report, we created a sustainability committee, chaired by Bernard Kasriel, which now oversees all sustainability issues. We also started to root sustainability aspects in our definition of performance at every level, in our policies and corporate departements'objectives as well as in the Cement Division's Advance program. All this fits in the framework of the Leader for Tomorrow project, aimed at strengthening and communicating the Group's "value with values" culture.

Stakeholder engagement is also becoming a formal part of our managerial approach at all organizational levels. At Division and site levels, it is included in the performance programs. At the Group level, we keep progressing in our on-going dialogue with our partner WWF. At the same time new relationships are being developed with other NGOs such as Habitat for Humanity and CARE, or international workers unions federations (i.e. the Federation of Building and Wood Workers). In each field, gathering so many different ideas and views helps us progress and develop appropriate answers to complex challenges such as HIV/ AIDS, the application of the International Labor Organization (ILO) standards or the development of sustainable architecture. We can help drive changes beyond the company's boundaries by bringing other companies to follow in our tracks. We are proud to say that in 2002, Lafarge played its role as an industry leader: first, through the WBCSD cement project which led the industry to set a common agenda for action; second, through our involvement in the WBCSD/ Greenpeace joint call for an international framework based on the Kyoto Protocol, during the Johannesburg Summit.

TRACKING OUR PERFORMANCE ON THE FIELD

On the social side, we have achieved significant progress in our health and safety management systems. However, we will remember those who unacceptably lost their lives in accidents in 2002. Regarding sites openings and

closures which occurred since the last report, the feedback from our stakeholders, both from international institutions (i.e. World Bank) and unions, confirms our capacity to manage properly the delicate situations. For the upcoming year, we aim at strengthening the Group social policies, in line with ILO standards, on working conditions, diversity and anti-corruption management. Regarding the environmental aspects, 2002 was a year of consolidation: our CO2 emissions were independently verified, our responsibility towards product use and procurement was formalized in our new environmental policy, and for the first time we estimated our impact related to transportation. Nevertheless, there is still room for progress, especially where environmental reporting is still incomplete. Our next area of focus will be sustainable architecture

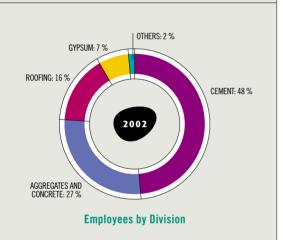
In the economic area, we regretted the European Commission decision to fine us for alleged collusion on prices and markets share on United Kingdom and German plasterboard markets. We vigorously challenged the decision and immediately brought the case before the European Court of Justice in Luxembourg. At the same time, beyond traditional financial reporting, we also started to report on the economic value we create for all our stakeholders. This could be an interesting way to progress towards a real "triple bottom line" reporting in the years to come, in order to further integrate sustainability issues into our daily decisions.

We are on track, running to win the marathon.

BERTRAND COLLOMB
CHAIRMAN AND

CHIEF EXECUTIVE OFFICER

ROOFING: 10 % AGGREGATES AND CONCRETE: 33% Sales by Division



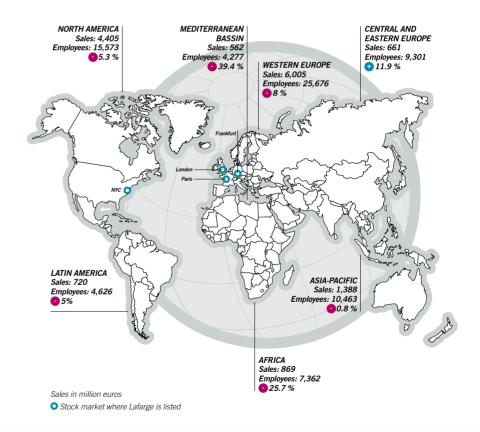
OVERVIEW OF THE GROUP'S ACTIVITIES

Lafarge, founded in 1833, is today the world's leader in building materials and each of its four Divisions holds top-ranking positions: $n^{\circ}1$ for Cement and Roofing, $n^{\circ}2$ for Aggregates and Concrete, and $n^{\circ}3$ for Gypsum. In 2002, the Group sales amounted to \leqslant 14.6 billion.

Our strategy is based on performance improvement and growth, especially in emerging markets. Our company is therefore confronted with constant evolution, which requires both strong internal culture and decentralized operational responsibilities.

Lafarge is present in 75 countries with a work force of 77,000 people. Most activities are indeed based on local resources and serve local markets. Thus, the acceptance of our activities by local communities in all regions of the world is a key component of our success.

In this context, our success is based on our ability to manage at best our different assets: our customers, our products, financial capital, human capital and natural resources.



1833 Creation of Lafarge

1956 First operations in North America 1959 First operations in Brazil

1972 Merger with Canada Cement 1980 Acquisitior of Coppée

1990 First operations in Eastern Europe 1995 First operations in Asia

1864 Lafarge supplies lime for the Suez Canal 1930 First quarry rehabilitation in Draveil (France), now a protected site

1971 Industry agreement with the first French Minister of Environment on dust | 1977 | First version | of the Principles | of Action 1982 Group starts using indust waste as fue 1992 Lafarge co-founds the French association "Entreprises pour l'Environnement"

A COMPREHENSIVE RANGE OF QUALITY PRODUCTS AND SERVICES

Our mission is to provide builders with products, systems and solutions, which are reliable, innovative and cost-effective. Lafarge offers all construction industry players, from architect to tradesman, from distributor to end-user, a comprehensive range of products for each stage of the building process: cement, lime, aggregates, paving, concrete products, floor screeds, plasterboards, gypsum blocks, sprayable plasters, roof tiles, roofing and chimney systems. To improve building materials, Lafarge places the customer at the heart of its preoccupations, and offers the construction industry and the general public innovative solutions bringing greater safety, comfort and quality (integrated solutions in Roofing for example).

FINANCIAL ASSETS

The access to financial capital is essential for every company that seeks growth. Lafarge's competitive advantage and attractiveness are based on our presence on the various stock markets (Paris, New York, Frankfurt, London), on our inclusion in key indices (Dow Jones, DJ EuroStoxx 50, CAC 40, etc.), on our financial performance and the perception of financial analysts.

HUMAN ASSETS

One of our key factors of success resides in the skills, experiences, diversity, and motivation of our 77,000 employees and thousands of subcontractors and suppliers, but also in our ability to maintain our reputation of a "great place to work" in order to attract new talents (see page 28). Locally or on a global scale, we compete with other industrial companies to attract and retain the best managers, researchers and employees.

NATURAL RESOURCE ASSETS

Natural capital refers to natural resources (land, water, stone, sand) and also includes the Earth's capacity to absorb our emissions and waste. In this domain, Lafarge competes with other extraction companies, as well as land users such as farmers, landscape protection associations, and even future generations. Our approach regarding natural capital is two-fold:

- First, we intend to protect our natural capital in developing know-how to reduce our negative impacts (in rehabilitating our quarries for example);
- Second, we aim to reduce the cost of access to this natural capital by improving our capacity to obtain permits and gain public acceptance for opening and extending quarries and new plants or for burning waste fuels.

Our competitive advantage in these domains relies on our environmental performance and the way it is perceived by public authorities, activist groups and local communities.

FROM RAW MATERIALS TO BUILDING MATERIALS

- Cement uses limestone as raw material, it is used as a binder in concrete.
- Concrete is a mix made of cement, aggregates, water and chemical additives and is used to construct houses, buildings, bridges, dams, etc.
- Aggregates include various types of sand and rocks in all sizes. Aggregates are the third most consumed resource after air and water. They are used both in concrete and directly as building material for other applications such as roads and rail ballast.
- Roof tiles are made of clay or concrete.
- Gypsum is used in plasterboards for indoor partitions, floors, ceilings and insulation linings as well as for plaster blocks, building and industrial plasters, and self levelling screeds.

All these building materials are made primarily from the raw materials extracted from our quarries.

WASTE RECOVERY SOLUTIONS

Our industrial activity from product design to processes and logistics led us to develop a waste management solution. By transforming waste into a resource, either through re-use as a raw material substitute, or as an alternative fuel, Lafarge provides an important service to local authorities and other companies. Both solutions contribute to financial and ecological savings.

1997
Acquisition of Redland
strengthens the Group in Aggregates
and Concrete and allows it to enter
the roofing market

Lafarge selected by the Dow Jones Sustainability Index (DJSI)
Publication of Lafarge and the Environment Launch of the
WBCSD study: towards a sustainable cement industry
Lafarge is the WWF's "Conservation Partner"

2002
Publication of
the WBCSD study
and agenda for

3rd phase of employee share ownership program

1995

Lafarge co-founds the WBCSD Group's Environmental Policy first internal environmental report Launch of the international employee share ownership program 1999 2nd phase of the employee share ownership

2001
Acquisition of Blue Circle
Lafarge is No.1 in cement worldwide and
listed on the NYSE
Award for our first Sustainability report

2003
Launch of Leader for Tomorrow
Lafarge signs the UN's Global
Compact
Second Sustainability report

OUR APPROACH TO FOLLOW-UP OF SUSTAINABILITY OUR PERFORMANCE FOCUS 2002

PAGE 4





OUR APPROACH TO SUSTAINABILITY

VISION AND STRATEGY

STAKEHOLDER ENGAGEMENT

SUSTAINABILITY MANAGEMENT



"LEADER FOR TOMORROW"

This is a company-wide project designed to reaffirm Lafarge's values, communicate the vision and strategy, modernize the management approach, and develop our performance culture in mobilizing every employee. It was announced in September 2002 after a 4-year period of rapid growth in which the company doubled in size, establishing the Group as the world's number one building material company and significantly increasing its complexity.

The Group's new Principles of Action, published in spring 2003 are a result of this project.

VISION AND STRATEGY

STRENGTHENING OUR LEADERSHIP

With a leadership position in each of our business lines, we are now the world leader in building materials. This gives us the strength and the opportunity to shape and develop the future of our industries. Our goal is to strengthen this leadership position by being the best, through our commitment to be:

- the preferred supplier for our customers;
- the preferred company for our employees;
- the preferred partner for our communities;
- the preferred investment for our shareholders.

We believe that Lafarge will only succeed in creating value for all these stakeholders by contributing to economic, social and environmental progress.

Cement, Aggregates and Concrete, Roofing and Gypsum will give us ample growth potential for the next several years. Each of these business lines will contribute by growing faster than the competition and average market trends. Our objective is to grow at double digit rate over the coming years. We will achieve this by:

- accelerating our organic growth through the development of innovative products, systems and solutions, and through an increasing share of the fast-growing markets in our portfolio,
- conducting acquisitions in the context of continuing consolidation of our industries.

HOW CAN WE MAKE OUR GROWTH SUSTAINABLE?

In years to come, the trend of growing demand for building materials will continue, particularly to meet emerging countries' needs. Assuming no changes in current practices, the CO2 emissions from the global cement industry - which are one of its main environmental impacts - could be expected to be quadrupled by 2050*. Construction materials being one of the basic human necessities, we will have to reconcile our ambition to contribute to human development through our products with our commitment to act responsibly toward climate change. Lafarge external growth, since our carbon efficiency performance is better than the industry average, should help limit the overall cement industry's carbon emissions. In addition, we are convinced that Lafarge's worldwide presence associated with global standards encourages the transfer of climate friendly technologies and know-how to emerging countries.

Nevertheless, as industry leader, we recognize our responsibility to research and foster innovative solutions in these three ways: $\frac{1}{2} \int_{-\infty}^{\infty} \frac{1}{2} \left(\frac{1}{2} \int_{-\infty}^{\infty} \frac{1}{2} \left(\frac{1}{2} \int_{-\infty}^{\infty} \frac{1}{2} \int_{-\infty}^{\infty} \frac{1}{2} \left(\frac{1}{2} \int_{-\infty}^{\infty} \frac{1}{2} \int_{-\infty}^{\infty}$

- Reduction of our net CO₂ emissions (see page 40) through our manufacturing processes.
- Improvement of product value combined with the development of lighter materials and lower carbon content.
- Helping our customers reduce their own carbon emissions through sustainable architecture solutions (see page 44).

*WBCSD Study - Battelle Memorial Institute

STAKEHOLDER ENGAGEMENT

IDENTIFYING, EXCHANGING VIEWS AND ACTING WITH OUR STAKEHOLDERS

Consultation with all types of stakeholders

Our stakeholders are individuals or groups which have an influence on, or are influenced by our activities: shareholders, clients, employees, trade unions, authorities, communities, partner companies, etc.

We dialogue with them at three levels:

- At the local level, dialogue is part of the site's management. It is necessary for opening a site, running a plant and maintaining our "license to operate" within the community.
- At Business Unit level, we also have well-established relationships with stakeholders and try to better understand and address their expectations.
- At the Group level, the stakeholder consultation process beyond the traditional Public Affairs approach is relatively new in Lafarge's history. The consultation of sustainability experts and activists (NGOs, scientists, specialized agencies and analysts) initiated with WWF, before our first sustainability report, continues to help us in better understanding and preparing for future progress.

Responsibilities to our stakeholders are three-fold:

- Provide information they expect within the boundaries of technical feasibility and commercial confidentiality.
- Listen, understand and address their expectations, to assure our "license to operate" as well as short and long-term success.
- Encourage mutual exchange in order to benefit from their committed support and to encourage the integration of sustainability principles in their practices.



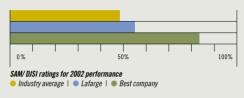


"The first report does not make clear whether Lafarge has started in-depth work with stakeholders who are

interviewed in the report, and to what extent Divisions and Business Units have been associated with the process. They should define clear stakeholder dialogue procedures and policies, to be applied in each country."

JULIAN ORAM | NEW ECONOMICS FOUNDATION

External stakeholder relations



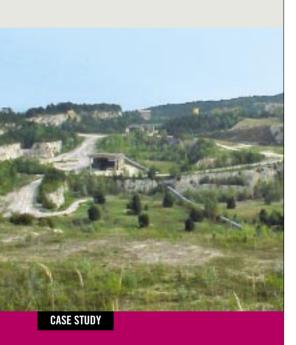
CASE STUDY

STAKEHOLDER DIALOGUE IN PORT LA NOUVELLE CEMENT PLANT IN FRANCE

Since 2000 the cement plant of Port la Nouvelle has initiated a local dialogue. Six meetings have brought together 30 people: Lafarge employees, local authorities, representatives of education, neighborhood associations and members of the medical profession. These meetings are designed to enhance the understanding of production processes and to improve the relationships with the plant staff. Participants set the agenda for each meeting to tackle questions related to the cement plant activities and their impacts on daily local life. Discussions have included smokestack emissions, dust, fuels used in the production process, control procedures, quarries, transportation methods, commercial organization, subcontractors, possibilities of local partnerships, qualifications required for employment in a cement plant, quarry management process and cement production process. At each meeting, Lafarge employees report on emissions and alternative fuels. Satisfying results have been obtained for both the plant and the community. In March 2001, a project was presented to stakeholders for use of animal meal as an alternative fuel, and a system was implemented to prevent unpleasant odors, following comments by community members. This type of dialogue is now standard at all French cement plants and has become the basis for such partnerships in other countries, as part of the Advance Program (see page 12).

"Lafarge will have to formalize its relationships with NGOs, beyond the Sustainability report and all year round, with working sessions for example."

JEAN-PIERRE EDIN | ROBIN DES BOIS (FRENCH ENVIRONMENTAL NGO)



MONITORING BIODIVERSITY IN RESTORED QUARRIES

In Austria, Lafarge and WWF, in partnership with a university and local stakeholders, have designed a biodiversity monitoring system for restored quarries. This system is being implemented in 2003 at the Mannersdorf limestone quarry and will help assess the effectiveness of quarry rehabilitation techniques with respect to improving biodiversity. It will enable Lafarge and WWF to jointly measure the range of plants and animals that can reintegrate a quarried site and their evolution over time.

MAIN ACTIONS SINCE THE LAST REPORT

WBCSD Cement Initiative's large-scale consultations

The WBCSD Cement Project, involving Lafarge and nine other cement companies, was also a framework for stakeholder dialogue. Seven dialogue sessions were held in Brazil, Thailand, China, Portugal, Egypt, USA and Europe, involving more than 300 people from producers associations, environmental NGOs, development organizations, policy-making bodies, employees, suppliers, customers, etc.

Our stakeholders feedback survey and meeting

To prepare our second Sustainability report, we organized a structured feedback survey based on the previous report. Twenty experts in corporate sustainability across the world were interviewed. The results of the survey were publicly released during a session which involved forty stakeholders from various French and international organizations as well as Lafarge's sustainability team.

In-depth collaboration with our partner WWF

The global milestone "Conservation Partnership" with WWF started in 2000 to elaborate joint managerial solutions and indicators on relevant issues, such as the reinforcement of the environmental policy at Lafarge, greenhouse emissions, biodiversity, and restoration of ecological stability in forests. Through Lafarge's support and experience in quarry rehabilitation, WWF has begun "Forest Landscape Restoration" activities in ten major regions of the world. "Forest Landscape Restoration" requires multiple levels of intervention: some activities have been research-based, others are focused on addressing policy issues, while some have begun engaging local communities and other stakeholders to restore their landscapes.

Dialogue on social standards and local development

- We have initiated a dialogue with trade union federations, among which the International Federation of Building and Wood Workers (IFBWW) and the World Federation (see page 31).
- Since the beginning of 2003, CARE one of the largest human development NGOs is a member of our Africa Health Committee to tackle the HIV /AIDS issue.
 We conduct ongoing discussions with CARE in a global partnership to set common targets. We plan to extend this agreement to other regions and other development issues (see page 53).
- Our partnership with Habitat for Humanity is a "bottom-up" initiative. Local cooperation at many sites resulted first in regional partnerships, and we are in the process of extending it to a global agreement (see page 34).

Lafarge top executives meet eco-architecture experts

In February 2003, we organized a meeting with various international experts in sustainable architecture, including Bill Browning from the Rocky Mountain Institute (US), Pooran Desai from Bioregional (UK), Michael Braungart from EPEA (Germany), and finally Ray Anderson, CEO of Interface (US). Chaired by Bertrand Collomb, this first meeting at executive level aimed to open a dialogue and identify potential synergies to address the challenges of sustainable architecture.

CONTRIBUTING TO PUBLIC POLICIES

One of our key responsibilities and the related success factors rely on our ability to participate in shaping future regulatory frameworks. The building material sector is not well-known among government circles: therefore Lafarge "public affairs", or lobbying activities, have a crucial importance at regional, national and international levels.

A formal European network for "public affairs" assembles people in charge of lobbying in the four Divisions and in several national Business Units (today France, Germany, Austria, United Kingdom, Italy, Spain, Turkey, Greece, Romania and Poland). This network composed of 20 people meets once a year (a core group of 10 meets three or four times a year). The purpose is to better coordinate Group positions so that they can be defended at European level by different member states and relayed to different industry federations.

At the Group level

The VP Public Affairs and Environment takes part in many public conferences on strategic issues, especially on climate change and corporate social responsibility (see page 41) and participates in international organizations (such as WBCSD or European Roundtable - gathering 43 CEOs of European leading companies to facilitate stable economic growth); or national associations (such as AFEP, EPE, Institut de l'Entreprise, MEDEF). Lafarge believes that industry in general will benefit from careful consideration of sustainability issues, and aims to engage other stakeholders by sharing our experience. In September 2002 in Johannesburg Lafarge collabored with BP and WBCSD's President Bjorn Stigson to elaborate the Greenpeace/ WBCSD joint statement on climate change, which supports the implementation of an international framework based on the Kyoto Protocol.

At divisional level

Lafarge's managers are actively involved in industry federations, such as the Council for European Producers of Materials for Construction, European Aggregates Association, Eurogypsum (Association of European Gypsum producers) or Cembureau (the European Cement Makers Association)

At national and local levels

In all countries, managers are also members of industry federations. In North America (US and Canada), for example, Lafarge has a very active government affairs program that addresses international, Federal, and State/Provincial legislative and regulatory matters. Among the issues addressed in 2002:

- the implementation of a plan for the Kyoto Protocol in conjunction with Canadian government,
- the development of environmental management standards with government agencies (air pollution, cement kiln dust),
- a review of health and safety (hazcom) standards, vehicle taxes (off road vehicle user fees), and logistics regulations (US Coast Guard standards).
 At the State level, we worked with various states to obtain training grants, to influence various transportation regulations (ballast water regulations on the Great Lakes), and to influence various tax related issues.

While companies may be pursuing internal policies to improve their social and environmental performance, they are

often counter-balanced by cynical lobbying work which seeks to undermine regulatory frameworks that could give teeth to CSR principles."

JULIAN ORAM | NEW ECONOMICS FOUNDATION

"Lafarge does not behave proactively enough given its reputation and potential for influence for better public governance regarding the government and industrial or environmental orientations to be adopted."

PIERRE-HENRY LEROY | PROXINVEST



www.lafarge.com

- Results of WBCSD consultations
- Lafarge feedback survey summary and list of stakeholders involved
- Set of local case studies
- WBCSD/ Greenpeace joint statement
- List of Lafarge memberships in industry associations at Division's level
- Lafarge's public position on greenhouse effect



"We need a more prospective view to 10, 20 or even 50 years because the changes necessitate a very long term perspective for the industry-sector."

BRUCE VIGON | BATTELLE

"Sustainability is fundamentally an internal process: as long as policies are not included in procedures at all different levels, it will be very difficult for Lafarge to reach the announced objectives."

JULIAN ORAM | NEW ECONOMICS FOUNDATION

EXAMPLES OF STRATEGIC TOOLS TIME SCALES

- The Corporate Research Department works on projects to be developed within the next 2 to 5 years. In addition, they conduct an ongoing alert activity on new technologies and long term trends that can affect our businesses.
- Strategic scenarios are designed until 2010.
 WBCSD Agenda for Action in the Cement
 sector gives targets up to 2006.
- Our CO2 reduction commitment is set for the 1990-2010 period.



- Principles of Action
- Environmental Policies
- Social Policies Summary

SUSTAINABILITY MANAGEMENT

ADAPTING OUR MANAGEMENT SYSTEMS TO THE SUSTAINABILITY CHALLENGE

Balancing the role of corporate culture and the role of management systems

We believe that sustainability should not be limited to a network of specialists. Each manager should be aware of his or her responsibilities and understand the business case for a sustainability approach instead of just seeing it as a new constraint.

To meet this challenge, it is crucial for managers to understand sustainability and what it means for each business. Indeed, sustainability often means doing things differently rather than "doing more" or "doing less". Translating sustainability into company culture as well as into formal management systems plays a key role to help balance short and long term priorities.

Balancing short and long-term priorities

Designing answers to complex sustainability challenges such as climate change requires long term vision and adapted management systems. One of the strengths of our industry is that "long term" perspectives are already taken into account in many daily decisions and investments. Quarry lifetime for example can be up to 50 years including a rehabilitation plan, a concrete plant can last up to 25 years. However, timescales taken into account are in many cases much shorter because of elements such as shareholders and financial analysts expectations, annual individual performance appraisals, manager mobility (on average 3 years in one position), etc. Therefore, in some cases, a potential business solution to our sustainability challenges could only prove to be profitable in a period that exceeds the timescale taken into account in our decision making process. Some stakeholders, such as our partner WWF, challenged us to further address this contradiction, by integrating longer timescales in strategic areas such as scenario planning, research programs or managers' personal objectives. As a first attempt to do so, we have begun to redesign top management's agenda in order to specifically address sustainability issues (see page 13) in a pro-active way. This section explains the current state of progress: how sustainability is managed and implemented within the Group, through which channels and to what extent.

THE "INITIATOR": OUR SUSTAINABILITY MANAGEMENT TEAM

- As defined in our 2001 objectives, a Sustainability Committee chaired by Lafarge Vice Chairman and COO Bernard Kasriel, was created in 2002. Division Directors and Corporate departments meet two or three times a year to decide on sustainability issues and elaborate strategy for the future.
- The Vice-President Public Affairs and Environment, reporting directly to the Group's CEO, is responsible for coordinating all sustainability issues.

 Two Vice Presidents assist her:
- The Vice-President Environment, responsible for shaping the Group's environmental policies and standards and coordinating the Divisions' environmental networks.

- The Vice-President Social Policies reporting to the Executive Vice-President Human Resources and Organization, is in charge of coordinating social responsibility (health and safety, employees well-being, employee share ownership, plant closures, human rights, community development). Social policies and guidelines are implemented through the Division's organizations by the Human Resources network (about 120 VP) or issue-specific contacts.

THE GUIDELINES: PRINCIPLES OF ACTION AND GROUP POLICIES

- Lafarge Principles of Action, defined at the Group level, reflect Lafarge commitments and vision. Lafarge formalizes its Group policies based on the Principles of Action and major stakeholders expectations. They are adopted at Division and Unit levels through programs incentives, specific objectives and performance measurement tools.
- In 2002, Lafarge has reviewed its environmental policy and published a new version that reflects the increasing expectations of the world around us as well as emerging environmental issues.
- In 2003, the Principles of Action and the Human Resources Policies (written in 1999) will be revised to reflect emerging issues.

How do our policies cover corporate social responsability issues?

The table below presents how the main sustainability issues identified through stakeholder consultation are currently covered by our various policies.



"The second report become more strategically important if Lafarge would link their Principles of Action to a scientifically sound framework for sustainability."

ANDRÉ HEINZ | THE NATURAL STEP (ENVIRONMENTAL NGO)

"ISIS AM believes that good management of sustainability issues contributes to shareholder value in the long-term: a company's governance of corporate responsibility issues is usually a good indicator of the overall quality of management. We therefore welcome Lafarge's commitment to identifying, assessing, and managing its key sustainability impacts."

CLAUDIA KRUSE | ISIS ASSET MANAGEMENT, FIRST EUROPEAN SOCIALLY RESPONSIBLE INVESTOR, LAFARGE SHAREHOLDER.

ECONOMY	SOCIETY	ENVIRONMENT
Transparency and Integrity	▲ Stakeholder dialogue ■	Air and water emissions, noise
Respect shareholders interests	● Heath and Safety ▼	Raw material consumption and substitution
Long-term strategy	▲ Wages, benefits, training and career management	
Ethical Investment	- Redundancy issues 🛕	Quarry rehabilitation
International approach with respect of the local specificities	△ Diversity △	Extraction impacts on biodiversity
Governance structures	Human Rights in labor (ILO standards)	Energy consumption and Co ₂ emissions
Contribution to local development	▲ CSR in Community relationships ▲	Transport
Competition and pricing	- Suppliers and subcontractors social performance	Suppliers and subcontractors performance
Trend setters	Management systems for bribery and corruption risks	Minimizing plants end of life impacts
	corruption risks	Product stewardship
Explicitly covered by our:		Sustainable architecture
 ▲ Principles of action only ● Financial policy ▼ Human Resources policies ■ 2003 Environmental policy 		Products end of life
2005 2 Office that policy		



DIVISION PERFORMANCE PROGRAMS

Each Division has a dedicated performance support structure and program, which provides all Business Units with operating responsibilities and objectives, since performance is the principal source of value creation. Performance objectives of Business Units now include sustainability, particularly in the Cement and Gypsum Divisions.

Cement: Advance Program

Advance is a continuous program designed to drive the Cement Division in the spirit of Leader for Tomorrow (see page 6). It is a new integrated and transversal approach to performance, much larger than industrial performance alone. It is based on five equally important areas, representing the key value drivers of our business (strategy, marketing and sales, industrial, performance culture and sustainable development).

- Each area is subdivided into factors of success. Regarding sustainable development, four priority factors have been identified for 2003: resource recovery (waste management), CO₂ and climate change, stakeholder relationships and safety.
- For each factor, Business Units will go through a detailed process: self-assessment (with assessment tools provided), prioritization and action plan.

 The program will be launched and implemented in all Business Units worldwide in 2003. Sustainable development will then be completely integrated into the Cement Division daily management.

Gypsum: "Excellence is our commitment"

A structured management program is in place, supported by a strong internal communication campaign addressing Quality, Safety, Respect for the environment, Innovation, Client satisfaction and Sharing experience.

A SUPPORT ROLE OF CORPORATE DEPARTMENTS

The role of corporate departments is to design Group policies, implement, and roll out transversal tools or programs throughout the company in each strategic area. In this context, the "sustainability team" has the responsibility to assist the other corporate departments in defining their approach to integrate the Group sustainability commitments in their areas. In 2002 we initiated a systematic review to identify the potential role of each department in promoting sustainable development.

The next chart sums up the first results of the review. Next year, three departments (Research, Marketing and Purchasing) will go further in defining responsibilities and specific objectives.

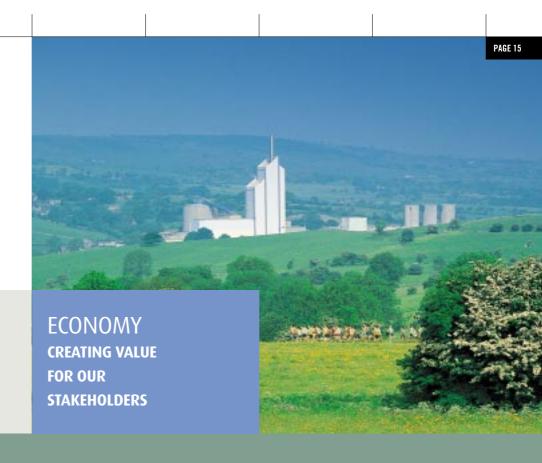
INTEGRATION OF SUSTAINABLE DEVELOPMENT INTO CORPORATE DEPARTMENTS AGENDA

CORPORATE DEPARTMENTS	IDENTIFICATION OF EACH DEPARTMENT ROLE IN PROMOTING SUSTAINABLE DEVELOPMENT, GIVEN THE GROUP'S COMMITMENTS AND ISSUES ANALYSIS	Compliance with international and national legal standards	Projects targeted on sustainability in 2002, beyond compliance	Integration of formal sustainability objectives	Tool-Design for group-wide sustainability	More on page
STRATEGY	- Develop business models to tackle long term issues Integrate sustainability factors in country risk assessments.	•	•	•		6,7 and 33
FINANCE AND CONTROL	 - Gain know-how in CO₂ trading. - Explore economic accountability tools and reporting systems that integrate externalities. 	•	•			24 and 25
RESEARCH	Integrate sustainability criteria into product risk assessment and development. Develop research programs targeted at sustainable development issues.	•	-	-		40
HUMAN RESOURCES	- Develop social management framework. - Implement Key Performance Indicators and reporting systems on social policies (Focus on Health and Safety in 2002).	•	•	•	-	26-35
PUBLIC AFFAIRS*	- Ensure coherence between the Group's analysis of sustainability issues stakeholders outreach and various lobbying activities.	•	•	•	•	9 and 41
ENVIRONMENT*	- Develop stakeholder dialogue at corporate level Implement the Environment Policy into Lafarge operations.	•	•	•	•	8 and 10
PURCHASING	- Integrate sustainability criteria into the decision-making process: subcontractors identification, contracts Monitor contractors performance based on sustainability criteria.	•	•			31
MARKETING AND E-BUSINESS	 Identify customers sustainability expectations as well as health and safety requirements. Promote sustainable development among customers, eco – architecture being the main issue. 	•				44 and 45
LEGAL AFFAIRS	- Ensure alignment of corporate governance policy with the Group commitments. - Manage and anticipate legal risks related to sustainability issues.	•				20 and 21
INVESTORS RELATIONS	- Answer socially responsible investors' questions Increase "traditional" investors' awareness regarding sustainability.	•	•			18-19
COMMUNICATION	- Communicate the Group's sustainability commitment Develop local stakeholder dialogue.	•	-			7
AUDIT	 Keep on integrating environmental health and safety criteria into site audits. Develop processes to audit the sustainability approach. Monitor sustainability performance self-assessments. 	•	•			27 and 42
	■ Yes No					

 $^{{}^*}A\ single\ corporate\ department\ is\ in\ charge\ of\ both\ areas.$



ENVIRONMENT REDUCING OUR ECOLOGICAL FOOTPRINT



FOLLOW-UP OF OUR PERFORMANCE





THE WBCSD SUSTAINABLE CEMENT INDUSTRY PROJECT'S AGENDA

The 10 members have an Agenda for Action for the next five years. It includes six key areas of progress: climate protection, fuels and raw materials consumption, employee health and safety, emissions reduction, local impacts and internal business processes.

www.wbcsdcement.org



GLOBAL CORPORATE CITIZENSHIP: THE LEADERSHIP CHALLENGE FOR CEOS AND ROADDS

The statement covers the following aspects: "provide leadership, define what it means for your company, make it happen and be transparent about it".

www.weforum.org



GLOBAL BUSINESS COALITION ON HIV/AIDS

The coalition is an alliance of International companies, dedicated to the fight against HIV/ AIDS. www.businessfightsaids.org



THE UNITED NATIONS' GLOBAL COMPACT

It is designed to engage multinational companies. It includes nine principles which cover areas of human rights, labor standards and the environment. www.unglobalcompact.org

FOLLOW-UP OF OUR SUSTAINABILITY OBJECTIVES

CORPORATE OBJECTIVES

We decided to report on progress regarding the 17 objectives defined in our 2001 sustainability report and to include the new objectives adopted in 2002.

Three objectives related to tool implementation will not be renewed in 2003 as they have been achieved. All the others are still in progress either because they are not completely achieved or because their deadline is set at a later period. For each objective the following chart shows the deadlines and the current state of progress. These objectives are group-wide and result from consolidation of all our worldwide operations. Therefore, achieving these global objectives does not imply that each plant will reach the same performance locally.

OTHER PUBLIC STATEMENTS AND MEMBERSHIPS

Apart from the 2001 Group targets, Lafarge, on its way towards sustainability, has combined several initiatives since the previous report:

- As a member of the WBCSD Sustainable Cement Industry project, we have adopted its Agenda for Action, which defines joint-projects related objectives as well as individual objectives.
- During the 2001 World Economic Forum, Bertrand Collomb signed together with 38 CEOs the Global Corporate Citizenship Leadership Challenge statement.
- We joined the Global Business Coalition on HIV/ AIDS in early 2002.
- In early 2003, we have signed the United Nations' Global Compact.

These statements and memberships also represent public commitments, therefore. You will find, throughout the report, elements to evaluate Lafarge's performance against these various statements. Furthermore, we assessed our progress in detailed follow-up tables for each of them, which can be found on our website.

In 2003 we will consequently further develop our policies and procedures concerning human rights issues to give detailed guidance to our Business Units on how to apply the Global Compact.

Concerning HIV/ AIDS, our membership in the Global Business Coalition will help us accelerate the implementation of our health management policy (see focus page 51).

GROUP OBJECTIVES	Date	Actual state	More page
OUD ADDDOACH TO CUCTAINADIE DEVELODMENT			
OUR APPROACH TO SUSTAINABLE DEVELOPMENT			
■ Create a Sustainability Committee to oversee sustainability issues	2002	•	10
Designate one person, reporting directly to the CEO, responsible for coordinating sustainability issues	2002	•	10
Reinforce and systematize stakeholder consultations and dialogues at the local, national and international levels	2002	•	8
Bring together, at least once a year, Lafarge senior executives and WWF	2002		8
or other sustainability specialists to exchange views on sustainability issues	2002	,	
ECONOMY			
■ Extend EVA to two thousand managers	2002	2200	21
SOCIETY			
Review Health and Safety policy and management systems		•	26
Review the other Group's social policies and develop guidelines	2005	•	31
▲ Develop our actions to improve health management including the specific problem of HIV/AIDS in hard hit and deprived local communities	2002	•	52
▲ Define action plan in 100% of African countries	2003	-	52
▲ Implement Health and Safety management in all Business Units	2005	30%	27
■ Implement an intranet job market, accessible to all	2002	•	29
To repeat share-ownership programs at regular intervals:			
• LEA 2002	2002	•	30
• ▲ LEA program 2004-objective of reaching 3% employee ownership in Lafarge in the mid-term	2004	1.9%	30
Develop Group guidelines regarding disabled people	2003	•	30
▲ Double the internal training rate from 1/6 to 3/6 at corporate and Division levels Develop quantitative reporting tools in line with GRI guidelines to be set up among the Business Units	2005	•	28
▲ Define a corporate approach against bribery and corruption practices	2004	-	34
ENVIRONMENT			
Have 100% of our sites audited within the last four years	2004	91%	42
Implement a Lafarge-approved rehabilitation plan by 2004 at 80% of our quarries	2004	•	37
Achieve a maximum level of stack dust emissions of 50mg/Nm3 at all our cement plants	2010	•	42
Report on performance in our next report	2010	27.4%	42
Improve data collection on water usage	2002	•	43
Reduce Lafarge's global CO ₂ emissions by 20% per ton of cement over the period 1990-2010,	2010	-10.8%	38
including a 15% reduction in total CO ₂ tons emitted for industrialized countries*		-11.2%	
Extend the measure of energy consumption to all Divisions		_	
where it is significant and track improvement into the future	2003	•	39
Use recycled materials at a level of:			
10% for the Cement Division	2005	10.5%	37
45% for the Gypsum Division	2005	49%	37
Extend the indicator as appropriate to the other Divisions over time	2005	•	37
Reduce production waste going to disposal to:			
1% for the Cement Division	2005	1.4%	43
1.5% for the Gypsum Division Set target for the Roofing Division	2005	1%	43

 $[\]bullet \ A chieved \ | \ \bullet \ Significant \ progress \ | \ \blacksquare \ Objectives \ which \ will \ not \ be \ reconducted \ | \ \blacktriangle \ New \ objectives$

^{*} Lafarge calculation model for ${\rm CO_2}$ emissions is different from the WWF calculation model. From WWF's perspective, this later target is reduced to 10% because the ${\rm CO_2}$ emissions from waste fuels are not considered as carbon neutral.

ABOUT THE EVALUATION PROCESSES AND CRITERIA

The various organizations which rate Lafarge for socially responsible investing purposes use approximately the same process:

- They choose a list of companies as "starting universe", which is generally a "classic" stock-market index. Companies are spread into industry groups (building materials or construction sector for Lafarge).
- They interview and/or send questionnaires to the managers of the companies.
- They cross-check the data with publicly available documents and other sources
- They use their own set of criteria (which generally cover the main industry-specific social, ethical and environmental issues) to evaluate performance.
- On this basis, they rate and rank the companies or use exclusionary screens in order to build a short list of best-in-class companies in each industry group.
- Within this short-list, companies are weighted according to financial criteria in order to build "sustainability" portfolios and indices.

On the Internet

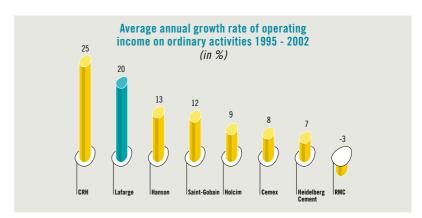
For further information on each organization, download the "Guide to Sustainability Analysis Organizations" www.orse.org

OUR TRIPLE BOTTOM LINE PERFORMANCE VS OUR COMPETITORS

This section includes an overview of the ratings given by the main Socially Responsible Investment (SRI) analysts and fund managers, which evaluated Lafarge in 2002. At present, this is the only comparable and independent assessment of our triple bottom line performance.

Lafarge is recognized as an industry group leader by most of them. The Group is now included in all major European and international sustainability indices.

BENCHMARKING OUR FINANCIAL PERFORMANCE



BENCHMARKING OUR TRIPLE BOTTOM LINE PERFORMANCE

Presence in the main sustainability stock indices

COMPANY/ Screening Agency	DJSI WORLD SAM	DJSI STOXX SAM	FTSE4GOOD World Eiris/Ode	FTSE4GOOD EUROPE EIRIS / ODE	ESI ETHIBEL
Lafarge	•	•	•	•	•
Holcim	0	0	0	0	Not rated
Heidelberg)	0)	0	Not rated
St Gobain	•	•	0	0	Not rated
CRH	•	•	0	0	Not rated
Hanson - BPB	0	0)	0	Not rated

● Included ⊃ Not selected

Note 1: the Domini 400 index (screening agency KLD) was not included in the table as it only rates US companies. Thus companies mentioned here are not part of KLD's universe.

Note 2: as opposed to the first report, neither Storebrand's evaluation (since it was not updated in 2002) nor ARESE's evaluation are included in this section (since the company was acquired by Vigeo and has not updated the previous ratings).







SAM/ DJSI

Since the launch of the Dow Jones Sustainability Index World (DJSI World) in 1999 and the DJSI STOXX (Europe) in 2001, Lafarge has been included in both. It was the leader of its industry group until 2003 but SAM decided to downgrade its position, following the European Commission fine (see page 23). SAM's economic evaluation of Lafarge is still above the industry average. According to SAM:

- Shareholders communication has been improved and enhanced by integrating sustainability in company performance. However, Lafarge needs to establish a Group policy on antitrust behavior, since only North America and the United Kingdom operations have guidelines on this issue.
- \bullet For the environment, Lafarge is above the industry average. SAM welcomes Lafarge's ${\rm CO_2}$ commitment and its partnership with WWF. The next environmental challenges concern freight control and logistics.
- The social performance is above the industry average: employee satisfaction surveys, external stakeholder dialogue improvements, and the corporate position on diversity are positive. Lafarge should now work on monitoring the whole supply chain by including criteria to select its suppliers (on health and safety or labor standards).

FTSE4GOOD INDICES

In the September 2002 assessment, Lafarge was excluded from the FTSE4GOOD index because although it was meeting most of the criteria, the Environmental Management Systems were missing.

Thanks to greater disclosure from Lafarge in December 2002, the company EMS was positively reassessed by EIRIS and it was recognized that Lafarge was now meeting the environmental criteria – thanks to:

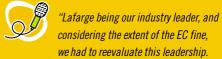
- The extension of ISO 14001 certification of EMS to over 33% of the Group;
- The development of an environmental policy and commitments;
- \bullet The implementation of a good environmental management system and reporting. In March 2003 Lafarge has integrated the FTSE4GOOD indices.

ETHIBEL SUSTAINABILITY INDEX

Lafarge has been on Ethibel's positive list for a long time, and was included in Ethibel Sustainability Index based on the Standard and Poors (SandP) 500 at its creation in 2002. According to Ethibel:

- Lafarge benefits from good internal social policy supported by employees and trade unions;
- Lafarge has also made considerable efforts in the field of environment to lessen its impact;
- Not only has Lafarge defined a good code of conduct, but it also applies it in a social investment program in partnership with Habitat For Humanity;
- In emerging economies Lafarge works closely with the local authorities and communities and while respecting local regulation, Lafarge aims to implement its quality standards;

Ethibel does not communicate on companies weaknesses.

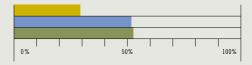


Although it has failed in its antitrust behavior, it has nevertheless shown a good record of sustainability performance."

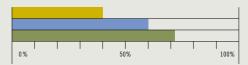
YULANDA CHUNG | SAM 'S MINING, ALUMINIUM, STEEL, BUILDING MATERIALS, CONSTRUCTION, AND REAL ESTATE ANALYST

SAM/DJSI ratings for 2002

Total score



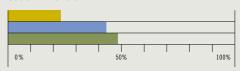
Economic dimension



Environmental dimension



Social dimension



Industry average | ■ Lafarge | ■ Best company

ECONOMY

BENCHMARKING LAFARGE SYSTEM PERFORMANCE



SAM

Lafarge is judged above the industry average

Corporate Governance





PROXINVEST

In 2002, Proxinvest, the leading French proxy voting consulting firm rated Lafarge 6,654/10 and ranked it 11th out of 180 in its benchmarking survey of European companies included in the FTSE Eurotop 300 (United Kingdom excluded) regarding quality board control based upon the following criteria: board members independence and subcommittees existence.



CORPORATE GOVERNANCE

In 2002, a number of new regulations and recommendations were released addressing the manner in which corporate governance should be improved in the near future. Corporate governance is designed to preserve shareholders interests in the long run and to guarantee value creation for all stakeholders.

These new regulations and recommendations call for reform in ways companies govern, monitor, and control themselves as well as in ways they communicate to the public. Lafarge has therefore decided to revisit its corporate governance rules and practices in light of the latest changes in US regulations following the Sarbanes-Oxley Act and the recent French guidelines outlined in the Bouton Report.

In the next few months, the Board will adopt a new set of internal regulations governing the Board and its sub-committees – in particular, their missions, organization, criteria used to appoint independent directors, as well as assessment and monitoring procedures.

INDEPENDENCE OF THE BOARD OF DIRECTORS

In 2002, Lafarge's Board of Directors included 13 non executive directors out of 15 and at least 8 independent directors.

The Board discusses on all major issues of the Group: it decides the strategy orientation and oversees its proper implementation. The Board meets at least four times a year. In 2002, it met four times, and the average attendance rate reached 95%. Three specialized sub-committees are related to the Board of Directors: the Organization and Management committee, the Finance/ Audit committee and the Strategy and Development committee. They submit proposals to the Board of Directors. The members are qualified directors who generally meet twice a year.

The Board's new initiative regarding its corporate governance rules and practices will further the various measures already implemented by the Board since 1995, that have led to the increase in the number of independent directors, the creation of the Board's sub-committees, increased transparency toward shareholders, the publication of the Group's financial results within two months after the close of each financial year or the rules governing directors' tradings in the Company's shares.

NEW CORPORATE STRUCTURE

On February 26th 2003, the Board has decided to separate the duties of Chairman of the Board from the duties of Chief Executive Officer effective as of May 20th 2003. This separation, in line with British and American corporate governance, was made possible after the changes to the Company's bylaws decided by the general meeting on November 5th 2002.

On May 20th 2003, Bertrand Collomb will therefore remain as Chairman of the Board and Bernard Kasriel will become Lafarge's Chief Executive Officer.

FINANCIAL LITERACY AND TRANSPARENCY

Lafarge has created the Shareholder Consultative Committee to enhance dialogue with its shareholders by organizing meetings and events. Since 2001 Lafarge has been publishing financial information regularly:

- Once per quarter regarding current sales,
- In early September regarding its first-half results,
- At the end of February on its annual results.

MONITORING SYSTEM AND RISK MANAGEMENT

In accordance with the Sarbanes-Oxley Act, Lafarge has taken a number of internal measures implementing control and internal audit procedures and will be pursuing its efforts in this respect in 2003.



CASE STUDY

EVA, A TOOL TO ASSOCIATE LAFARGE EMPLOYEES TO SHAREHOLDER VALUE CREATION

Since 1998, Lafarge has adopted a new approach to measure its performance: the EVA (Economic Value Added) method. It provides a complete picture of the company's economic performance compared to traditional accounting results and takes into account all the costs, including that of capital invested by shareholders, and debts.

EVA is particularly appropriate for Lafarge since building materials are a capital-intensive business.

EVA = OPERATING PROFIT AFTER TAX
- COST OF CAPITAL EMPLOYED

The EVA-incentive compensation system is critical to EVA-based financial management: it gives managers superior information - and superior motivation - to make decision that will create the greatest shareholder wealth.

Thus, it is a method that allows the change of corporate priorities and behavior throughout the company: value based management encourages innovative, entrepreneurial, but accountable behavior. Based on financial and personal objectives that aim at fostering operational excellence in each of Lafarge's Divisions, this new bonus plan has been designed to achieve a more efficient and profitable performance. Implemented in 2000 for 700 managers, this bonus plan was extended to 2,200 managers in 2002.



• Lafarge's 2002 annual report



AGILIA®

Agilia® is a self compacting concrete range launched by Lafarge Aggregates and Concrete Division in the late 1990's. It has grown from two products sold initially in France to 14 products currently sold in five countries, including the major North American market. Agilia® is a product designed to save customers' time and money in the construction process.

Since the Agilia® product range can vary due to local material sources and application techniques, it is rather difficult to make specific statements relating to cost reductions. However, it is clear that Agilia® does create value for the client due to reduction in labour requirement, application time, pumping costs, formwork hire and crane costs. Overall construction costs, despite the initial additional material costs, show savings of 5-10% compared to traditional concrete.

Furthermore, the high fluidity of the product means that the traditional requirement for noisy vibrators to compact concrete is eliminated, contributing to the health of construction workers: vibration damage to fingers and soft tissue is significantly reduced, as well as auditory damage. Prevention of related indirect social costs (medical expenses, etc.) further contribute to the reduction of overall construction cost.



STAKEHOLDER VALUE CREATION

MEASURING STAKEHOLDER VALUE CREATION

To sustain its leadership, the Group has to manage to the highest standard its performance in each field related to its strategic assets: clients, financial capital, human capital and natural capital (see page 3). An increase in performance means added value creation for each group of stakeholders related to our activities: our clients, our shareholders, our employees, our suppliers, public authorities and communities.

Beyond the value added to our products for our clients and their own stakeholders, the Group activity creates value for its stakeholders through its direct and indirect economic impacts.

- Direct economic impacts (wages, purchases, taxes, etc.) are more or less already
 translated into our subsidiaries' accounts. Nevertheless, the generally accepted
 consolidation methods do not clearly highlight the relative contribution
 to each category of stakeholders at the Group level. As a first attempt to report
 more exhaustively on that point, we provide in this report our revenues
 distribution, which is based on our consolidated financial statements and some
 complementary financial elements.
- Indirect impacts can be either positive (when related to our contribution to employees' experience for example) or negative (when related to our contribution to climate change). Various indicators are used in this report to measure indirect impacts in volume according to emerging guidelines and protocols such as the Global Reporting Initiative (GRI) and WBCSD protocols. However, there is still no generally accepted approach to translate indirect impacts into financial terms, even if they definitively come with an economic benefit or cost for society. Therefore, we present in this report a snapshot of some indirect impacts generated by our activities as well as some external views on the costs associated with them.

3

THE ECONOMIC CONTRIBUTION OF OUR PRODUCTS

Lafarge delivers various building materials, used to construct houses, buildings, bridges, dams, roads, rail ballasts, etc. However, the effective economic contribution of our products cannot be reduced to the number of buildings constructed by our clients. We also have to take into account the value that our products bring to these projects in terms of quality (including insulation, durability, strength/ weight ratio, practicability, safe use) and affordable prices. Our strategy is therefore to maximize our economic contribution on both dimensions, by developing our sales and by improving our products' performance to increase customer satisfaction.

How can we assess our success in that field?

• The number of buildings constructed by our clients is the most obvious aspect of our global economic contribution. However, given the variety of our products' uses and the complexity of the retail chain, we do not have yet enough data to evaluate this contribution at the Group level. As an example of available data for France, Lafarge Ciment, which represents 7.2 % of the Cement Division sales in volume, produces enough cement to build about 100,000 habitations per year.

• The value that our customers and end-users derive from the use of our products is more difficult to assess. Pricing reflects the value that our customers perceive and are willing to pay for our products. In that respect, fair pricing is a key element of our economic contribution. However, pricing does not capture all the economic value created by Lafarge through product innovation. The Agilia® range of concrete products offers a good example of such a discrepancy: the initial additional cost (the cost of Lafarge's innovation) is more than compensated by the savings in the overall construction cost for our clients. Given the huge difference between conditions of use from one country to another, and from one product to another, it is however very difficult to assess our progress in this area at the Group level.

European Commission's fine for collusion on the European plasterboards markets

In November 2002, the European Commission decided to fine the Group on the grounds that it allegedly participated in a collusion on plasterboard market shares and prices with its competitors between 1992 and 1998 in the United Kingdom and Germany. On that basis, the European Commission has ordered the Group to pay a €250 million fine. Lafarge vigorously challenged the decision and immediately brought the case before the European Court of Justice in Luxembourg.

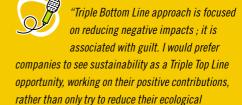
Lafarge's arguments

Lafarge maintains that while statistics were informally exchanged by manufacturers because they were lacking any other source of usual market information, no collusion on prices or quantities ever took place. We are confident that the European Court Of Justice in Luxembourg shall recognize this and shall accordingly review the decision of the Commission.

Another case is pending in the German antitrust body, the Bundeskartellamt, relating to anti-competitive practices in the East German market. Lafarge acknowledges the facts and has terminated all reprehensible practices, underlining that these could be explained by historical circumstances linked to the rapid rebuilding of East Germany as well as to the existing over-capacities aggravated by low price dumping imports from Eastern Europe.

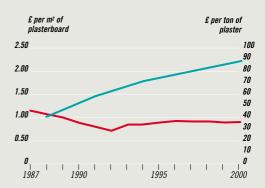
In February 2003, Bertrand Collomb gave an interview where he outlined the framework in which construction material industries have in the past resorted to

framework in which construction material industries have in the past resorted to official or unoffical cartels, and which sometimes explains the survival of outdated practices, but more often a suspicious attitude of antitrust authorities towards the industry. He stated Lafarge's will to implement a strong fair competition policy and to make sure that everybody in the Group complies with it. Training programs are being organized to help managers fully understand the legal and managerial implications of a sound competition approach.



footprint."

DR. MICHAEL BRAUNGART | EPEA



Average prices in gypsum products UK market

UK plasterboard market | UK finish plaster market



Evolution of the average prices in the German plasterboard market



EVALUATE OUR DIRECT ECONOMIC IMPACTS

The table below shows how the company's revenues (thanks to our customers) are re-allocated among all of our stakeholders: suppliers, employees, State treasuries, shareholders, etc. It is a first attempt to evaluate and track our direct economic impact. In the next reports, Lafarge will continue to fine-tune this analysis by including figures that do not classically appear in financial statements. In addition to this global picture, you will find page $51\,a$ local case study on the impact of a French cement plant on employment. Unless otherwise specified, all the data presented here is derived from the Group's consolidated financial statements.

(in million euros)	2002	2001
REVENUES FROM OUR ACTIVITIES	14,945	14,109
Sales	14,610	13,698
Other revenues	335	411
AMOUNTS RETAINED IN BUSINESS FOR RE-INVESTMENT	1,800	1,670
Provisions	302	-118
Depreciation	1,174	1,103
Retained earnings	324	685
AMOUNTS DISTRIBUTED TO OUR STAKEHOLDERS	13,145	12,439
Employees, suppliers, civil society and indirect taxes ¹	11,787	11,075
of which employees	2,749	2,550
of which restructuring costs	89	69
of which transporters ²	1,630	N/A
of which WWF International ²	1.1	1.1
State treasuries	346	367
Investors and banks	1,012	997
Banks and bond holders	624	660
Shareholders, including minority interests	388	337

¹ The consolidation process does not capture the exact distribution between all these stakeholders 2 These data do not come from our financial reporting systems. They have not been verified by our auditors.

3

EVALUATE OUR INDIRECT ECONOMIC IMPACTS

Social and environmental impacts cannot be reduced to their economic footprint; however, the estimation of their economic cost or benefit can prove to be a useful decision-making tool for a company. Given the current policy makers' ambition to progressively integrate some of these external costs in the price of products through legal framework such as the Kyoto Protocol for ${\rm CO}_2$, it is clear that the assessment of these external issues will be a growing necessity for Lafarge in the long run. Anticipating calculation and reporting on the indirect impacts are equally important for Lafarge.

- On the one hand, it will allow us to perfect our long term strategic planning.
- On the other hand, it is a means to gain credibility in order to negotiate the appropriate frameworks with the public authorities. Indeed we do not agree with all forms of implementation of the Kyoto ambitions: we consider for example national eco-taxes for energy intensive industries as inefficient (see page 41.)

 The table below presents a non-exhaustive snapshot of some obvious social and environmental impacts of our activities, as well as the stakeholders mainly concerned by these impacts. The related economic costs are at present very difficult to assess: some experts have tried to evaluate some of these issues financially (see quotes). The indirect costs and benefits related to the life cycle of our products were excluded from this analysis for several reasons: first they are partly included in the product price; second, the benefits depend on the conditions of use of our products (for example product insulation properties).



"If a company wants to offset its CO_2 emission by planting trees in order to be climate neutral, it would cost an average of $\leqslant 4$ per ton of CO_2 ."

GUY REINAUD | PRESIDENT OF PRO-NATURA INTERNATIONAL

If current trends persist, the annual loss amounts (related to climate change) will, within the next decade, come close to US\$150 billion, of which a significant fraction will be insured.

SOURCE | UNEP FINANCIAL INITIATIVE 2002 REPORT

Road transportation has an average external cost of $\in 88$ per 1,000 ton/km in Europe, without congestion cost which ranges from 1 to \in 14 per 1,000 ton/km. By comparison rail track and boat transportation represent only 19 and \in 17.

SOURCE | EUROPEAN WHITE PAPER ON TRANSPORTATION

SOME OF THE INDIRECT IMPACTS OF OUR ACTIVITIES ON SO	CIETY	SEE PAGE	TYPE OF ECONOMIC COST OR BENEFITS	WHO IS Affected?
TRAINING AND EXPERIENCE		31	Less redundancy in local communities and better wages for former employees	∆ ∀ x
HEALTH MANAGEMENT	•	29	Less medical costs assumed by other actors, health improvement	∆ • ∀ x • ≡
QUARRIES REHABILITATION	•	39	Surrounding land value appreciation	▼ ■
LANDSCAPE MODIFICATION	•	39	Surrounding land value depreciation	▼ ■
CO ₂ EMISSIONS	•	40	Trouble related to climate change	▼ x + ■
LOCAL POLLUTION	•	44	Health cost, surrounding land value depreciation	▼ x + ■
NOISE FROM PLANTS AND QUARRIES	•	39	Insulation cost, health cost, cost of land on surrounding no man zone	▼ ■
IMPACTS OF ROAD TRANSPORTATION	•	45	Costs related to: accidents, congestion, climate change, pollution, noise, infrastructure investments	▼ • x • ≡

- \blacktriangle Employees | \blacksquare Suppliers | \blacktriangledown Communities | \blacksquare Local authorities | \bigstar States | \spadesuit Insurers
- Main external costs | → Benefits for our stakeholders



SOCIETY

CASE STUDY

FOLLOW-UP OF THE HEALTH AND SAFETY SITUATION IN ROMANIA

Despite continuous efforts, and the implementation of an efficient safety action plan (no fatalities recorded for the first time in 2000), our Business Unit in Romania had to face five fatalities in 2002 (one employee and four contractors) and 11 Lost Time Accidents (5 employees, 6 contractors)*. In addition, Lafarge Romcim is working with an increasing number of contractors, so awareness and training are difficult, especially since safety requirements are generally quite poor in the country. Lafarge Health and Safety Management System will help management to enhance safety procedures and performance, including contractors monitoring.

*ITAs are now reported in compliance with new group KPIs (1day out of work), but reported before 2002 in accordance with Romanian legislation (after 3 days out of work).



HEALTH AND SAFETY

Health and safety have been Lafarge's priority for a long time. However, the recent acquisitions and the establishment of the Group in many countries has led to a more complicated reporting process and generate unsatisfactory performances. As a result, the Group Policy was rewritten in 2002 with an appropriate reporting and continuous improvement management system.

HEALTH AND SAFETY POLICY

The Policy is composed of Guiding Principles, definition of key roles and responsibilities, performance indicators, main processes and tools at Corporate and Division level. The Health and Safety Policy was communicated to all senior managers in 2002.

Several new processes were designed to enhance safety:

- Health and Safety Division Directors monitor the process and meet at least once a year (three meetings in 2002);
- The internal audit department now controls the implementation of the Safety Policy in each Division/Business Unit (BU).

THE HEALTH AND SAFETY MANAGEMENT SYSTEM

Based on 4 principles.



- The Health and Safety Management System respects the basic principles defined in the International Labor Office guidelines on Occupational Safety and Health management systems (ILO-OSH 2001). It communicates the minimum standard to be applied within all Lafarge sites.
- A self-assessment tool is provided to the sites. It allows them to first assess and analyze the gap between the Health and Safety Management System (HSMS) and the actual site situation and then prepare an annual action plan, to identify the weaknesses, and implement the appropriate solutions. Indeed, while leadership involvement and the on-site working environment need to be reinforced, training and communication as well as prevention and control of risks seem to be well integrated.
- Within three years, the Health and Safety Management System will be implemented in all Business Units, and audited at BU level or at Division and/or corporate level (30% in 2003).

IMPLEMENTATION IN THE CEMENT DIVISION

Being the most exposed, the Cement Division was the first one to launch Lafarge Safety Management System for implementation (end of 2002) and to define specific tools to reach the four targets identified for 2003:

- No fatal accidents during operations that take place in silos (particularly cleaning operations)
- No fatal accidents involving heights
- Regular safety inspections carried out by each BU's operational management
- Early analysis of the risks at each site

2002	FATALITIES			FATALITY	FREQUENCY	LOST TIME	SEVERITY	
	Lafarge employees	Contractors	Third parties	RATIO	RATE Lafarge employees	ACCIDENTS Contractors	RATE Lafarge employees	
Cement	6	15	6	1.28	4.85	215	0.19	
Aggregates and Concrete	3	10	7	1.12	7.85	Not reported	0.34	
Gypsum	1	1		1.57	6.66	2	0.33	
Roofing	-	-	-	-	20.18	3	0.41	

Fatality ratio: number of fatalities for 10,000 employees **Frequency rate:** number of accidents leading to loss of time, by millions of hours worked

Severity rate: number of calendar days lost as a result of accidents, by thousand hours worked, excluding contracting parties.

To compare: Lafarge employees fatalities in 2001: 15 people. While Lafarge employees fatality ratio averaged 2.62 in 2001 it dropped to 1.28 in 2002 (The results do not include the Roofing Division as they did not have

THE WBCSD CEMENT SAFETY TASK FORCE

This review of our Health and Safety Policy is undertaken within an industry-wide framework. The WBCSD cement study has identified safety as a major issue for companies. We thus work together with the 8 other companies (4 meetings since January 2001).

We have agreed on four main Health and Safety indicators as well as definitions to establish a common basis for reporting, including a report on subcontractors and third party accidents. We have exchanged best practices for accident prevention and health care on a confidential basis.

A qualitative study has also been done on 164 fatalities recorded from 2000 to 2002 among the 8 participants, to identify major causes of accidents and analyse most appropriate ways to reduce injuries. Main conclusions are:

- Subcontractors incur 7 times more accidents than employees.
- Main causes of accidents are traffic, equipment protection, conveyor belts, falling objects, tasks involving height, etc.
- Drivers (trucks and cars) including third parties, account for 54% of fatal accidents. Within Lafarge, 18 fatalities (37%) were due to road traffic accidents in 2002.
- The next step specifically concerns subcontractors management and injuries linked with transport, the two main problems identified. Health performance indicators will equally be considered.



- Health and Safety Policy
- Health and Safety Management System
- WBCSD Cement Safety Taskforce results

"We do appreciate the Group's commitment to sustainable development, but there is still a long way to go beyond a corporate engagement. To become an efficiently managed reality in daily employees life, the first thing to do should be to translate the Sustainability report into all

MANFRED REUER | SECRETARY OF THE EUROPEAN WORKS COUNCIL

national languages and communicate it widely."



CEMENT DIVISION IN FRANCE, A "GREAT PLACE TO WORK"

The Great Place to Work Institute, an American NGO specialised in employees well-being and satisfaction, studied 51 French companies for the first time in 2002 and published in October 2002 in L'Expansion the list of the 20 best places to work in France. 250 employees from various functions of the French Cement Business Unit (1,840 people in 2001) were questioned on 57 points in five areas: Solidarity, Pride, Fairness, Respect and Management Credibility. With 88% of positive answers to "Lafarge is a great place to work", Lafarge Cement is ranked 7th on the list, with the following comment: "Despite long hours, Lafarge Cement is appreciated for its human management, its proximity to local realities, and the good variable remuneration it offers."

The American magazine Fortune published the results in January of their annual survey of the top 100 best European companies to work for. For the first time Lafarge was selected; Fortune ranked Lafarge as one of the 10 great companies.

We intend to spread great place to work surveys or similar initiatives to other countries in 2003.



EMPLOYEES' SATISFACTION AND WELL-BEING

"Make our employees the heart of our company" is one of the key responsibilities defined in our Principles of Actions. This main stakeholders group is our first asset, and Lafarge has always invested in employees' satisfaction and well-being to retain and attract a diversity of talents.

LEADER FOR TOMORROW'S QUALITATIVE SURVEYS

During the Leader for Tomorrow process (see page 6) a series of 140 management interviews were conducted at the end of 2001 to assess the perception of global challenges to come. Following these interviews, three themes were identified by managers as progress areas within Lafarge: Value creation (21.2%), Customer satisfaction (18.9%) and Performance culture (17.2%). Workshops have been set up as a result involving top management people to issue recommendations on the following topics in 2003:

- Developing performance culture
- Reviewing the decision-making processes
- Developing international and gender diversity
- Leveraging the foundation documents

STUDIES ON EMPLOYEES' SATISFACTION

Since 1991, regular surveys have been conducted by *Comfreca Research Institute* to evaluate managers' satisfaction and adhesion to the Group's values.

The results of global surveys must bring direct added value for the Group and for Divisions, therefore conclusions are drawn by the Lafarge Executive Committee to act upon managers' expectations. In addition, Divisions and Business Units are encouraged to carry out regular evaluations of employees' satisfaction.

The last global survey took place in 1998 and the next one will occur after the launch of the Leader for Tomorrow program.

TRAINING

Training programs are organized at three levels to be adapted to employees' needs.

- The corporate level organizes general management and introduction trainings that reinforce Group cohesion, values and strategy:
 - Training for top managers: in 2002, 65% of our 800 top managers participated in one or two training sessions. Training sessions have covered primarily: 17% on technical issues, 17% on topics Lafarge Group wanted to promote, 22% on management, 9% on topics Divisions wanted to promote;
 - Training of new managers. In 2002, 16 sessions of the "Meet the Group" 3-days seminar, designed for new managers that since 2001 includes sustainability issues and the first Sustainability report is systematically given to all new managers (see graph);
 - Training programs in various fields of expertise are also offered : purchasing, sales, human resources, finance, etc.

• The Divisions provide training on integration, general management and operational aspects such as quality, maintenance, processes, products, but also safety and environment (see Gypsum Division) and stakeholder dialogue.

Globally, at Corporate or Division level, one manager out of six attended a management training in 2002 (no data are available at BU level).

• The Business Units provide training to enhance personal skills of employees and performance (how to lead a team, languages, computers, safety, etc.).

As training is very decentralized, global reporting has not yet been formalized.



- The corporate level aims at doubling the internal training rate from 1/6 to $_3$ /6 at Corporate and Divisions levels over the next 3 years.
- The BUs aim to develop quantitative reporting tools in line with GRI guidelines.

CAREER DEVELOPMENT

The Intranet International Job Market, launched in 2000, promotes international and interdivisional mobility within the Group. Although the tool is mostly targeted at managers, it is accessible to all employees connected to Intranet in the world (around 30,000 employees connected today).

Country job markets have been developed in Lafarge North America, France (April 2001), United Kingdom (September 2002), and Germany: offers for all types of jobs are posted on these internal job markets by Human Resources departments and accessible to all employees on notice boards at the sites. Our aim is to provide all employees with access, including in the plants, so they can become more responsible for their own career development.

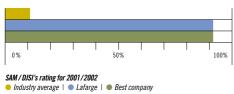


Vacancies filled thanks to the Job Markets on line account for around 15% - 20% of total job vacancies posted.

Many internal candidates still apply in a more traditional manner, even if they get information through the on line job market. More precise measurements such as follow-up of key indicators and statistics are being implemented through intranet tools by Corporate Human Resources.

Besides, the current deployment of the Peoplesoft Human Resources Information System will allow all Human Resources and managers in the near future (from 2004 and on) to manage and follow-up more closely their career development and succession planning in order to match the needs of the organization (in terms of human resources).

Tracking of employees' satisfaction







Meet the Group : number of managers involved in the seminar



"One of the Group's main responsibilities for us is to allow unqualified people to have access to training, and therefore contribute to local development."

JAN VOETS | WORLD FEDERATION OF BUILDING AND WOODWORKERS UNIONS

CASE STUDY

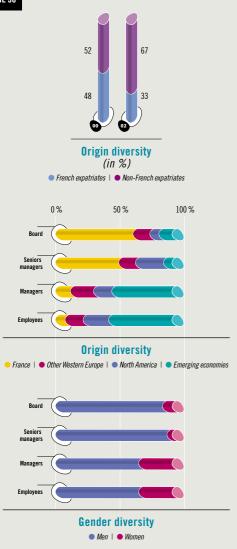
TRAINING IN THE GYPSUM DIVISION

Training formalization is quite recent in the Gypsum Division and in two years, a comprehensive and global offer has been developed for the 6,000 employees. Each year, given the strategic Division orientations, training guidelines are edited for the three years to come. They set priorities and resources within the Division, and each Business Unit is in charge of adapting and applying it locally. In 2002, we sponsored 392 trainees in the Gypsum Division and 9,568 hours of training at a Division level (compared to 200 trainees and 7,764 hours in 2001). There are three main areas of training:

- Integration training (20% of all hours):
 all managers who join the Division (recruitment or
 external growth) participate in individual training
 programs or Meet the Gypsum Division seminar.
- Increased professionalism (40%), the biggest part
 of training, available to all technical managers
 (about 300 people), is focused on the Gypsum
 Division activity: plant management, process
 quality, maintenance, etc.
- Commitment to excellence (40%) to increase performance and expertise. It includes performance plans, safety, environment.



- Results on employees' satisfaction in the 2001 reports
- See training guidelines applied throughout the Group



CASE STUDY

DISABLED PEOPLE IN FRANCE

Lafarge initiated strong action in France to facilitate professional integration and to sustain disabled employee through the corporate Disabled Workers Mission. In 2001, there were 239 disabled workers out of 11,866 employees in Lafarge France (75% were victims of accidents). In 2002, a guide explaining the legal framework in France and giving examples of jobs that can be occupied by disabled people has been published.



Men/Women

A workshop entitled "How to retain, attract, and develop women in our organization" has been established to study the disparity between men and women in the Group. It will design a proposal for a policy (guidelines, targets, KPIs), and an action plan for implementation in 2003.

Local managers/expatriates

We are convinced that the internationalization of our teams strengthens our global approach, facilitates the sharing of best practices and speeds up integration process in countries and Business Units. Lafarge encourages expatriates from all countries. In 2002, there were 551 expatriates from 37 countries (27 in 2000), including 22% from France and 25% from the United Kingdom.



🥐 Disabled people

The current approach of the Group relies on individual Business Unit initiatives. A more prescriptive approach will take place in the Group's future guidelines on diversity.



Develop Group guidelines on diversity and identify five best practices to be communicated within the Group.

EMPLOYEE OWNERSHIP "LEA"

A Group structure created in 2002 is responsible for defining policies and objectives of "Lafarge en Action" programs. LEA is administered by a coordinator in each of the 52 participating countries. The creation of an intranet forum will strengthen this network in providing the coordinators with legal information, training and support in employee shareholders communication.

LEA 2002 represents a capital increase exclusively reserved for employees with preferential financial terms, for a maximum of 110 shares, normally held for 5 years. In 2002, Lafarge was still included in the SAM Employee Ownership stock Index, which includes 30 European companies among 600 evaluated, according to the following criteria: employees ownership programs, level of employee ownership, internal communication, commitments and policies, transparency.



Propose a new LEA program in 2004 in order to increase the number of employee shareholders and contribute to the objective of reaching 3% employee ownership in Lafarge in the mid-term.

In addition to the Group program, Lafarge North America, a NYSE listed company offers to all its employees a similar program. Today, 18 % of the staff participate and own 0,7% of the outstanding shares.

EMPLOYEE OWNERSHIP RESULTS 2002

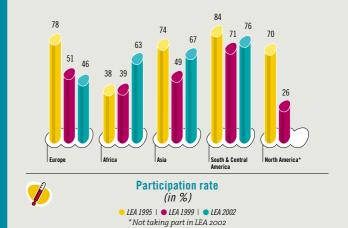
A participation rate of 54.2% of eligible employees in the 52 participating countries.

A 70% participation rate of former Blue Circle units, demonstrating good integration.

Almost 19,000 new shareholders out of 38,000 employee shareholders in 65 countries.

The percentage of capital held by employees has now risen from 1.1% in 2001 to nearly 1.7% in 2002.

High participation levels in new participating countries, with an average rate of 60%.





SOCIAL STANDARDS AND EMPLOYMENT

Given the Group's international presence, one of the biggest challenges remains the definition of satisfying social standards in various socio-economic contexts. In 2002, we began to review the Group's Social Policy, as described in our first report.

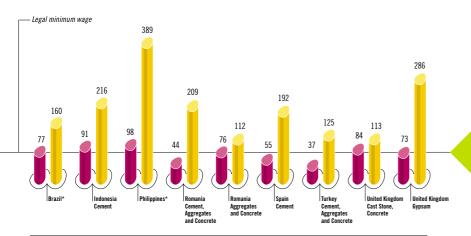
DIALOGUE WITH INTERNATIONAL UNION FEDERATIONS ON ILO STANDARDS

We have initiated a constructive dialogue concerning social standards with several international labor federations, such as the International Federation of Building and Wood Workers (IFBWW) and the World Federation of Building and Woodworkers Unions (WFBWU).

Our partners expect Lafarge to comply with national legislation as well as International Labor Organization (ILO) Conventions and Recommendations regarding:

- The prohibition of forced and child labor,
- Discrimination in employment,
- The right to organize, form trade unions and negotiate collective agreements,
- The promotion of best health and safety measures,
- Fair compensation,
- Reasonable working hours,
- Communication of this agreement to employees and subcontractors at all sites.

Close cooperation with these international federations represents our first step in reviewing social standards. It should lead us to a global agreement including a common follow-up process and monitoring. This will require involvement of corporate, Divisions and business unit management to take into account cultural differences and local labor practices. A first achievement was the Lafarge Health and Safety Management System set up in compliance with the ILO standards 2001 (see page 27) and reviewed by the IFBWW and WFBW.



● Minimum wage of industry sector** BASE 100 | ● Minimum wage of Lafarge



"Few companies are doing such reports and we are happy to see Lafarge's commitment to sustainability.

We think the second report should follow the new GRI Guidelines, because they cover all the themes that are important to us.

Our relationship between IFBWW and Lafarge is constructive: we have met regularly since 2001 to try to develop a global framework agreement on workers' rights. For that, we not only ask Lafarge to commit to the International Labor Organization (ILO) standards and human rights for its employees, but also the entire supply chain must be included and their workers must benefit from our framework agreement. Implementation through management system approach, monitoring and verification are key components for us.

Finally, we wish to develop some joint initiatives: we plan to organize a workshop in China and the Middle East with other IFBWW partner companies to evaluate the local situation regarding labor standards and human rights. As an intermediary with local authorities, companies and trade unions, we try to initiate and enhance social dialogue."

MARION HELLMANN | IFBWW, FEDERATION THAT INCLUDES 284 TRADE UNIONS WITH OVER 11 MILLION MEMBERS IN 124 COUNTRIES



www.lafarge.com

- Group Employment Policy
- Guide to reorganization downsizing project management



FAIR REMUNERATION: MINIMUM WAGE SURVEY

A first analysis has been conducted among
12 countries in 2002 with the cooperation of IFBWW
and their local affiliates on minimum wages and
benefits to verify the coherence between Lafarge
principles and local practices.

This first exercise was difficult due to the lack of available data in the way wages are assessed (benefits and social advantages coverage) at industry and local level.

We received answers from 8 countries this year. Our approach will be more systematic for the next Sustainability report.

^{*} For Brazil and the Philippines we received data from various regions for the legal minimum wage and Lafarge's minimum wage. As a result, we computed the averages of both sources of information before including those figures in the graph.

**The minimum wage of industry sector can refer to the construction, the building materials, or the cement

^{**}The minimum wage of industry sector can refer to the construction, the building materials, or the cemen industry depending on available data at the IFBWW.

"I would like to have details regarding the social plan, that will probably take place after the Blue Circle operation. In which countries is it going to happen, what will be its scope and how much will it cost?"

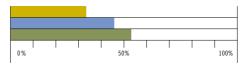
GENERAL MEETING OF SHAREHOLDERS | 28TH OF MAY 2001



EMPLOYMENT

Sites closures and downsizing are part of the process of change. Lafarge has always taken site closures very seriously following the three principles of our employment policy: anticipation to develop employees' skills and employment capacity, efficiency to find appropriate solutions, and solidarity for all employees concerned. In 2002, we used our experiences in several countries to establish a Guide to prepare for reorganization and downsizing, when indispensable, in accordance with the Group's principles and employment policy.

Labor practice indicators



SAM/ DJSI ratings for 2002

■ Industry average | ■ Lafarge | ■ Best compan

CASE STUDY

SITES CLOSURES IN TETOUAN AND WEARDALE

The closure of cement works at Weardale in the United Kingdom, announced in January 2002 and effective in August for the main part of the production process, caused the release of over two-thirds of the workforce. We consulted the staff, held weekly discussions with employee representatives and worked in partnership with all trade unions to find the most appropriate solution. We provided a series of local tools to help employees find alternatives, particularly a dedicated Human Resource manager on site for the closure period and an on-site Job Shop to publish vacancies locally and within Lafarge; led seminars for people relocated to work and depots some distance away; and conducted a mail shot to 400 employers in the North East, generating over 230 job proposals. An on-site training program allowed 73 people to gain qualification to drive two or more categories of vehicles.

We are continuing to work with a multi-agency taskforce to develop plans to minimize the impact of the work closures on the local economy.

The Tetouan cement works, in the North of Morocco, is planned to cease activity in October 2003, and a more modern plant, responding to stricter environmental and technical requirements, will open in the meantime in a nearby area. However, the new plant will employ fewer and more qualified people. After specific training, 48 employees will join the new plant. For others, a replacement management program involving a six-people team was implemented in 2001. Local dialogue has started with labor unions and employee representatives, public authorities, and NGOs. Three possibilities exist for the employees: find a job within another company in the area, go for an early retirement at 55 or create a micro-enterprise. Given the economic context of the region, many have decided to start a personal project, helped by Lafarge. In this case, the dedicated team meets every employee to explain micro-enterprise stakes and risks, finds an appropriate idea and evaluates the financial feasibility of the project. Each employee can

receive financial help, up to € 12,000, depending on the number of jobs created. So far 81 employees have created their own microenterprise, generating 180 jobs in the region. The overall cost of the project is about € 4 million. For this project, the key factors of success are early announcement and thorough preparation with local actors, plant management involvement, dialogue throughout with social partners, good level of transparent communication.

SITUATION IN DECEMBER 2002	WEARDALE	TÉTOUAN
Total number of employees	147	195
Transfer to other Lafarge works	46	53
Early retirements	25	21
Local jobs outside Lafarge	16	-
Personal projects	19	81
Decommissioning team (1.5 year in the plant)	31	-



RISK EXPOSURE AND INTEGRATION TO LOCAL COMMUNITIES

Our growing presence in emerging countries, in different social and economic contexts, leads the Group to face new issues and develop appropriate management systems.

- Risk exposure has to be carefully analyzed to make investment decisions, but also to ensure security of our employees and assets while preventing bribery and corruption practices.
- Local partnerships with stakeholders contribute to real and long term social and economic development.

GLOBAL RISK EXPOSURE: POLITICAL, ECONOMIC, FINANCIAL

Our investment decisions depend on many factors, one of which relates to the local political situation and financial/economic risk assessment. Countries both inside and outside the Lafarge portfolio are reviewed annually according to a set of external criteria defined by the *Control Risk International* agency. We aim at applying our Principles of Action in all countries where the Group is present. We believe that our presence contributes to improvement of local social standards and employees' awareness thanks to international exchange while establishing a benchmark for other companies. We intend through our business and activities to use and diffuse our influence wherever we are established to support the generally accepted principles of human rights and good governance. For instance, in China, Lafarge has refused the establishment of a Unique Union Representation.



LAFARGE COUNTRY AND TRAVEL RISK MANAGEMENT

As Lafarge employees and organizations are potentially exposed to various security risks in many parts of the world, we have redefined the Guidelines for country and travel risk management to apply security procedures in accordance with UN Principles. Lafarge's policy is to conduct worldwide businesses in providing optimal protection for its employees and assets in the case of political or criminal aggression, civil wars, terrorism activity or health epidemics. Since the risk is different in each country, these principles outline our general approach, and detail the procedures that must be implemented by Business Units according to the potential risks in their countries.

The Group has created a communication network for security and crisis management. Advice is also provided to employees on security issues by *Control Risk International*.

Guidelines will be reviewed, concerning use of security personnel on site as well as other issues, to be sure that we practice what we preach.

"Lafarge should go further in the analysis of controversial topics, for example critical situations regarding human rights, freedom of association or working conditions in countries such as China, or Saudi Arabia, where they are present."

ASLAK SKANKE | STOREBRAND

"It was said that a major part of Lafarge's people were employed in emerging countries. Recent and dramatic events have shown that some of these countries sometimes are risky countries. Does the company provide security measures for its employees?"

GENERAL MEETING OF SHAREHOLDERS | 28TH OF MAY 2001.

"Lafarge should go further on issues related to human rights in sensitive countries where they are present. The first report was silent on how Lafarge uses its influence on contractors and suppliers to guarantee the employee's right to organize or collective bargaining."

MARION HELLMANN | IFBWW



On the Internet

- Basic Principles on the Use of Force and Firearms by Law Enforcement Officials:
 - www.unhchr.ch/html/menu3/b/h comp43.ht
- Code of Conduct for Law Enforcement Officials: www.unhchr.ch/html/menu3/b/h comp42.htm

"By the nature of its business, one of the key risk exposures for Lafarge is bribery and corruption. As it expands internationally, it will

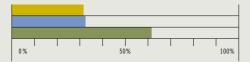
be operating in environments where corruption is a frequent, but illegal, means of doing business. ISIS AM considers a strong anti-corruption culture an essential aspect of effective corporate governance, and therefore recommends that Lafarge develop appropriate policies and systems. With regard to the company's lobbying policy, we would encourage Lafarge to be more transparent about its political donations."

CLAUDIA KRUSE | ISIS AM

"We warmly welcome Lafarge's commitment to combat all forms of corruption and to report next year on the results of applying the "Business Principles for Countering Bribery" to its worldwide business. The Business Principles call for a substantial effort in developing an anti-bribery program which extends to every activity and location of Lafarge and to each employee. The challenge for a major supplier to the construction industry of conducting business free of bribery is significant but successfull implementation of the Business Principles will enable Lafarge to demonstrate real benefits for all its stakeholders. We look forward to learning of Lafarge's progress in next year's report."

JERMYN BROOKS | EXECUTIVE DIRECTOR, TRANSPARENCY INTERNATIONAL, BERLIN.

Corruption and bribery prevention



SAM ratings - January 2003

■ Industry average | ■ Lafarge | ■ Best company



- Transparency International's Business Principles www.transparency.org
- ISIS AM Benchmarking survey: http://friendsis.com/AboutUs.asp?pageID=2.3



BRIBERY AND CORRUPTION PREVENTION

Risk exposure

According to the *Transparency International Bribe Payers Index*, the construction sector is perceived as high risk. As a building materials company, with few direct clients in the public sector, Lafarge is less exposed than the construction industry. However, with growing presence in emerging economies, where solicitations for facilitation payments - small sums paid to low-level officials to expedite tasks they are supposed to carry out anyway - could be widespread, Lafarge is aware of its exposure to other forms of corruption.

Our policy

Our Principles of Action clearly promote integrity as a core value of the Group. Beyond the ethical case, Lafarge is convinced that there is a business case to address bribery and corruption: avoidance of liabilities, internal integrity corrosion, and long-term threats to corporate reputation.

Our approach

In 2002, Lafarge took part in initiatives such as workshops in Turkey and a European benchmarking survey, organized by *ISIS Asset Management* - an investment fund that helps companies address this kind of issues.



By 2004, we will define a corporate approach, based on the "Business Principles for Countering Bribery" developed by *Transparency International* and *Social Accountability International* with the support of several companies. Our progress will be benchmarked against these principles in the next report.

CONTRIBUTION TO COMMUNITY DEVELOPMENT

Following our 2001 Sustainable development report, we present below an update on the major projects of site implementation within the Group.

The Bangladesh Project

In 2000, Lafarge began to construct the first ever large cement plant in Bangladesh. Heavily supported by the international community for its potential for local development, this project is co-financed by the Asian Development Bank, the International Finance Corporation, the FMO of Netherlands, European Investment Bank, and the DEG from Deutschland. As a consequence, it must comply with a number of high standards related to local development and environmental protection.

The project included a Resettlement Action Plan and establishment of a Community Development Center to provide medical care, training and education programs for the people affected due to acquisition of land for constructing the plant . Under the Resettlement Action Plan, 281 women of the affected families were offered training in dairy, tailoring, rice husking etc. and currently generate income. In addition, children now participate in non-formal primary educational programs provided by Lafarge. Basic health care facilities including vaccination have also been made available for the affected people. About 3,000 women have been provided with basic health education as well. The project, when completed, is expected to generate around 3,000 direct and indirect jobs in Bangladesh and India.

The project is complex, because the limestone quarry is in India and the main plant in Bangladesh, and took some time to obtain necessary clearances from the governments of India, Bangladesh and the Indian State of Meghalaya. However, all required Land rights, environmental clearance and cross-border operation permits have now been completed to enable the construction of the 17-km long conveyor belt between the quarry and the plant.

Lafarge has already finalized contracts for the construction of the plant. Announcement of the Notice to Proceed to the contractors is expected in mid March 2003.

China - Dujiangyan

The project concerns the construction of a new plant in line with Western environmental standards after the closure of a polluting plant on the same site. "One of the best implemented projects" said Georges Thomas from the IFC Corporate Relations Department

Why?

- The project was accomplished within budgeted cost.
- The project was done on schedule. Although, there was a one year delay due to the discovery of a relic within the site, that was not under Lafarge's control.
- The project was cost efficient. The cost per ton capacity was very low compared to other projects in this industry, because a major part of the project included local industries.

Today, the commercial implementation has started and Lafarge has decided to pursue its initiatives in China by investing on its own in two additional projects in different parts of the country.

Habitat For Humanity develops construction models depending on culture and local styles. This "All Lafarge house" in Kansas City, Kansas (USA) was completed with the cooperation of all Lafarge Divisions and the help of 40 of our employees in six weeks. It was built using all of the Lafarge building products available in the area (cement, concrete, aggregates, gypsum) as well as Monier Lifetile and Parex stucco coatings.

"In Bangladesh, Lafarge has initiated several community development programs to improve local health,

education and economic opportunities, and is also continuing with its social programs around the site, despite the fact that the project has not been financially closed yet. This shows the company's commitment to good corporate citizenship."

"IFC has followed Lafarge's operations in China, and has with satisfaction seen how Lafarge has taken existing facilities and slowly, but efficiently, upgraded and implemented international standards, practices and guidelines while also respecting local sensitivities."

PRINCIPAL ENVIRONMENTAL
SPECIALIST NIELS VESTERGAARD | IFC



CASE STUDY

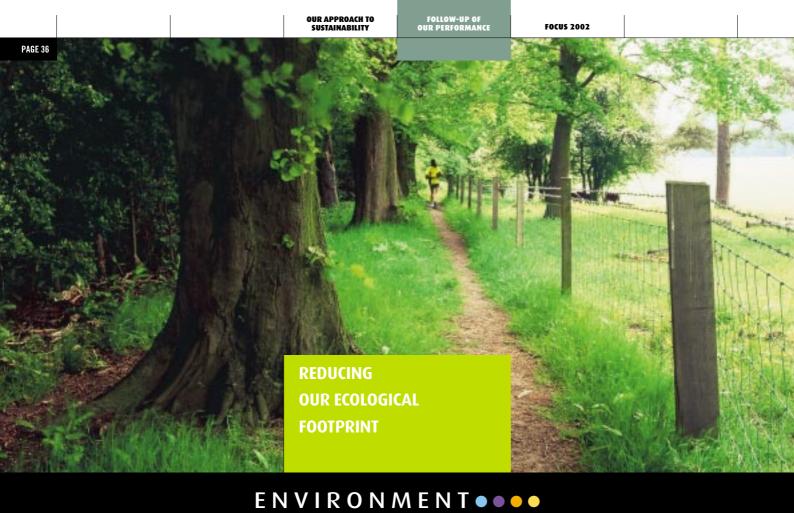
A LOCAL-GLOBAL PARTNERSHIP WITH HABITAT FOR HUMANITY

Lafarge sites in America began to provide building materials several years ago to Habitat for Humanity local affiliates. Habitat for Humanity is a global NGO founded in 1976, which helps families who can not afford to obtain housing: homeowners and volunteers build the houses under trained supervision; houses are sold at no profit and with no interest charged on the mortgage. Financial support to build the houses is provided by individuals companies or other organizations. This synergy resulted in Lafarge North America's decision to formally commit to a partnership with Habitat in 2001: a 5-year agreement to provide \$1 million in materials and fundraising. Lafarge

employees and contractors are encouraged to participate in the construction of the houses. This meaningful partnership has led Lafarge to establish relationships with Habitat for Humanity in eight countries (USA, Canada, United Kingdom, Philippines, Australia, Tanzania, South Africa, Nigeria and South Korea) and 9 others are being considered. Consequently, we have decided to develop a more formal relationship with Habitat for Humanity in a global agreement in a long-term basis worldwide. We will commit to be present in 25 countries and follow several indicators (financial contributions, product donations, discount, number of houses).

"Lafarge and Habitat for Humanity have worked together at a local level for several years, and those partnerships have been very successful. We are proud to build on that success by formalizing our partnership at a global level, and we look forward to many more years of working together. Habitat for Humanity offers hope to families in need around the world by helping them to build safe, decent and affordable homes, and we could not do this work without the help of dedicated partners like Lafarge."

DAVID WILLIAMS | CHIEF EXECUTIVE, HABITAT FOR HUMANITY



Raw material consumption - Year 2002 in million tons

DIVISION	NATURAL RAW Materials	INDUSTRIAL BY PRODUCTS AND RECYCLED MATERIALS
Cement	143	11.5
Aggregates and Concrete	194	N/A
Gypsum	4	5.9
Roofing	7.5	0.14



RAW MATERIALS EXTRACTION AND CONSUMPTION • • •

Most of the construction materials produced by Lafarge are derived from quarried natural mineral resources: limestone, aggregates, gypsum rock, etc. While most of these non-renewable raw materials are globally available for years to come, their local availability is subject to competition from other land use and are subject to regulatory controls.

EXTRACTION IMPACTS

Most of the raw materials we consume are extracted from more than 600 quarries operated by the Group. Extraction activities can significantly impact neighborhoods and ecosystems through the use of space, landscape modification, noise, dust and vibrations. Therefore, environmental stewardship and dialogue with local authorities, communities and environmental NGOs are key concerns for our business. Marine extraction is sometimes an alternative source for extracting aggregates, mostly in France and United Kingdom estuaries, so impacts on marine ecosystems are always evaluated.

OUR APPROACH

Site selection

Before opening or significantly extending a quarry, we systematically carry out an environmental impact study. This has become an obligation in most developed countries but is implemented worldwide by Lafarge.

If the study happens to demonstrate the extreme sensitivity of the ecosystems, or archeological implication at the site, measures are taken by Lafarge on a voluntary basis, and can involve classifying a part of the site as a natural reserve or relocating the threatened habitat into areas that cannot be quarried. In order to enhance our approach with up-to-date scientific knowledge, we contribute to several scientific programs in partnership with governmental agencies and NGOs.

Impacts mitigation

Various technical solutions are implemented to mitigate impacts such as reduction of noise, dust and vibrations. Related investments are systematically included in our quarrying operating costs.

Rehabilitation

All quarries necessitate a rehabilitation plan and in any case, we favor ongoing rehabilitation in order to avoid the continuous extension of the quarried surface during the site lifetime. These plans are based both on internal best practice sharing and extensive interaction with local communities. Whenever this is possible, we take steps to foster wildlife habitat creation or develop projects which could generate jobs and incomes for local communities, such agricultural land, lakes, leisure areas and natural parks .

Maintaining our License to operate

Whatever our efforts, quarrying activities may involve significant impact on landscape and communities. Therefore in many cases, applying the state-of-the-art solutions is just a part of the answer: we also have to find the right balance between community expectations at site level on the one hand and need for materials at regional or national level on the other hand. A focus on this issue is presented on page 54.

Finding alternatives to extraction

To achieve reduction of our impacts at resource level, our objective is to replace natural raw materials with industrial by-products and recycled construction materials where available, to the extent that it can be done in safe and economically sound conditions.

- In cement production, we use blast furnace slag from the steel industry and fly ash from coal-fired power stations for their binding properties. As a result, we offer waste management solutions and reduce our ${\rm CO_2}$ emissions (see page 39). We are currently exploring new ways to develop this practice through research programs (see page 40).
- We recycle demolition waste (concrete from building, rail ballast, road materials) as aggregates in new concrete products and road materials.
- In the Gypsum Division we recycle plasterboard from construction and demolition waste. We use synthetic gypsum from fluegaz desuphulsurization, by-products from coal fired power plants.
- In the Roofing Division, we use our position as supplier of new tiles to recycle the old ones in our processes.

Currently our progress in this area is limited by our dependency on other industries and on construction and demolition companies for sourcing. Thus, in the sustainable building section (see page 44), we explore how we can contribute to system level changes.

REPORTING ON QUARRY MANAGEMENT

Due to the highly site-specific sustainability issues and stakeholders' expectations, the priorities vary from one situation to another. Therefore it is very difficult to report globally on these issues.

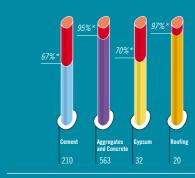
At the Group level, we are starting to track the percentage of quarries which currently have a rehabilitation plan. It reaches 86% in 2002.

However, the level of requirements may vary from one site to another. Therefore, we defined an internal standard in 2002, associated with an objective of 80% of our quarries implementing an approved rehabilitation plan by 2004.

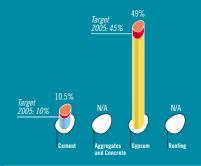
We will report on progress in our next report.

We will report on progress in our next report.

We also report through case studies on sensitive situations and best practices (see our <u>website</u> and page 54 for the Rodel project).









Substitution materials as a percentage of total raw materials used in production - 2002



Many case studies in our guide Lafarge and the Environment

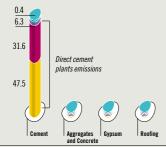


"Tentatively and based on a limited amount of available data, we here estimate that the sum of systematic errors does not exeed a level of +/- 5%."

ECOFYS' AUDIT STATEMENT

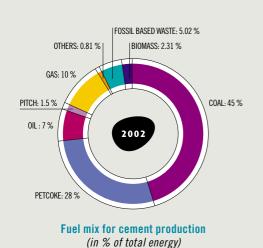
"Our partnership with Lafarge has helped push the issue of sustainability to the top of the cement sector agenda."

JEAN-PAUL JEANRENAUD | WWF INTERNATIONAL



Estimation of our CO2 emissions related to the Group's activities (in million tons of CO₂)

- DIRECT EMISSIONS
- Combustion of fuels Chemical process to transform raw materials (decarbonization)
- INDIRECT EMISSIONS
- Flectricity purchased





ENERGY CONSUMPTION AND CO2 EMISSIONS

OUR IMPACT ON CLIMATE CHANGE

The construction materials industry is a significant contributor to emissions of carbon dioxide (CO₂), the principal gas responsible for climate change. Cement production alone accounts for roughly 5% of worldwide emissions. With the integration of Blue Circle in 2002 our net direct emissions have reached about 81 million tons of CO, for the whole Group, mainly due to cement production. They now represent 0.17% of all man-made CO₂ emissions, representing the activity of a country the size of Portugal, and requiring an equivalent of 5 to 16 million hectars of forest (depending upon location) to fully offset this "ecological footprint".

How do we report on CO, emissions?

We only report on what is by far the largest source of CO₂ emissions within the Group: cement plants emissions i.e. the emissions from stack related to limestone chemical transformation and fuel consumption.

We base our calculation on the WBCSD /WRI Carbon Dioxide Protocol for cement industry, which requires us to report on:

- Net emissions, for which emissions from waste fossil fuels are considered as climate neutral because they would otherwise be incinerated without energy recovery, whereas used in a cement kiln they replace primary fossil fuels
- Gross emissions, for which emissions from waste fossil fuels are taken into

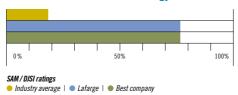
As agreed with WWF, the Cement Division emissions reporting systems have been audited by Ecofys in 2002.

Our reduction commitments

Our current strategy focuses on net direct cement plant emissions. In 2001, we committed ourselves to reduce these emissions over the period 1990 to 2010 (see O). The WWF endorsed this commitment (based on our gross emissions in industrialized countries) in the framework of our partnership and in the same way welcomed us in its "Climate savers" program, with the hope that such a proactive stance would become the reference in the industry. This happened in 2002 when our main competitors committed to publishing reduction targets by 2006 in the framework of the WBCSD Cement Sustainability Initiative. In the framework of the Cement Division's Advance program, our reduction

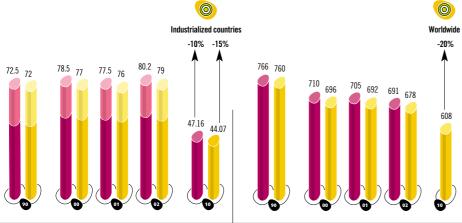
strategy is implemented worldwide, through internal transfer of technology and know-how.

GHG emissions and carbon strategy



Over the period 1990-2002, the direct cement plants emissions increased by 9.7% due to the growth in our sales related to demand growth and acquisitions. However, in the same period, our approach allowed us to cut our net emissions by 10.7% per ton of cement. Three main factors explain this progress:

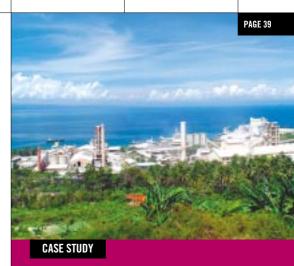
- Material substitution | We avoid emissions related to cement production by using industrial by-products as substitutes to raw materials and clinker (see page 37). Since 1990 it has helped us to cut our emissions by 6.2%.
- Energy efficiency improvements | We cut our energy consumption by replacing old plants by modern ones and upgrading existing plants. It has allowed us to further reduce our emissions by 4.4%.
- The fuel mix evolution | The contribution of fuel combustion to our net CO₂ emissions depends on the average carbon intensity (CO₂ emission per joule) of the fuels we consume. For competitiveness (energy consumption accounts for 20 to 30% of the cost of cement), we gear our strategy towards the use of:
 - Low cost traditional fuels (mostly petcoke and coal), which happen to be carbon intensive,
 - Waste fossil fuels (mostly industrial waste, tires, oils, plastics and solvents), which are considered as CO₂ neutral in net emissions but not in gross emissions.
 - Biomass which is considered as CO_2 neutral both in net and gross emissions (the carbon content coming originally from the photosynthesis process). Overall the fuel mix evolution since 1990 had a neutral effect on the evolution of our net emissions and contributed to + 0.7% in the evolution of our gross emissions.











BURNING BIOMASS •

In the Philippines, an initiative was launched to reduce fossil energy costs by substituting rice husks for conventional fuels. Rice, the major staple food in the region, is grown extensively throughout the country. After the harvest, the grain is separated from the husk, generating a significant quantity of waste, which is traditionally burned in open fire, leaving its calorific value of 12,500 kJoule/kg untapped.

Lafarge decided to install an energy recovery system and to use the energy from rice husks to fuel the rotary dryer. This device is used to dry the limestone and shale for clinker production prior to grinding, because of their high moisture content. Husks are introduced directly into the flame of the rotary dryer. The process allows rice husk to be substituted for fossil fuel in a proportion of 35%, translating into a savings of 2 million litres of bunker fuel oil per year.

In the same way, Lafarge's Hima cement plant in Uganda uses coffee husks as a secondary fuel, in addition to heavy fuel oil. Contractors continually deliver clean, dry husks to the cement plant, where they are fed directly into the combustion flame using a feeder system designed and built by Lafarge. The cost of the system was approximately of $\leqslant 10,000$, but fossil fuel consumption has been cut by 10% and the total energy bill has been reduced considerably. In addition to CO_2 reduction related to the avoidance of fossil fuel burning, the recovery process has reduced the local air pollution related to open burning of biomass.

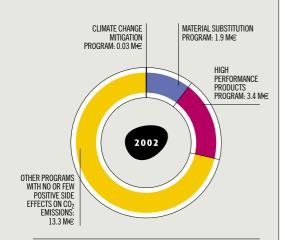


www.lafarge.com

- Detailed reporting on the Cement and
 Gypsum Divisions and energy consumption
- Ecofys audit statement
- Case study about health and safety concerns relating to waste fuels

"For instance, studying the chemical compounds of natural material enlight us in ways to create new materials which are stronger, self-assembling, and self-healing. The versatile abalone, for instance, is able to make its shell nearly indestructible by attracting calcium ions into the gaps. This process is called "bio-materialization" and could be effectively applied in research of new construction material."

WILLIAM D. BROWNING | PRINCIPAL AND FOUNDER
OF THE ROCKY MOUNTAIN INSTITUTE 'S GREEN DEVELOPMENT SERVICES





Distribution of our Central Research budget



TO GO FURTHER IN CUTTING CO₂ EMISSIONS

The levers we currently use to reduce our emissions will allow us to fulfill our 2010 commitments. However, as described on page 6, they may not be sufficient to compensate the effect of growth in the demand in the long run. Therefore, in addition to these methods we explore new fields to reduce both direct and indirect emissions, such as:

- New climate-friendly materials or end of pipe solutions to capture CO₂.
- Understanding how technical improvements made on our products and a
 better use of them by our clients can help reduce overall energy consumption
 related to building, lighting, warming and cooling. Indeed they represent
 almost 90% of the CO₂ emitted during the lifecycle of a building vs 10% from
 building materials production (see page 46).

In addition, we advocate the implementation of an international legal framework to strengthen the business case for our reduction strategy, permitting us to foster ${\rm CO}_2$ reduction in economically sound conditions.

THE KEY ROLE OF OUR R&D DEPARTMENT

We face the necessity to respond to a growing demand for our materials while reducing our global environmental footprint. This dilemma is another reason for increased reliance on R&D activity. To date our investments specifically made to address climate change have been minimal, as shown in the figure on the left. However, several research programs at the Group level will positively impact climate change:

- Material substitution improvements in cement;
- Development of higher performance products, resulting in reduction in materials consumption and therefore CO₂ emissions;
- A complementary program has been launched in order to identify climatefriendly solutions. Up to now, the most promising axes of solutions concern development of a chemically evolved cement, use of new cementitious by products as raw materials and the reintegration of CO₂ in concrete.

THE BUSINESS CASE FOR REDUCTION STRATEGY

Our reduction strategy will create more value for our shareholders through a variety of possible pathways:

- Our CO₂ commitments bring an additional sense of urgency to improve energy
 efficiency and develop our industrial ecology approach (waste fuel and
 cementitious materials use). They will allow us to cut our cost for fuels and
 materials while creating new profits from waste recovery.
- When carbon will be priced within an international legal framework, our carbon performance will allow us to sell credits (or at least buy fewer credits) where targets will be implemented and cut our eco-taxes bill where applicable.
- Programs in place will offer us the advantage to move quickly if CO₂ regulations become more severe than anticipated.
- Sustainability leadership may also provide traditional investors with additional confidence in the quality of management and will attract the growing community of socially responsible investors, therefore reducing the cost of capital.
- Finally, our proactive stance will also help us to negotiate favorable frameworks with policy makers.

STRENGHTENING THE BUSINESS CASE THROUGH ADVOCACY FOR A POSITIVE LEGAL FRAMEWORK

During the Johannesburg summit on sustainable development, Greenpeace and the WBCSD jointly called governments for the set up of an "international framework based on the Kyoto Protocol".

Having shared the platform with Greenpeace, the WBCSD CEO Bjorn Stigson and BP, Lafarge backs the content.

Why?

- First, given our proactive stance regarding climate change, the set up of a fair and workable framework would give us a competitive advantage.
- Second, we believe that industry has an important role to play in combating climate change and we are prepared to bear our share of the burden in fair conditions. Concerning the Kyoto targets, we acknowledge that they are not ambitious enough to solve the problem of climate change. It is a long-term problem and we expect more demanding objectives afterwards. This is one of the reasons for our involvement in the WWF's Climate Savers program which includes complementary voluntary targets.

How to meet the Kyoto objectives?

While we do not endorse Kyoto as such, we do recognize that it is a basis to move forward, given the work that has already been done. Clearly, we are looking for governments to agree a workable, if not perfect, way of sharing the costs of adjustment.

To meet Kyoto's objectives, Lafarge wants to negotiate reduction commitments with the States independently monitored within the flexibility of emission trading and with sanctions if not achieved.

We oppose national eco-taxes for energy intensive industries:

- We consider these taxes as less effective because of the associated risk to relocate
 production in countries where there are no such taxes. Indeed, competition gets
 harder for taxed companies when their products compete with non-taxed
 imported products.
- Furthermore, we consider that reaching the targets will be more costly due to the use of tax related benefits for other purposes than climate change mitigation programs most States have a poor record in that field.

Therefore, in each country which has to apply Kyoto, we advocate for the implementation of negotiated agreements. Still, we are aware that there is still much debate about it and remain open to exchange views with pro-eco-taxes environmental organizations and other advocacy groups.

WHY SEVERAL ENVIRONMENTAL ACTIVIST GROUPS PREFER ECO-TAXES TO NEGOTIATED COMMITMENTS?

The application of the Kyoto Protocol has generated an intensive debate among policy makers and advocacy groups. In this debate several economists and environmental organizations oppose our views, with the following arguments:

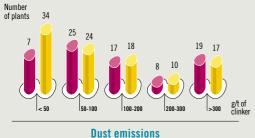
- Negotiated commitments are less efficient than eco-taxes: the commitments may create a "compliance logic" within companies, whereas the ongoing aspect of the eco-taxes approach gives more incentives to consider technological breakthroughs and the related R&D investments.
- The non-systematic aspect of the commitments creates a risk of arbitrary decisions in the distribution of the burden by governments. Thus, some NGOs expect full transparency and third party consultation in this process.
- Last but not least, according to some economists, eco-taxes might create a "double income" under certain conditions: on the one hand, the tax would lead companies to cut their emissions.

 On the other hand, the income generated by the taxes would allow governments to cut other taxes such as welfare charges, thus boosting employment.

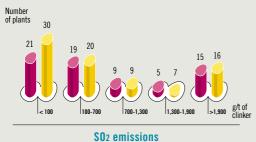
OUR 2003 ENVIRONMENTAL POLICY REGARDING OUR OPERATIONS

- Operate all our facilities in a manner that meets all local laws, standards and regulations and state-of-the-art environmental management systems requirements.
- Minimize environmental, health and safety exposures to our employees and the communities where we operate by employing safe technologies and best management practices and operating procedures.
- Minimize creation of hazardous and other wastes, reuse and recycle materials where feasible and dispose of waste using safe and responsible methods.
- Implement programs to prevent accidental releases; have emergency response action programs in place at all sites.

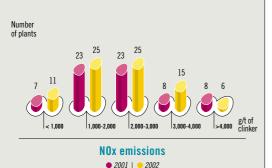
DISTRIBUTION OF OUR CEMENT PLANTS PERFORMANCE REGARDING EMISSIONS



● 2001 | ● 2002



● 2001 | ● 2002





PLANT EMISSIONS AND LOCAL IMPACTS

Extraction, but also traffic and production facilities operations can generate diverse nuisances for neighbouring areas such as noise, dust, vibrations, and various emissions, which potentially affect people's health and the environment. Reporting globally on these local impacts remains a challenge for us due to the number and variety of our facilities. Since our last report we have achieved progress regarding reporting on air emissions, water consumption, and production waste. We have also estimated the impacts of products transportation.

AIR EMISSIONS

- Apart from CO₂ (addressed on page 38), cement production emits dust and several gases that are submitted in most cases to stringent regulations.
 All these emissions are continuously reduced by improving processes and applying specific mitigation techniques.
- **NOx (Nitrogen oxides)** are generated by fuel combustion at high temperatures. They contribute to the formation of acid rain and photo-chemical oxidant smog and can create respiratory problems.
- **SO2 (Sulphur dioxides)** can be released at stack when natural raw materials contain sulphur in mineral form (like iron sulphide also called pyrite). SO2 may create respiratory problems and is the major gas contributing to the formation of acid-rain.
- **Dust** is generally of a mineral nature and in some instances is an aggravating factor of respiratory problems. Dust released at the plant chimney stack (< 10 µg) is only one type of emitted dust, but is the most easily measured. Fugitive dust, coming from quarrying, transportation, etc. affects our neighbourhood more directly and contributes to increase ambient air dust levels. These are more difficult to measure but Lafarge applies various mitigation techniques: spraying roads and stored materials with water, enclosing storage sites, etc.
- Micro-pollutants such as heavy metals and persistent organic pollutants, which are potentially toxic, may be found in cement plants emissions but in very small quantities that are well under regulatory limits. Nevertheless, they represent an important cause of concern for many stakeholders, especially when waste fuels are used, even if related emissions do not significantly differ from conventional fuels-related emissions. Therefore, although waste has been used as a fuel for more than ten years with a good track record, Lafarge is committed to improve its performance on emissions of potentially toxic pollutants.

Since 2001, we implemented a reporting system to follow our emissions at Division level. It currently covers 68% of our cement plants for Nox and ${\rm SO_2}$ and 87% for stack dust emissions. As far as micro-pollutants are concerned, a broader working program has been launched in 2002, and the first results will be reported in our next report. This program is in line with the work undertaken with the WBCSD Cement Sustainability Task Force on measurement, monitoring, and reporting of emissions.

WATER PROTECTION • • •

Our activities impact both water quality and availability. Water quality is affected by various activities like the cleaning of plants and the washing of aggregates. For plasterboards and concrete, water is directly integrated into the products. As regards cement production, most water is consumed to cool down kilns and other heavy equipment or to prepare slurry (only for wet process plants). Therefore, the investments made to implement closed cooling systems and phase out wet processes allowed us to improve our performance over the period 2000-2002, even if this was impacted by the acquisition of Blue Circle.

PRODUCTION WASTE • • •

Production waste can be reduced by improving processes quality, recycling our own waste and finding industrial ecology solutions with other industries. As for water consumption, the Cement Division continuous progress has compensated the effect of the acquisition of Blue Circle, over the period 2000-2002. At the same time, the Gypsum Division performance improvement allowed it to reach its 2005 target.

ASBESTOS • • •

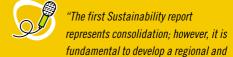
Since 1997 our Environmental Policy includes the elimination or confinement of asbestos in our old equipment and buildings. This aspect is controlled during site audits. In this context, we do not sell any product containing asbestos. We confirm that no claim has ever been made regarding the production or sale of products which would have contained asbestos either in North America or in the rest of the world. Any newly acquired company, in any country, is subject to the systematic audit of its products and facilities. If asbestos is found in the manufacturing processes, the production is then discontinued.

? TRANSPORTATION ● ● ●

Road transport generates CO_2 and other emissions (NOx, VOC, particulates etc.). It also generates noise and traffic jams which represent additional nuisances for local communities. Furthermore, a qualitative study conducted by the WBCSD Cement Safety Task Force shows that traffic is one of the major safety risk associated with our activities (see page 27): 54% of all fatalities related to cement production and distribution are truck drivers and third parties (other road users).

For the first time this year, Lafarge has attempted to calculate transport activity and related emissions. While our data collection is still sketchy, we have made our best effort based on information available. The majority of our products are low priced and heavy weight materials. Transportation is first driven by cost considerations and is based on the best available means. Therefore, while we would prefer rail and fluvial transport for economic and environmental reasons, road remains the predominant mode of transport. It represents 70% of our products sold, while rail and fluvial transport cover only 20%. The remaining 10% is covered by mixed or maritime freight.

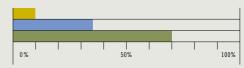
We describe on page 54 how we seek to reduce road transportation in economically sound conditions. On our website, you will also find examples of our efforts to shift to multimodal transport, and other Lafarge good practices across the world.



local reporting approach: working on consolidated data might hide specific locations, in particular emerging countries, where Lafarge still needs to improve performance."

JACQUELINE ALOISI DE LARDEREL | UNEP AND GRI VICE EXECUTIVE DIRECTOR

Eco efficiency performance



SAM / DISI ratings

■ Industry average | ■ Lafarge | ■ Best company

Water consumption performance

		1	1
DIVISION	2000	2001	2002
Cement	435 L/T	520 L/T	427 L/T 47 M m³
Gypsum	5.4 L/m²	6.55 L/m²	6.4 L/m² 7 M m³
Roofing	N/A	N/A	10.5 m ²
Aggregates and Concrete	N/A	N/A	N/A

Amount of waste to landfill as a percentage of production

DIVISION	2000	2001	2002	TARGET 2005
Cement	1.4%	2.1%	1.4%	1%
Gypsum	2.8%	1.6%	1%	1.5%
Roofing	2%	N/A	2.78%	N/A
Aggregates and Concrete	N/A	N/A	N/A	N/A

CO₂ emissions related to the transportation of our products sold

PRODUCTS TRANSPORTED	KT CO2/YEAR From Road Transport	
Aggregates and Concrete	590	
Cement	400	
Roofing	95	
Plasterboards	79	
Total	1,164	

Data presented here covers cement and clinker, aggregates and readymix concrete, roofing, and plasterboards. International trade of cement is not included in this evaluation. The table includes only emissions from road transport, which cover over 95% of our total transport CO₂ emissions. It covers products sold on delivery km only (return trip is ignored). It consolidates both Lafarge owned transport and outsourced transport.



MAIN ISSUES APPLICABLE TO OUR ACTIVITIES IDENTIFIED THROUGH STAKEHOLDER CONSULTATION

- Consider new materials.
- Adapt product features to local needs, cultures and raw materials.
- Develop eco-friendly architectural "systems".
- Educate consumers on how to use products in an eco-friendly way (advisory services).
- Accountability on product impact on indoor air quality and building workers' health.
- Product labeling and traceability on product components and additives (cobalt, radioactivity, heavy metals).
- Design re-usable/ recyclable/ biodegradable products.

"Principles of ecological architecture are evoked, but Lafarge does not explain which part of investment is devoted to research in the domain."

ANDRÉ HEINZ | THE NATURAL STEP

"In Europe, the potential for reducing GHG emissions in existing and new buildings is greater than that of any other sector."

> CICA/ IINEP SIISTAINARI E PROFII E OF THE CONSTRUCTION INDUSTRY

"I congratulate Lafarge for the continuous improvement of its environmental and social performance. However, beyond improvements in cement production, I would like to invite Lafarge to look at the whole construction chain, and to see how it can contribute, using a life cycle perspective, to meeting housing and infrastructure needs in a more efficient and sustainable way."

> JACQUELINE ALOISI DE LARDEREL UNEP AND GRI VICE EXECUTIVE DIRECTOR



- Stakeholder session synthesis (only in French)
- Pages 44 to 46 of our 2001 Sustainability report



SUSTAINABLE ARCHITECTURE AND BUILDING • • •

PRODUCT QUALITY

Our first responsibility related to sustainable building is to provide building materials, and indirectly, buildings that contribute to people's safety, health, physiological comfort, psychological well-being and productivity. The demand for building materials is increasingly sensitive to current expectations for products that do not release harmful substances and products that contribute to a healthier indoor environment. Lafarge wants to be fully accountable on these issues and has integrated product stewardship as a key commitment in its new environmental policy.



? Chromium VI and health issues for construction workers

When properly handled, our products are not harmful to the user. Still, some construction workers may exhibit an allergic response upon regular exposure to concrete, possibly due to trace amounts of chromium contaminants in cement. This issue is presently on the agenda of authorities in charge of workers' health and safety in several European countries and the European Commission is considering regulating this issue. Limiting the chromium VI concentration in cement is a likely outcome of this process. Lafarge's position, along with industry associations, is that cement is a professional product that should be handled in a professional way, with the appropriate protection equipment: wearing gloves is the most common practice in the construction sector. In most countries we are associated with industry campaigns about instructions for use, targeting professionals. In order to reinforce and spread such "good professional practices", Lafarge will develop a dedicated Health and Safety section on the company's information website "Place des Métiers".



Indoor air quality

Indoor air quality is a new issue related to buildings. Research indicates that people spend most of their time indoors, and other recent scientific studies have shown that the air within homes and other buildings can be more seriously polluted than the outdoor air, especially in buildings that do not allow for proper air ventilation. The primary sources of indoor air quality problems in homes or buildings are gases or particules released by some polluting materials used for construction and decoration.

Water issues 🛑 🛑 🜑







One important contribution of concrete to communities worldwide is that it is needed to build water supply and sanitation networks. It is however a matter of public health that heavy metals, naturally present in stone and cement, do not find their way into drinking water. Many research projects have been conducted by the industry and by independent parties and have shown that there was absolutely no health hazard in drinking water associated with concrete pipes and networks.

Both the marketing and R&D corporate departments are in charge of addressing the issues mentioned above. They will conduct a sustainability review of their activities in 2003, in order to assess their evolution and define the priorities and targets.



CONSTRUCTION PATTERNS

Traditionally, our industry has focused its sustainability efforts on the production and industrial side of the business (dust generation for example). But our stakeholders are now asking us to focus also on the consumption side and to use our influence to foster change in construction patterns in order to promote sustainable architecture. This, again, is quite a new subject for us. In most cases, we actually have little influence on construction methods and processes: a large variety of actors are involved in the choice of construction methods and materials (dealers, construction companies, investors, architects, end-users...) and Lafarge's contribution is too early in the chain. In addition, eco-architectural perspectives are not yet included in regulatory frameworks.

Better consumption of materials

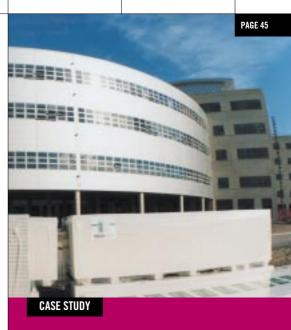
We have a responsibility to provide our customers with the highest possible value. This is a key aspect of our strategy and obviously includes advice and services to guide our clients towards more sustainable choices and practices, in their own interest:

- A better choice of materials, that will improve durability of materials (buildings, roads) as well as contribute to cost reduction and energy efficiency during the construction process.
- A better use of materials, that will lead to reduction in energy consumption (for example, building insulation, roof systems thermal efficiency, road construction reducing fuel consumption).
- In addition, these two aspects will also impact other elements of sustainability such as reuse and recycling for buildings, safety and noise for roads...

The current market obstacles

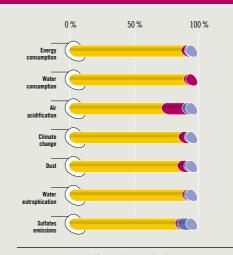
The building materials sector is driven by demand. Lafarge is facing a dilemma, since the multiplicity of decision-makers contribute to a focus on low price. This makes it difficult to identify who in the chain should pay for sustainable innovation and improvement in the social or environmental quality of products, which would benefit end-users.

Consequently, the demand for eco-friendly materials and solutions is still very low, even though we can identify a positive trend in customers' expectations since our 2001 report, especially with the development of new voluntary standards for green buildings such as LEED in the USA, HQE in France, BREEAM in the United Kingdom.



LIFE CYCLE ANALYSIS ON PLASTERBOARD PRODUCTS

Lafarge has been contributing for two years in France to a major effort launched by the industry to conduct a Life Cycle Analysis (LCA) on plasterboards products. This study was aimed to provide consumers with the most accurate information about the health and environmental impacts of such products over an estimated lifespan of 50 years. It is also a unique tool to improve existing products and developing new ones and should be regularly updated. The study shows that for each major environmental issue, most of the negative impacts occur during the production stage (see below). However, this analysis does not take into account the positive impacts of the plasterboard during its use, which could differ from one plasterboard to another. These positive impacts mostly come from the energy savings related to its insulation properties.



Life cycle analysis ● Production | ● Distribution | ● End of life



"Demolition waste accounts for 50% of all waste generated prior to recycling, recovery of final disposal... Designers

and material producers should develop policies with regard to prevention, for example:

- Waste prevention orientated planning and design
- Recovery-oriented construction
- Qualitative prevention
- Design for multiple use"

CICA/ UNEP SUSTAINABLE PROFILE
OF THE CONSTRUCTION INDUSTRY

LAFARGE APPROACH TO SUSTAINABLE ARCHITECTURE

A global approach of sustainable architecture addresses the design, construction, use, maintenance and demolition of the building, taking into account the:

- Relation between the building and its immediate environment,
- · Choice of products, systems and processes,
- Nuisances during construction,
- Energy and water management,
- Waste management,
- Comfort (temperature and moisture, acoustics, light, odors),
- Safety (mechanical resistance, safety in use, fire hazards),
- · Indoor air quality.

As building materials producer, there are two ways we can make a difference and bring a positive contribution:

- Providing solutions with the lowest environmental and health impact and the best durability. For example, for cement, the logic could be:
- Fewer resources, energy, emissions, production waste and harmful substances per ton of clinker,
- Less clinker per ton of cement,
- Less cement per m³ of concrete,
- Less concrete per wall,
- Minimising and recycling construction waste,
- Recycling demolition waste (under the condition it is correctly sorted).
- Constructing a building of reduced environmental and health impact, which means improving:
- Comfort and safety,
- Energy efficiency and thermal insulation,
- Indoor air quality,
- Mechanical resistance,
- Fire resistance,
- Acoustical properties.



• Case studies on recycling

What can we do?

These issues are very new to the construction industry and we are still in a learning process:

- Our first role is to develop dialogue and reach a better understanding of what a
 green building is and how we can make a positive contribution to the market.
 This can be done in many ways, such as the integration of sustainable architecture
 in our own buildings (see the Gypsum Division Headquarters below).
- We also have the responsibility to innovate, by integrating the principles of sustainable architecture at the early stages of a product design, in order to come up with new eco-friendly products that can meet our stakeholders' expectations.
- Finally, we aim to improve our ability to influence choices and consumption through a voluntary approach, taking into consideration local market structures and specificities, which can differ from one country to an other. For instance, in most developed countries many downstream players are involved. As a result Lafarge works at influencing key decision-makers though information, product communication and advisory services (such as "Place des Métiers") but also has a pro-active lobbying policy and partnerships or joint projects set-up with key investors. However, when we have direct access to end-users, Lafarge works directly at designing integrated architectural systems and at selling customized solutions (for example in India with the Home Building Center).

3

PRODUCT END OF LIFE

Recycling and reuse issues can only be addressed in a system-mode that embodies a range of disciplines including architecture, construction, ecology, economics, industrial design, manufacturing, and public policy, to name a few. Lafarge can not intervene with the same influence on each part of the system but we can have three direct contributions to making our products lighter on earth:

- Design recyclable/ reusable products.
- Design durable products.
- Providing recycling solutions.



CASE STUDY

ECO-CITY IN A JOHANNESBURG TOWNSHIP



The "Eco-City" project involved local NGOs and partners such as the WWF and the City of Johannesburg. The objective was to adapt the building principles of BedZED, the largest eco-village in the United Kingdom, to the township of Ivory Park in Johannesburg.

The goals included reducing energy consumption through insulation devices and passive solar heating, using rainwater for washing, building high density housing to reduce land take and avoiding development of a car-dependent culture,

promoting recycled building materials, and using local workforce and materials. The program targeted reducing pollution as well as fighting poverty through reduced heating and cooling expense, and expenses related to car use. The challenge was to succeed in transferring the BedZED principles to a location that faces different climate and cost constraints. Up to now, 3 houses and a 500m² community centre were built, providing homes to 12 people. As one of the corporate partners, Lafarge donated the cement for the project, which was mixed with waste polystyrene to build costeffective insulation blocks. The development of concrete walls with thermal mass properties and concrete windblocks allowed solar heating in winter and self-shading for the summer. The project is still at an early stage and global benefits are not yet quantifiable. However, savings on water and electricity consumption have already reached 58%.

Several negotiations have been undertaken to

gain support from a number of International agencies.

Thanks to intensive media coverage, the major results were an increase of public awareness and interest for eco-building. Discussions are now in progress for new applications. Johannesburg City Council may adopt EcoCity as a major pilot scheme.

Internally, Lafarge's involvement in such projects helps to better address the issue of cultural diversity: countries do not use the same building materials, depending on their natural resources, on their architectural history, etc. A difficult question is to understand how universal products such as cement and concrete can be used to bring comfort and well-being to local populations (especially to disadvantaged ones) while respecting their local building culture.

The several existing Eco-city projects provide some usefull teachings and solutions that will constitute valuable information for future programs.

CASE STUDY

PHOTOVOLTAIC RENOVATION HOUSING PROJECT

Lafarge Dakproducten (Roofing) in the

Netherlands has loaned €5.6 millions to a
housing corporation. This encompasses about
10,000 square meters of the newly developed
Universal Photovoltaic (PV) solar system
generating 1 million Watt capacity, which is
enough to provide the energy needs of 364
houses. The Universal PV system will be installed
on the roofs of all houses, which will be
renovated and covered by Cisar N. concrete roof
tiles and fitted by Lafarge Dakproducten roof

system components. The roofing work is carried out by a Dakmeester, a roofing corporation working according to certain minimum standards, whose roofers are specially trained by Lafarge Dakproducten.

Meanwhile, Lafarge is negotiating to recycle the old concrete roof tiles.

This project started in August 2002 and will last approximately one year. It is currently the biggest photovoltaic housing renovation project in the world.



CASE STUDY

RECYCLING SOLUTION FOR PLASTERBLOCKS

Symiris is a municipal organization in the Rambouillet area (France), whose mission is to divert waste from landfills. In 2001 Symiris collected some 400 tons of plasterboard, either rehabilitation or demolition waste. They contacted Lafarge Plâtres, whose Auneuil plant has been recycling its own production waste since 1996. Lafarge Plâtres and Symiris defined together a

standard for sorting out the waste in order to reach maximum recycling capacity. An initial test was conducted in July 2002 with a first truck of 10 tons. In October, the plant was recycling one truck per week and the whole stock has now been recycled, on a experimental basis of 10 euros per ton. Symiris and Lafarge are now working on future cooperation plans.

OUR APPROACH TO FOLLOW-UP OF SUSTAINABILITY OUR PERFORMANCE FOCUS 2002

Sustainability reporting tends to focus on companies performance. It enables to identify where significant progress remains to be made. In this section, the purpose is neither to track our performance nor to show Lafarge as a good or bad citizen. It is rather:

- To present three issues where social, environmental and economic aspects are closely linked,
- To illustrate the company contribution and its boundaries in a complex global picture.

Indeed, it is important to note that while companies certainly have a significant role and responsibility toward society, they cannot tackle issues such as HIV/AIDS in Africa, local economic development or natural resources scarcity, without commitment from countries, authorities, population and other companies.



FOCUS 2002

UNDERSTANDING A PLANT'S IMPACT ON LOCAL EMPLOYMENT

TACKLING HEALTH ISSUES IN AFRICA

THE LICENCE TO OPERATE FOR EXTRACTIVE ACTIVITIES

THE SOCIO-ECONOMIC IMPACT OF OUR PRODUCTS

Beyond employment, the first purpose of a cement plant is to produce building materials. Saint-Vigor plant produces one million ton of cement each year, half of which is sold locally. It allows the end users to build the equivalent of 5,000 new dwellings. Indeed, an average 25% is used for new housing, 20%

for reflection, 20% for industrial or

engineering.

commercial building and 5% for civil





UNDERSTANDING A PLANT'S IMPACT ON LOCAL EMPLOYMENT

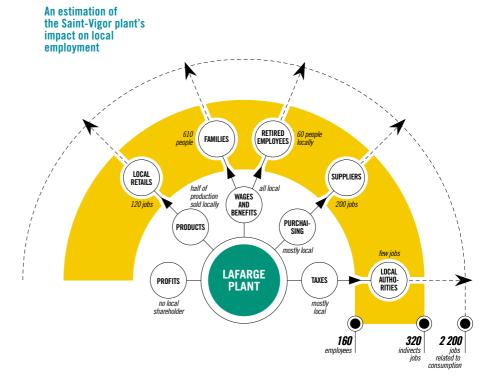
To better understand our "triple bottom line", we tried this year to roughly evaluate our direct and indirect economic impacts at a Group level (see pages 22-23). To complement this global snapshot, we present here a estimation of the direct and indirect employment generated locally by a cement plant.

A test study was launched in 2002 at the Saint-Vigor plant, near Le Havre in France. We have developed a methodology which is to be used by other plants within the Group, for which the results could of course be very different.

The purpose of the study was to determine how money flows lead to local job creation. To do so, three stages were taken into account:

- Stage 1: the direct jobs provided to our 160 employees, all of which are local;
- Stage 2: the indirect jobs generated locally by our suppliers, retailers and by the local authorities thanks to the money flows related to our plant;
- Stage 3: the jobs generated thanks to the "multiplier effect", i.e. the money spent in the local economy by the people benefiting from the direct and indirect jobs.

We came to a total of 2,680 jobs generated locally throughout these three stages. In reality, many other rounds of spending occur which contribute to other local jobs creation, however we limited our calculation to one round. In addition, the plant generates jobs at national level thanks to the products sold in other regions, the dividends for our shareholders and national taxes. The non-local money flows have not been translated into equivalent jobs so far.



TACKLING HEALTH ISSUES IN AFRICA



DESIGN A FRAMEWORK FOR ACTION

The membership in the Global Business Coalition HIV/AIDS, signed by the CEO at the beginning of 2002 accelerated the corporate decision to commit the Group in the fight against HIV/AIDS. The Africa Health Committee, made up of two representatives for each African sub region, a corporate representative and a medical advisor, was therefore created to organize and develop a response to the growing pandemic, while sharing experiences and defining a common policy and action plan.

EVALUATE LOCAL CONTEXT AND SITUATION

The Committee's first mission was to assess the health situation in countries where Lafarge operates. A dedicated questionnaire was sent to all Business Units in seven African countries (Kenya, Malawi, Nigeria, South Africa, Uganda, Zambia, Zimbabwe) and an on-site visit of a corporate representative was organized. All subsaharan African Business Units face the same medical challenges: HIV/AIDS, malaria, respiratory track infections (including tuberculosis) and tropical diseases. There is a rather high level of awareness locally on these medical problems, but the situation in terms of actions and partnerships is very heterogeneous. Most Business Units have medical audits and prevention actions against HIV/AIDS, such as education with "peer educators" and condom distribution. The treatment question is far more controversial: treating health issues in the firm's dispensary or clinics raises confidentiality and discrimination problems for employees. So far, and for example in Kenya, only a few Business Units have treated their employees against HIV/AIDS.

With about 7,500 employees, representing approximately 10% of the Group's staff, Lafarge is present in 12 African countries with high prevalence rates.

Report on the Global HIV/AIDS Epidemic. UNAIDS Report 2002

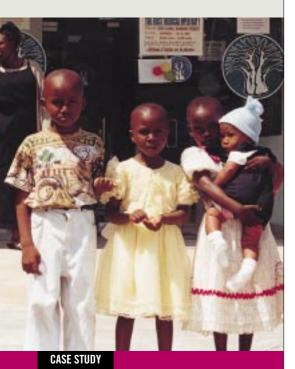
COUNTRY	ADULTS (15-49)	PREVALENCE RATE
Benin	110,000	3.6 %
Cameroon	860,000	11.8 %
Kenya	2,300,000	15 %
Madagascar	21,000	0.3 %
Malawi	780,000	15 %
Namibia	200,000	22.5 %
Nigeria	3,200,000	5.8 %
South Africa	4,700,000	20.1 %
Tanzania	1,300,000	7.8 %
Uganda	510,000	5.0 %
Zambia	1,000,000	21.5 %
Zimbabwe	2,000,000	33.7 %

40 million people are living with the HIV/AIDS virus in the world, 70% of whom live in subsaharan Africa.

3 million people died of AIDS in 2001. Faced with this serious public health issue and the lack of public health structures in many countries where Lafarge operates, the Group, as an entity of significant size and influence, has a responsibility to take a position on health issues. As announced last year, we developed specifics actions in 2002 to improve health management in Africa, including the specific problem of HIV/AIDS.



Health and Safety policy



EDUCATION AND SENSITIZATION OF EMPLOYEES: PEER EDUCATORS IN ZAMBIA

The "peer educators" in Zambia are volunteers: their mission is to change behavior and habits and to get people to adopt a responsible attitude in face of the epidemic, by breaking silence, isolation and fighting discrimination.

"We have already seen big achievements in breaking silence, condom acceptance and level of awareness among our fellow workers. Although we are supported by our local management, what we need today is more support from Corporate level. First in terms of information and exchange of best practices with other Business Units. Second, we need a very clear Group policy against HIV/AIDS, to be able to go further, and particularly in voluntary counselling. There is a confidentiality and trust problem today: people won't go for individual blood testing and they won't talk of their own state because they do not know if they will receive treatment, if their family will be helped, etc."

YOTHAM VIYUYI | TRAINING MANAGER, CHILANGA CEMENT



• Comprehensive case study and other examples

ELABORATE A POLICY AND ACTION PLAN

Africa being the most urgent region, we defined specific tools that will be implemented later in other regions :

- Health policy guiding orientations, regarding all diseases in Africa to implement comprehensive health management. Public health is firstly the responsibility of governments; the contribution of the company is a component and a support of sustainable local initiatives coming from the community. Therefore Lafarge seeks to establish local partnerships with NGOs, Government and medical staff. For all health issues we focus on our employees first, then dependants (family), and then communities (casuals, contractors staff, and the rest of community, especially when our plants are in remote areas). Finally, cost-effectiveness and efficiency of health programs are crucial.
- **HIV/AIDS policy**, to address the epidemic more efficiently with appropriate tools, and best practices sharing. The core principles are:
 - Full compliance with national legislation
 - No pre-employment screening
 - No discrimination
 - Confidentiality
 - Working conditions accommodation for affected employees
 - Education and prevention: condoms and peer educators programs
 - Voluntary Counseling Testing (anonymous and voluntary screening)
 - Treatment, care and support for sexually transmitted illness, opportunistic diseases and for mother-to-child transmission. Our aim is to facilitate access to anti-retroviral treatments in all our Business Units; a different temporary position is permitted only in case of local aspects that make the implementation of treatment impossible for the moment.

BUILD A BUSINESS CASE FOR ACTION AGAINST HIV/AIDS

To seriously address the HIV/AIDS issue in Africa is not only our moral duty and social concern, but also a question of survival for our business. It could also be the case tomorrow in Asia or Eastern Europe, countries in which the increase in prevalence rate is even higher than in Africa. Non treatment can cost more than treatment and we are currently working on economic tools to evaluate the cost of the disease and its treatment with insurance companies. Direct and indirectly, the disease leads to:

- Loss of productivity: high turn-over due to death, absenteeism caused by the disease of employees themselves or their relatives, general pessimistic atmosphere.
- Increase in costs: health insurance, participation in health care, hospitalization, funerals, recruitment and training of new staff.
- Decline of local markets: drop of growth, productivity in all industry sectors, distrust of foreign investors and tourists.
- Reduction of consumption: generally, the building materials market is very local, and since the community concentrates on basic needs of the active population, it cannot boost consumption and economy.
- Image and reputation risks: international activists coalition targeted multinationals in fall 2002.

NEXT STEPS DEFINED WITH CARE FOR 2003

- Acceptance of a Group Policy on Health and HIV defined with a consultative approach.
- Progress on audits: all African sites should progressively evaluate their risk factors, and measure their prevalence rate.
- Spreading of prevention: at least 30% of African countries should have defined an implementation plan regarding prevention of HIV/AIDS. Prevention actions must be launched in other zones of the world where the health system in not sufficient.
- Detail the Group position on treatment against HIV/AIDS.
- Increase the level of awareness on "burden shift" risk (when a company tryies
 to reduce its risk exposure with measures such as pre-employment screening)
 within our Business Units, define local and global responsibilities, and enhance
 mechanisms to measure performance.
- Mobilize the French business community and reinforce our involvement in the Global Business Council.

CARE and Lafarge will sign a partnership in 2003 to define common targets within the Health Africa Committee and extend joint action to other regions.



"The AIDS issue is even more complex than other diseases in Africa: there is no given solution, a cultural taboo to cross

and a need for careful and precise medical follow-up. Our role at the African Committee is to prioritize actions and make different initiatives coherent from one country to another. But health issues must be addressed locally with professionalism and in a long term approach. We do not start from scratch: we must build on existing actions, activate partnership networks in each community and work together with governments, NGOs, and other companies."

DIDIER TRÉSARRIEU | CHAIRMAN OF THE HEALTH COMMITTEE, CEO OF LAFARGE EAST AFRICA

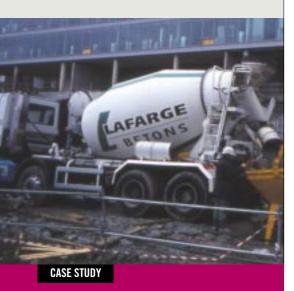
"Lafarge is relatively well placed in its reflection on HIV/AIDS compared to other French companies in Africa: there seems to be a real will of the corporate direction to seriously tackle the issue. But Lafarge is still at the very beginning of the process: the Group has to give a strong impetus to obtain that the disease be responded globally with appropriate means. The most crucial challenges for Lafarge, will consist of dealing with all aspects of the fight against AIDS while respecting a necessary organized methodology. It will be crucial to combat both the lethal threat for the individuals and the risks for the economic activity. The Group will have to define a committed policy, involving all internal and external stakeholders at all steps. The fight against HIV/AIDS will require nothing less than a global coordinated mobilization at corporate and Business Units level."

DAMIEN DESJONQUÈRES | CARE FRANCE

THE ECONOMIC IMPACT ON SOUTH AFRICAN COMPANIES

According to recent studies, South Africa is already losing 5% of its labor force each year due to disease and companies in South Africa could lose about 15% of annual profits because of HIV/AIDS by 2008. HIV infections may cost companies between 2% and 6% of salaries a year**. By 2010 about 15% of highly skilled workers could have contracted HIV.*

* The Wits University Centre for Health Policy **Boston University



THE ILE-DE-FRANCE REGION

The "Ile-de-France" region, around Paris, is a good example of the dilemma we face as an aggregates producer:

- The Ile-de-France region represents 8% of national aggregates production vs. 20% of consumption.
 While Ile-de-France region already consumes a high level of recycled material (12% vs a national average of 2.2% and a maximum of 24% in Belgium), a high dependency on surrounding regions still exists to meet the demand: 40 % of the Ile-de-France aggregates consumption is not produced locally.
- Another issue concerns the saturation of national transportation facilities: rail and road.
- Plus, producers cannot access the huge aquatic aggregates reserve on the Channel coasts because of reluctance of public authorities to grant permits due to potential impacts on ecosystems and fishing activities. As a result, producers forecast a growing shortage of aggregates in the years to come. Indeed, quarries are closing and face difficulties for obtaining further permits in the regions surrounding Paris.



• WBCSD Cement Safety Taskforce results



THE LICENSE TO OPERATE FOR EXTRACTIVE ACTIVITIES

HOW TO MANAGE CONTRADICTORY EXPECTATIONS: MEET GROWING AGGREGATES DEMAND AND BEHAVE AS A RESPONSIBLE LOCAL PLAYER?

Quarrying activities are linked with direct environmental local impacts such as noise, vibrations, and landscape modifications. Materials transportation from extraction to consumption areas can generate additional nuisances. In order to maintain our "license to operate", we focus on reducing local and global impacts of our extractive activities while responding to communities's need for materials.

In many areas across the world, we have to face the so-called "Not In My BackYard" (NIMBY) syndrome: while local authorities and communities may recognize the need for aggregates as end-users, they can be opposed to the opening or extension of quarries in their constituency. This is even more the case since, in addition to its environmental impacts, Lafarge is often in competition with local players regarding other land usage: urban or agricultural land extension, natural area protection or creation.

This NIMBY syndrome impacts our business from two different angles:

- First, as communities have become more and more reluctant about quarry establishment, the length of time required to obtain permits has significantly increased in the last years.
- Second, the license to operate is all even more difficult to obtain when local communities do not benefit from the production of materials as end-users. The Rodel case is an illustration of this kind of situation.

As a result, not only must Lafarge demonstrate local economic benefit to the communities, but it also has to prove its ability to preserve the environment (through quarry rehabilitation in particular) and to demonstrate its responsible behavior.

Still, our efforts do not systematically allow us to reach a workable situation: aggregates producers plan their activities according to quarry lifetime - generally 5 to 50 years, whereas public decision-makers often focus on shorter timescales. This situation may lead to shortage in the supply of aggregates in several regions across the world in the years to come. The Ile-de-France region around Paris is a good example of such a situation (see left column).

HOW TO DEMONSTRATE THE BUSINESS CASE FOR SUSTAINABLE QUARRYING?

It is crucial for us to demonstrate that our commitment to sustainability is not only an ethical case but also a business case: as long as our actions make sense economically, they will last in the long run as part of our global strategy. We intend to illustrate it in the case of quarry exploitation by focusing on two points: transportation and quarry rehabilitation.

Limit road transportation impacts

Given the increase in competition for land use and the increase in demand for aggregates demand, our quarries are moving away from markets and cities. Since most construction materials (aggregates especially) are bulky products, transportation costs represent a significant part of the final price. In addition, railways and shipping are not only the most cost-effective means of transportation on long distance, but also the most "environmental friendly" ones. Therefore limiting transportation impacts on the environment, by reducing road transportation makes sense economically.

Rehabilitate quarries

As described on page 37, quarry rehabilitation is a key element in reducing long term extraction impacts for both communities and the environment. In 2002, we conducted a study based on a sample of Lafarge quarries* to evaluate the business case for quarry rehabilitation plans.

In order to meet Lafarge standards by going beyond compliance requirements for quarry rehabilitation, Lafarge invests on average €0.03 to €0.1 per ton of aggregates.

These investments create direct and indirect value by:

- Better acceptance from local communities: avoiding premature closure of the sites
- Cost reduction: achieved by using the overburden from the active quarry parcel to rehabilitate the previous quarry parcel located at the same site. This process of ongoing rehabilitation not only enables cost reduction but it also avoids the continuous extension of the quarried surface.
- Land value creation: quarry rehabilitation itself improves land value through development of new activities (leisure park, natural reserve, lake, etc.).
- Permits related benefits: allows us to obtain permits or extend existing permits more easily and for longer periods.

The study concludes that there is a real business case for rehabilitation practices, beyond compliance.

CASE STUDY

UPDATE ON RODEL COASTAL QUARRY PROJECT

This controversial project was presented in our first Sustainability report to illustrate the difficulty Lafarge has in finding new sources of aggregates. The quarry site of Rodel was identified at Lingarabay, Rodel on the Isle of Harris in Scotland as a potential long-term replacement for Lafarge's biggest and most significant hard rock quarry, located in Leicestershire. Lafarge is confronted with a vigorous reaction from environmental NGOs. The project has not moved further since 2001. The Link Quarry Group, representing over twenty NGOs, among which WWF, still opposes the "superquarry" project. Friends of the Earth Scotland petitioned Lafarge Chairman Bertrand Collomb to abandon the project. Bertrand Collomb answered each of the 92 letters received in 2002 and explained the Group's position.

RETURNS ON QUARRY REHABILITATION INVESTMENTS

The sample* taken for our study demonstrates the following returns on investments made beyond compliance requirements:

- Lower transportation costs: €0.06 per ton/km
- Longer duration permits: one euro per ton of aggregates sold during each year added.
- Shorter permitting (avoidance of public inquiry):
 €0.1 million per quarry
- Avoid potential quarry closure related to community opposition:
- €27 per ton of aggregates sold
- Higher land value for rehabilitated quarries:
 €75,000 per hectare
- Coordinated rehabilitation savings on overburden movements: €0.5 per ton of aggregates sold.

^{*} Exshaw-Seebe and Exshaw-Yamnuska (Canada), La Flêche, Sandrancourt and La Couronne (France), Churchville, Florida Rock and Shalersville (USA), Llynclys (UK).

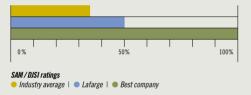
REPORTING AWARDS



In 2002, our first report was not included in the Top 50 selection of the PNUE/
SustainAbility benchmark survey mainly for the lack of data and the possible confusion between stakeholders' views and the management vision. However it was included in the Top 100 selection of the same study.

In 2002, Lafarge won two *Vie Financière* (French financial magazine) awards for its Annual report and its shareholder relations service.

Public environmental reporting



About the GRI core indicators you won't find in this report

The cross-reference table can be found on the flap

MANAGEMENT & GOVERNANCE $1.1 \times \mid 3.3 \spadesuit \mid 3.11 \times \mid 3.15 \times \mid 3.20 \times \mid 3.14 \times \mid 3.15 \times \mid 3.20 \times$

PROFILE & ECONOMIC PERFORMANCE
EC2▲ | EC4■ | EC8■ | EC9■ | EC10■

ENVIRONMENTAL PERFORMANCE EN4 ■ | EN6 ■ | EN9 ● | EN12 ■ | EN13 ■ EN15 ● | EN16 ●

SOCIAL PERFORMANCE

LA1 \blacksquare | LA2 \blacksquare | LA3 \blacksquare | LA4 \blacksquare | LA6 \blacksquare | LA9 \blacksquare | HR2 to HR7 \spadesuit | S03 \spadesuit | PR3 \spadesuit

- We do not consider this indicator relevant enough for our business
- We do not have consolidated data collections systems
- ▲ We do not want to disclose on this topic for strategic reasons
- ▼ Data available in our annual report or on our website
- X The elements could be found thorough the report
- ◆ We have nothing to report on this topic

ut@pies

Utopies is a consultancy created in 1993 to promote sustainability and corporate responsibility. www.utopies.com

HOW DID WE REPORT?

PREPARATION OF THE REPORT

"Building value in the long run" is Lafarge's second Sustainability report: for the second time, our sustainability team has collaborated with Utopies in the preparation of this report, in order to benefit from its role of interface with some stakeholders and its challenging suggestions to enhance accountability. The preparation process, started in May 2002, included a structured feedback survey and a stakeholder session (see page 8). The quotes from these consultations have all been reviewed by their authors. The process also benefited from an on-going involvement of the WWF and the IFWW.

SCOPE AND METHODOLOGY

Our safety indicators were defined in the framework of the WBCSD Safety task force. Our operational environmental indicators were defined in collaboration with the WWF. All other indicators were defined by Lafarge, on the basis of the 2002 guidelines of the Global Reporting Initiative* (GRI). Data regarding Cement Division CO₂ emissions are based on the WBCSD/ WRI protocol for the cement industry. They are calculated on a constant scope, which means that they are not comparable with the data from our 2001 report. Unless otherwise specified, the data reflect the performance of all our subsidiaries (the full list can be found in our annual report) over the year 2002. When reporting on joint-ventures, we consider ourselves accountable for all impacts when the company is under Lafarge's management and for none otherwise.

ABOUT INDEPENDENT ASSURANCE AND COMPLIANCE

The data collection systems and the data quality have not been verified externally, except for the Cement Division reporting systems on CO₂, which have been assessed by Ecofys. Although the report does not comply with the French NRE law, a section with the elements required by this law can be found in our annual report (page 141).

FUTURE IMPROVEMENTS

For our next reports, we believe that Lafarge's main areas of progress towards greater accountability are:

- The in-depth engagement of stakeholders in the reporting process, to enhance credibility.
- The improvement of the data collection systems (both in scope and quality), especially regarding labor practices and economic footprint.
- The establishment of new indicators to cover Human rights, corruption, products quality and impacts, economic footprint and impacts on biodiversity.

*Download GRI guidelines on globalreporting.org



EXTERNAL PERSPECTIVES

"As part of our on-going dialogue with Lafarge, we welcome their invitation to involve us in their preliminary work on 2002 reporting. Most of the topics important to us are covered by the GRI 2002 guidelines. In this second report, we are satisfied with Lafarge's reporting practices on training. career development, diversity, and with their first attempt to benchmark their minimum wages. Regarding Heath & Safety reporting, progress has been made since the last report, the next steps should be to define indicators on compliance with the ILO Guidelines for Occupational Health Management Systems (LA14) and the descriptions of formal agreements with trade unions covering health and safety at work (LA15). However, some areas still need significant improvements: we would especially expect Lafarge to track performance on employment (LA1, LA2), trade unions representation (LA3), and employees consultation process in case of restructuring (LA4), as well as Human Rights and corruption issues. Finally, concerning Lafarge involvement in the UN's Global Compact, it comes without saying that we support their will to comply with its nine principles. Nevertheless, we fear that the lack of compulsory regulations for implementation and disciplinary procedures might limit the Compact's ability to generate concrete changes within companies."

> MARION HELLMANN - IFBWW | JAN VOETS - WFBW | (THE TWO MAJOR INTERNATIONAL UNION FEDERATIONS IN OUR INDUSTRY)

"Lafarge's sustainability report 2002 clearly demonstrates the company's commitment to continuous improvement in both reporting and performance. By consulting stakeholders and including their views in the latest report, Lafarge has demonstrated increased responsiveness to their concerns. ISIS believes that good corporate governance and good CSR performance go hand in hand. We welcome the newly established sustainability committee as well as the integration of sustainability into corporate policies and departmental objectives, and look forward to future reporting against these objectives. As robust risk management is key to investors' interest in sustainability, we would suggest that the key SEE risks should be discussed separately, to provide assurance to shareholders that all these are being adequately addressed. For 2003, some key challenges spring to mind: diversity in the workforce. the development of social standards, supply chain management, biodiversity management and anticorruption systems. We would, for example expect that for Lafarge to be in line with best practice, it would develop labor standards guidelines in line with the ILO standards for both its own operations and its suppliers. It also is emerging best practice for companies in high-impact sectors to develop a Company Biodiversity Action Plan in order to manage its impacts comprehensively. Biodiversity management should form an integral part of the environmental management system. The 2002 report certainly represents a significant improvement over the previous one; not least the newly introduced navigation features make it much

> CLAUDIA KRUSE | ISIS ASSET MANAGEMENT LARGEST SOCIALLY RESPONSIBLE INVESTOR IN EUROPE AND ONE OF LAFARGE'S SHAREHOLDERS

"At WWF, we are pleased to see that once again Lafarge has made significant progress towards achieving the jointly-agreed key performance indicators and related targets. In particular, we welcome the fact that both the Cement and Gypsum Divisions have achieved their 2005 targets for use of recycled materials two years ahead of schedule. Through the development of its internal "Advance Programme", Lafarge is mainstreaming its commitment to reducing CO₂ emissions across all its operations. The reductions already achieved (see page 17) indicate that Lafarge is well on the way to meeting the 2010 target. Over the last year, the partnership has expanded and is now rooted in a number of countries through a series of joint local level projects.

It is now time for Lafarge to take up new challenges, in particular that of resolving the controversy surrounding the proposed superquarry on the island of Harris in Scotland. As a responsible company, committed to demonstrating leadership in its sector, it is also time for Lafarge to comprehensively assess and address its toxic chemical footprint.

This partnership continues to set a standard that demonstrates how two radically different organizations can collaborate on projects that contribute to creating a sustainable future."

JEAN-PAUL JEANRENAUD | HEAD BUSINESS
AND INDUSTRY RELATIONS, WWF INTERNATIONAL

This report is the result of an ongoing dialogue process with our stakeholders. Please share with us your views, comments and ideas on how Lafarge can further improve its approach.

easier to navigate this comprehensive document.'

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