



**SUSTAINABILITY  
REPORT 2004**





BENCHMARK OF LAFARGE'S PERFORMANCE



TOPICS RELATED TO ONE OF THE 10 PRINCIPLES OF THE UN GLOBAL COMPACT



DOCUMENT AVAILABLE ON OUR WEBSITE

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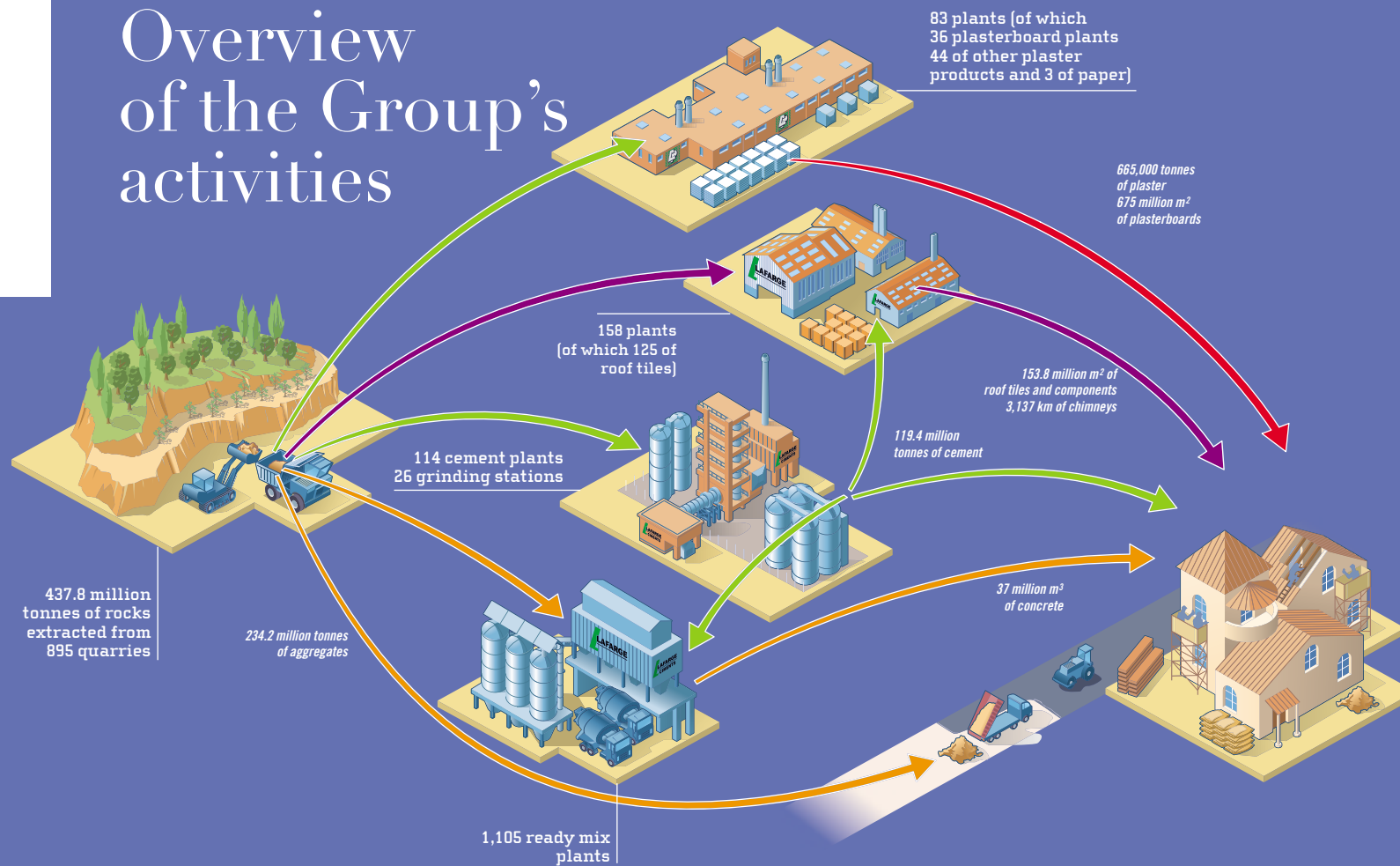
Lafarge, founded in 1833, is to day the world leader in building materials:

> n°1 worldwide in Cement and Roofing, n°2 in Aggregates and Concrete, and n°3 in Gypsum

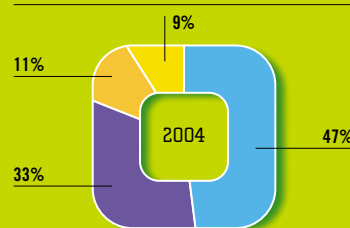
> Lafarge employs 77,000 employees in 75 countries and posted sales of €14,436 million in 2004

> Lafarge's growth has been especially strong in developing countries

## Overview of the Group's activities

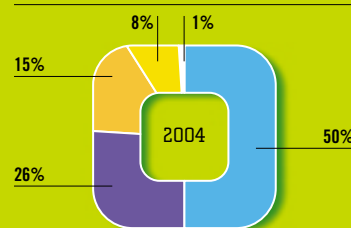


SALES PER DIVISION IN 2004



● Cement | ● Aggregates & Concrete | ● Roofing | ● Gypsum

WORKFORCE PER DIVISION IN 2004



● Cement | ● Aggregates & Concrete | ● Roofing | ● Gypsum | ● Other

# Meeting our Stakeholders' expectations

In 2004, Lafarge's stakeholder advisory panel was more than ever closely associated to the making of the Group's Sustainability Report. Our intention was to design this report as an answer to the panel's disclosure expectations. Panel members were consulted in December 2004 to establish what information they expect us to publish. Each chapter begins with a brief summary of disclosure expectations expressed by panel members and ends with a comment by the panel member most concerned by the issues at hand, indicating whether disclosure expectations were met or not. More detailed lists of these expectations are available on our website. [\(weblink\)](#) Moreover the report closes with an overall comment from the panel on the quality of the report. We present below the main points emanating from the panel's disclosure expectations, which we have tried to answer throughout this report.

> What is Lafarge doing to integrate sustainability in its corporate strategy? How does the Group's sustainability policy impact its products, its marketing and its business model?

Pages 2 to 7 respond to these questions.

> What does the Group do to ensure that its policies (such as those on Competition, its Code of Business Conduct, Health and Safety...) are being enforced at grass-root level?


This question is addressed on page 3 and pages 9 to 10.

> What is the reality behind global indicators?

We have published meaningful regional breakdowns of data.

Whenever possible, we have crossed our performance with relevant indicators of local context: see graphs p. 10, 12, 13, 18.

> How does the company compare with other industry players?

The report includes benchmarking of our performance against that of our main competitors wherever possible (for more information on how this benchmarking was conducted, refer to the Enhancing comparability section page 28. This benchmarking is based solely on information made publicly available by January 1st 2005 and is indicated with the following symbol: 

To allow further comparison of the Group's performance, we have included major non-financial ratings, as in earlier sustainability reports.



## Bernard Kasriel

Chief Executive Officer

“Our fourth Sustainability Report is the opportunity for us to compare our viewpoint on our operations with our stakeholders’ judgment, evaluating our performance with respect to society’s stakes and expectations. The report also presents the opportunity to measure and communicate our progress in the ever more ambitious task of applying our Principles of Action and the United Nations Global Compact principles in every country we work in.

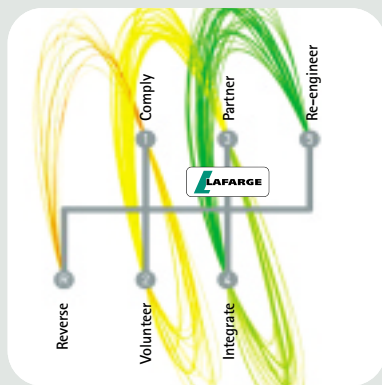
The Group’s efforts in recent years to anticipate sector-specific risks and to raise the social standards in our industry paid off in 2004. Our occupational safety results continued to improve, and our anticipation of carbon constraint has allowed us to embrace the new European trading system for CO<sub>2</sub> quotas with serenity. We continue to strive for still greater progress. After formalizing our Competition Policy in 2003, we launched two new projects for 2004: developing a responsible purchasing policy, as well as an anti-corruption program with Transparency International.

Still, certain dilemmas remain, and the questions raised by our stakeholders are a reflection of the challenges ahead. Our strategic partnerships with WWF, Care or Habitat for Humanity help us to build the solutions to meet our clients’ legitimate expectations, while also striving to protect our planet and defend the expectations of the communities in which we work.”

A handwritten signature in black ink, appearing to read 'Bernard Kasriel'.

# Sustainability Management

## GLOBAL COMPACT COMMUNICATION ON PROGRESS TAKING THE GLOBAL COMPACT CHALLENGE!



The Global Compact Challenge is a tool created by the leading CSR consultancy SustainAbility to enable corporations to self assess their approach to sustainability. It allows to position the company's approach on a 5 level "gearbox", from reactive (1st gear - Comply) to very proactive (5th gear - Re-engineer). A "reverse" gear also exists: it refers to public affairs which could slow down changes even if the rest of the organization operates in forward gears. According to this self-assessment, Lafarge currently operates in 3rd gear, focused on partnership and stakeholder engagement. To gear up, Lafarge would need to embed more deeply its sustainability targets into its business processes (gear 4). Then we would have to re-examine our business model and pro-actively influence markets and public policies to reach 5th gear. The following pages summarize the rationales behind this self assessment. The full assessment sheet and the tool are posted on [www.lafarge.com](http://www.lafarge.com)

**R**egarding management, our stakeholders primarily expect us to disclose how we identify sustainability issues and risks and implement specific policies to manage them. However, our stakeholder panel as well as the Global Compact (see the box) also encourage us to "gear up" on our journey towards greater sustainability by embedding sustainability goals into all traditional business processes and developing initiatives aimed at creating system level changes. The following pages describe how we deal with these challenges.

## > How do we identify and manage sustainability issues?

### Leadership

Our approach to sustainability issues is based on our Principles of Action first published in 1977 and last reviewed in 2003. Key decisions in this field are taken by the Sustainability Committee, chaired by our CEO Bernard Kasriel and composed of the Executive Committee and internal experts. It meets 3 times a year. The approach is coordinated by our Senior Vice President Public Affairs and Environment who reports to the CEO, and who is assisted by two other Vice Presidents for environmental and social issues. Then, each Business Unit manager is responsible for the implementation of the approach.

### Stakeholder engagement and identification of sustainability issues

Over the last five years, the Group's approach to stakeholder engagement has evolved from informal relationships to formal stakeholder consultations and partnerships. We consider that this approach has allowed us to map and understand our key areas of corporate responsibility. To improve this understanding and to be challenged and helped on an on-going basis, we engage stakeholders in several ways:

WWF International has been our partner since 2000. Our new agreement covers four areas in which they will help us to progress and set targets: climate change, sustainable construction, biodiversity and persistent pollutants. In the same spirit, we concluded a partnership with Care France in 2002 to fight HIV/AIDS in the workplace and last year a partnership with Transparency International France to combat corruption. In addition, in January 2005 we signed a global partnership with Habitat for Humanity, a NGO dedicated to reducing homelessness with which the Group has been working in different countries since 2001. Our objective is to help provide decent housing for low income people, through employees volunteering, in-kind contributions and specific product development.

Furthermore, we set up a stakeholder panel in 2003 which meets our top executives once a year. It challenges us on sustainability issues so as to help us to address them and enhance our accountability (see details p 29). The rules of engagement and a self assessment of the panel's efficiency are posted on our website.

In addition, we have also progressed in stakeholder engagement at a local level, through specific programs and local partnerships (see pages 18 and 19). Stakeholder engagement is now included in some performance programs and bonus calculations.

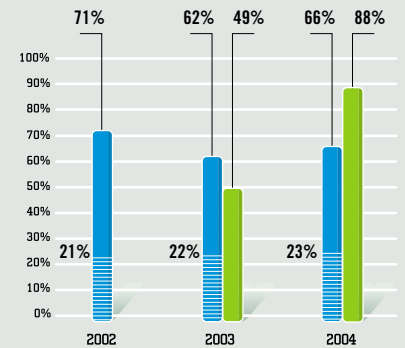
## Group policies

Over the years, Lafarge has established a set of policies covering environmental impacts of operations and labor issues. In 2003 and 2004, several policies and guidelines were updated or added to deal with responsible procurement, products' environmental impacts, competition and business ethics. We also signed the Global Compact. As shown in table 1, compared with the issues we mapped, the remaining gaps mostly concern some aspects of Human Rights, the economic impacts of our operations and products on local communities, biodiversity protection and the means used to influence public policies. In these fields, compliance with our Principles of Action and Code of Business Conduct, which promote ethics as a key value for the Group, is the rule.

## Implementation

Regarding plants' safety and environmental impacts, specific management systems have been implemented in almost all Business Units (see graph 1). The slight decrease in the percentage of sites covered by the environmental management system is due to recently acquired Business Units. Our Environmental Management System (EMS) meets FTSE4Good stock index requirements. Labor related policies are enforced by the Divisions' and Business Units' Human Resources departments and followed up with performance indicators. Furthermore, we created a whistle-blowing mechanism to monitor enforcement of our Code of Business Conduct (see page 9) and, since 2003, we implement training and auditing programs on competition issues. We are currently formalizing our approaches to sustainability-related issues such as corruption, biodiversity management and supply-chain management.

### 1 IMPLEMENTATION OF SPECIFIC MANAGEMENT SYSTEMS



- Lafarge internal Environmental Management System (% of turnover) |
- ISO 14001 certification (% of turnover) |
- Lafarge Health & Safety management system (% of total staff) |

[www.lafarge.com/stakeholders/](http://www.lafarge.com/stakeholders/)



- Stakeholder panel terms of engagement
- Panel's self assessment of its efficiency

TABLE 1 - MANAGEMENT STATUS OF KEY SUSTAINABILITY ISSUES

ECONOMY	SOCIETY	ENVIRONMENT
Competition and prevention of collusions	Health and Safety	Climate change
Responsible restructuring	Diversity and non-discrimination	Air emissions
Socially Responsible Investment	Wages, benefits above minimum living wage	Persistent pollutants
Impact on local economies	Employee ownership	Energy consumption
Technology transfer	Working time	Water consumption
Solutions for low income populations	Freedom of association and collective agreements	Impact of quarries on biodiversity
Fair relationship with suppliers	Avoidance of child labor	Quarry rehabilitation
Charitable contributions	Avoidance of forced labor	Fugitive emissions, noise, visual impacts
Prevention of corruption	Training and skill transfers	Facilities end of life
Responsible lobbying	Impact of products on users' Health and Safety	Use of non renewable materials
	Suppliers Health and Safety	Production waste
	Suppliers social performance	Impacts of products on buildings energy consumption
	Relationship with local communities	Products end of life impacts
		Suppliers environmental performance

- 🌐 Topics related to one of the 10 principles of the UN Global Compact
- 📄 Group policy
- 🔍 Audit program
- 📊 Performance program
- 🎯 Objectives

When an issue is addressed in a Division, then the color of the Division appears in the related pictogram

- Cement
- Aggregates & Concrete
- Roofing
- Gypsum

[www.lafarge.com/CSRmanagement/](http://www.lafarge.com/CSRmanagement/)



- Global Compact challenge self assessment profile
- Our policies
- Description of our specific management systems
- Detailed version of the table 1



OBJECTIVE ACHIEVED



PROGRESS UNDERWAY



IMPLEMENTATION OF THE GLOBAL COMPACT

## > Group targets

Each year since 2001, we have set Group targets on sustainability issues which include environmental targets negotiated with WWF. These targets are coherent with our policies and means of implementation as they are mostly focused on operational environmental impacts and human resources. [The table below](#) includes only those which were not already achieved in January 2004. Those relating to the Global Compact principles are marked with a . In 2005 we will set a new road map for the next five years.

	DEADLINE	PROGRESS	SEE PAGE
<b>Management</b>			
Self-assessment of compliance with our Competition Policy conducted by 100% of European Business Units	2005		9
Set up a Health and Safety management system in 100% of our Business Units	2005	88%	3 & 12
Have 100% of our sites audited environmentally within the last 4 years	2004	90%	
<b>Employees</b>			
Regularly repeat employee ownership programs so as to reach 3% of capital held by employees	2004	Target changed	14
New target: reach 50% of employees holding shares in Lafarge	2005	43%	14
Double the level of in-house training at Division and Corporate level	2005		13
Report on training using the GRI guidelines at Business Unit level	2005		13
Double the number of female senior managers from 2003 to 2008	2008		13
<b>Environmental performance</b>			
Reach a rate of 80% of quarries with a rehabilitation plan in line with Lafarge standards	2004	79%	20
Cut our worldwide net CO <sub>2</sub> emissions per tonne of cement by 20% as compared to 1990	2010	11.2%	22
Cut our absolute net emissions in industrialized countries by 15%	2010	11.6%	22
Cut our absolute gross emissions in industrialized countries by 10%	2010	9.5%	22
Set emissions targets on relevant materials and report publicly on progress	2006		24
Achieve a maximum dust level of 50 mg/Nm <sup>3</sup> in 100% of our cement plants	2010	60%	24
Measure the number of facilities equipped with water recycling systems	2005		20
Reduce the amount of production waste going to disposal to the following levels: <ul style="list-style-type: none"> <li>• 1% of production for the Cement Division</li> <li>• 1.5% for the Roofing Division</li> <li>• 1.5% for the Gypsum Division</li> </ul>	2010	1.0% 2.2% 1.0%	21
Reach a level of recycled raw material use as follows: <ul style="list-style-type: none"> <li>• 10% in the Cement Division</li> <li>• 2% in the Roofing Division</li> <li>• 45% in the Gypsum Division (boards only)</li> </ul>	2005	9.8% 1.3% 50.5%	21

## > Cement sector agenda

The Cement Sustainability Initiative created joint projects between its members but also asked them to commit to individual company actions and targets. Most of these projects and actions were aimed at raising the cement industry's sustainability standards and making reporting in the sector comparable. Therefore, whenever possible, you will find benchmarking on these targets in the related sections. Concerning Lafarge, most of the targets were already covered by previous or more complete Group objectives such as the integration of sustainable development in Division performance programs or the drawing up of rehabilitation plans for quarries and communicating them to local stakeholders. However, more specifically, in the framework of this initiative, we committed to:

- Following the recommendations issued by the Health and Safety task force related to systems implementation, monitoring and reporting (see page 12)
- Applying the WBCSD\* protocol for measurement, monitoring and reporting of non carbon emissions (see page 24)
- Applying the WBCSD guidelines developed for fuel and raw materials use (see page 20)

## > Do we embed sustainability in our business decision making process?

### Performance programs

To manage operational performance each Division has implemented "performance programs". As shown in [table 1 page 3](#), several sustainability issues are integrated into these programs: safety, operational environmental impacts, quarry rehabilitation, stakeholder relationship and product quality and customer satisfaction. In 2005, visual impacts of plants will be added in the Cement Division program, and performance programs will be developed in each corporate department.

### Executive appraisal systems

Each manager holds an annual individual appraisal with his direct supervisor. Part of it is based on six categories of criteria, one of which is "Integrity and the respect of the values stated in the Group's Principles of Action." The bonus schemes include both financial (mostly EVA\*\* based) and non-financial objectives. However, there is no consolidation at Group level of the average proportion of non-financial objectives in calculating individual bonus amounts. So far, CSR issues are not systematically included in individual objectives as the Group believes they are non-negotiable priorities for all to be respected in all circumstances.

### Board member involvement

Although no sustainability related criteria is formally integrated into the selection of board members, two of them are involved in sustainable development issues: Bertrand Collomb, Chairman and former CEO is also President of the WBCSD, and Bernard Kasriel, CEO is head of Lafarge's Sustainability Executive Committee. No board members formally represent non-shareholding stakeholders such as employees. In 2004, discussion on CSR issues at Board level consisted of a presentation of the new Group Rules and Code of Business Conduct (Lafarge Way Book). ([weblink](#))

\* WBCSD: World Business Council for Sustainable Development  
 \*\* EVA: Economic Value Added



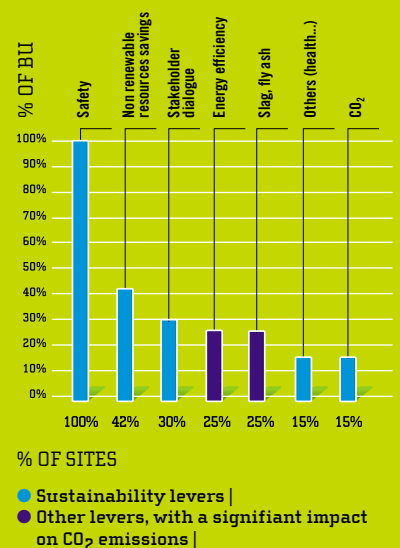
AGGREGATES & CONCRETE | World Health and Safety seminar in 2004

### CEMENT DIVISION ADVANCE PROGRAM

Each Business Unit performs an annual self-assessment of 19 performance levers, 4 of which explicitly relate to sustainable development.

This self-assessment helps Business Units to benchmark their performance and select 5 to 6 annual priority levers, one of which is required to be Safety.

### SUSTAINABILITY LEVERS chosen by the Cement Division's Business Units among their 5 annual priorities



[www.lafarge.com/Sdobjectives/](http://www.lafarge.com/Sdobjectives/)



• Complete list of Lafarge's sustainability objectives





ROOFING |  
Installing  
photovoltaic  
systems

## Investment criteria

All investments above €25 million are approved at Group level taking into account a country risk analysis. Three screens are applied successively: the first is the political country risk, which includes corruption risk (see page 10) and gives a country ranking close to those established by FTSE4Good on Human Rights. The two other screens are based on country financial and economical risks. Taxes, labor cost, energy prices and environmental regulations account together for 60% of the final screen. From 2005, with the entering into force of the Kyoto Protocol and the creation of the European trading scheme, the Cement Division will systematically take into account the value of CO<sub>2</sub> emissions reduction with different price assumptions in its investment decisions.

## Evolution of Business Models

During consultations some of our stakeholders suggested that we should gradually evolve from a position of “building materials producer”, towards a position of “solutions provider” in order to:

- be able to increase our turnover without proportionally increasing volumes produced (and the related environmental footprint),
- improve our contribution to sustainable building and industrial ecology.

Even though our growth currently remains directly linked to the volumes produced, all our Divisions are developing new products and services with social and environmental added-value (see page 27). They offer services such as waste management services, ready mix concrete pumping, roofing and heating systems.

## > How do we help shape public policies?

### Influence on peers, public policies and markets

Both at Group and local levels, Lafarge plays an active role in the shaping of public policies. Due to a decentralized organization, we are only able to report on practices in Europe and the USA: the table on next page lists the main lobbying topics addressed by the Group and our position on each of them for 2004. A detailed report of our public positions is available on our website. ([weblink](#))

This limited sample shows that Lafarge generally prefers voluntary agreements to legal constraints, in line with the rest of the building materials industry. We are for instance one of the initiators of the sector sustainability agenda within the WBCSD cement initiative (see page 5). We believe that this approach is the most able to combine flexibility and efficiency.



## Karina Litvack | F&C ASSET MANAGEMENT

Lafarge's reporting on Sustainability Management is leading-edge in several respects – not least its stance on political lobbying, where it breaks new ground. Lafarge's toughest sustainability challenges lie in areas over which it has only limited control, yet it faces growing demands to achieve real improvements and lead its industry. As the world's leading cement maker, it clearly has the ability to set new standards and influence public policy – but this is constrained by its need to remain competitive, or it risks losing the support of its shareholders.

While it can and must continue to improve production processes – e.g. lower emissions, safer plants – the real step changes must come from how customers use its products, and this is heavily influenced by the regulatory environment. By disclosing its lobbying position on the policy areas where its business interests intersect with sustainability, Lafarge throws itself open to new levels of scrutiny. This promises to raise interesting dilemmas, but also to inject greater rigour in its policies and better coordination across its far-flung businesses.”

## MAIN LOBBYING ACTIONS IN 2004

TOPIC	PUBLIC POSITIONS
Criteria for selection of Clean Development Mechanism projects (World)	When we develop a climate-friendly project in a developing country which goes beyond business as usual, our position is that all the emissions avoided should be added to our credits, while some environmental NGOs think that only efforts which go beyond cost considerations should be taken into account.
Implementation of CO <sub>2</sub> Emissions Trading Scheme (Europe)	We support an allocation of emission allowances based on performance which recognizes early actions, instead of allocated targets based on historical emissions. We think that waste fuels should be considered as CO <sub>2</sub> neutral due to their global contribution to fight climate change, and that Kyoto's flexible mechanisms* should be used without restriction.
Directive on mining waste (Europe)	We consider that overburden and top soil used for quarry rehabilitation should not be considered as waste.
Directive limiting the amount of chromium VI** in Cement (Europe)	We support an implementation consistent across member states to ensure fair competition, and advocate for less stringent requirements (see page 26).
Biodiversity - Natura 2000 (Europe)	We advocate for compatibility of extraction activities with the respect of biodiversity.
Federal highway funding bill (USA)	As a member of a diverse highway construction coalition, we advocated for the reauthorization of the highest level of funding politically achievable.
Enactment of an Energy Bill (USA)	Lafarge North America continues to advocate for a comprehensive energy bill that will include language that encourages the procurement of cement products that use fly ash or slag, encourages the use of carpet as an alternate fuel in cement kilns, encourages the use of bio-fuels as an alternate fuel in cement kilns, and encourages the use of various recycled or reused materials in the manufacture of cement and concrete for use in "green" buildings.
US Coast Guard rules (USA)	In 2004, Lafarge North America was successful in its advocacy before the US Congress and the US Coast Guard to assure that Lafarge North America's distribution vessels and their lease arrangements are grandfathered under the Jones Act. Our advocacy assures that our Great Lake's and other water distribution vessels will remain viable and cost effective.

\* They allow a company to gain emission credits from climate friendly investments in developing countries.

\*\*Chromium VI is a chemical substance which may cause health problems (see p.26)

### Influence on investors

Our policy is to answer questions from investors on our sustainability performance and consult them to produce our report. In our financial communications, we present sustainability as a key value driver. In 2002, we analyzed the financial impact of our quarry rehabilitation policy to back this belief with hard data. Due to our management system and to our proactive strategy on climate change we consider the environmental risks related to our activities to be limited. The topic of Lafarge's influence on investors will be discussed at the next meeting of our stakeholder panel.

[www.lafarge.com/publicpositions/](http://www.lafarge.com/publicpositions/)



• Public position on each issue



## Alastair McIntosh FELLOW OF THE CENTRE FOR HUMAN ECOLOGY, SCOTLAND

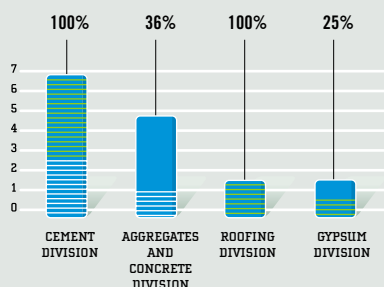
**W**e all use quarry products. That is why, as an ecologist, I am a Lafarge stakeholder. My acid test questions are:

- **Is Lafarge learning to do more with less damage to the planet?** Yes... and I am impressed by its targets for emissions and site restoration.
- **Is it creating wealth by developing ingenious new sustainable building solutions?** Frankly... not enough yet, but this path is being explored.

Ultimately, I would like to see a corporate strategy that inspires and leads the transformation of our unsustainable industrial, consumer and policy culture. I want to see vision and technology that generates success stories of which Lafarge staff can be hugely proud. With sustainability now a "key value driver", the company has made a good start. I trust that ethical investors will watch with interest."

# Governance and Business Ethics

## 1 BUSINESS UNITS covered by an awareness-raising session on the new Competition Policy in 2004



In billion €

- Units covered in 2003 |
- Units covered in 2004 |
- Total turnover of the Division |

✗ Recommendations of the Vienot and Bouton reports  
 ■ NRE Act requirement

\* More information on our corporate governance is available in our 2004 report on form 20-F

Our stakeholders expect transparency from Lafarge on the way we deal with conflict of interests. First and foremost, they require a clear explanation of the structure and functioning of the Group's governing bodies, emphasizing that we respect recent laws and recommendations such as the Sarbanes Oxley Act and the Bouton Report. Moreover, they expect us to disclose our policies and our exposure to risks on such issues as competition, corruption and political contributions. The panel expects Lafarge to demonstrate that the Group has all the necessary systems and procedures to make sure these policies are enforced across the Group, respecting Transparency International's Business Principles. These include training, internal monitoring systems, and especially whistle-blowing mechanisms.

## > Do we comply with good corporate governance standards?

### Directors' and Auditors' independence

The governance structure of Lafarge evolved in 2003 in order to comply with new regulations such as the Sarbanes-Oxley Act in the USA and the "Loi sur la Sécurité Financière" in France. In accordance with the Bouton report recommendations, our Board has determined in 2004 that 9 out of 15 directors are considered independent. The Audit Committee is composed of 5 independent directors, all of whom also satisfy the requirements of the Sarbanes-Oxley Act. The Nominations and Remunerations Committee is composed of 2 independent directors out of 3. The average term of office for our directors is four years. Our auditors do not provide Lafarge with consulting services or advice, 18% of their fees concern audit related services and fiscal questions. Finally, the Board met twice with our Auditors, without the presence of management, in September 2004 and February 2005.

GOOD GOVERNANCE STANDARDS*		THE GROUP FIGURES AS OF FEBRUARY 25TH 2005			
INVOLVEMENT IN DECISIONS	DIRECTORS	Maximum of 5 different directorships at one time ■	2.9 on average and a maximum of 5		
		Number of meetings and average participation rate at the Board of Directors	4 meetings, 92%		
		Existence of accounts, nomination and remuneration committees ✗	Strategy and Investment Committee	Audit Committee	Nominations and Remunerations Committee
		<ul style="list-style-type: none"> <li>• NUMBER OF MEETINGS</li> <li>• RATE OF PARTICIPATION</li> </ul>	3 100%	3 90%	3 100%
		Evaluation of Board operations every 3 years ✗	Board evaluated in February 2004 (See 2004 Report on Form 20 F), results were presented at our Annual General Meeting on May 25th 2004		
	SHAREHOLDERS	Share of votes expressed at the Annual General Meeting	28.81%		
ECONOMIC INFORMATION		Publish amounts allocated for compensation of officers ✗	between €0.83M and €1.77M per officer		
		Publish criteria for establishing amounts allocated for compensation of officers	See 2004 Report on Form 20 F		
		Publish the number of stock options allotted (along with their value per unit for 2004) ✗	687,550 stock options valued at €70.79 each, of which 170,000 were for officers and 255,000 for the 10 most important allocations.		



## > Do we enforce our Code of Business Conduct?

### Code of Business Conduct

Our Code of Business Conduct was established in 2004. ([weblink](#)) It covers such areas as conflict of interest, corruption, political contributions, financial transparency and insider trading. Enforcement of the Code began with the deployment of a specialized telephone hotline available to 100% of Lafarge staff in 24 different languages, 24 hours a day. This hotline is provided by an independent call center in the United-States.

In 2004, the Group received only one whistle-blowing phone call from an employee located at an Indian Ocean site which concerned conflict of interest, already resolved.

### Competition Policy

In addition to the Code, we established in 2004 a specific policy on competition to ensure that all Business Units comply with complex competition regulations. In 2004, all European Business Units as well as some units in Africa and the Eastern Mediterranean Basin received training on the Competition Policy at different hierarchical levels, with a priority given to employees most exposed to such risks. Overall, 100% of Business Units of the Cement Division were covered in 2004, up from 42% in 2003. ([see graph 1](#)). The Group plans to pursue such training outside of Europe, beginning with countries where Competition legislation is most advanced, in Turkey, Latin America and Africa, as well as at lower hierarchical levels within European Business Units. Finally, an e-learning training scheme will be launched in 2005. In the United States and Canada, Lafarge North America has had an antitrust program in place for many years in order to assure rigorous compliance with North American Competition requirements.

Furthermore, in 2004 the Group undertook detailed surveys in 6 different Business Units to ensure their compliance with the Group's Competition Policy. These surveys were followed by corrective measures when necessary. The Group plans on pursuing surveys in 2005, either upon demand of Business Units or through "surprise" surveys decided at corporate level.

## Governance and Business Ethics

[www.lafarge.com/governance/](http://www.lafarge.com/governance/)



- List of board members

[www.lafarge.com/CSRpolicies/](http://www.lafarge.com/CSRpolicies/)



- Code of Business Conduct
- Competition Rules

## Philippe Lévêque | CARE FRANCE

"I have been following Lafarge for a couple of years now and have seen significant progress on issues such as governance and ethics. In particular there has been a real effort on transparency. It is not enough to declare that the Group has principles! Poor governance is more the rule than the exception in most of the markets where Lafarge operates and every citizen or employee knows that the building industry is a favourite sector for corruption. The possibility to discuss more and more openly issues like corruption with top management and staff in the field is a welcome advance.

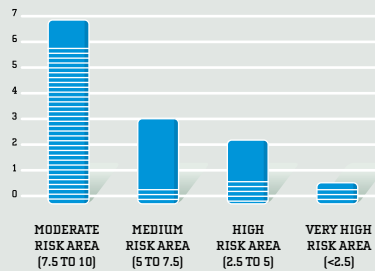
More can be done: as Lafarge is one of the world leaders in terms of social responsibility, one could however suggest to the Board of Directors that Corporate Social Responsibility topics be more often discussed at their meetings. I would advise that at least one significant CSR topic should be brought to the Board's attention, once a year. Another area for progress is gender diversity, particularly concerning access to managerial positions, including access to Directors positions. Globally, I consider that the report met most of my disclosure expectations in the field of governance and ethics."



# Governance and Business Ethics

## 1 CORRUPTION RISK AND PREVENTION POLICIES

Breakdown of our sales by country-risk according to Transparency International 2003



PERCEPTION INDEX  
(COUNTRIES FROM 0 TO 10)

- Turnover of the Division
- Business Units which have their own policy against corruption

UNITED STATES | Aggregates  
& Concrete | Gravel placement for fish nesting |  
Presque Isle Quarry rehabilitation



[www.lafarge.com/ethics/](http://www.lafarge.com/ethics/)



- 1 | Auto-evaluation against Transparency International Business Principles
- 2 | Details of contributions

\*Ranking established by the Center for Responsive Politics (USA)

In earlier years, Lafarge was charged fines for anti-competitive practices, respectively by the European Commission and by the BundesKartellamt. Both corresponding decisions are still being appealed before the European Court of First Instance and the competent German court in Dusseldorf. A few other enquiries are in hand, though there are no significant financial risks linked to any of these cases.

According to information made publicly available by our competitors, only one global cement producer seems to have as formalized an approach to competition-related issues as Lafarge.

### Anti-corruption policy

As a building materials company with very few clients in the public sector, Lafarge is much less exposed to corruption than the construction industry. Our Principles of Action clearly promote integrity as a core value of the Group. However, with a growing presence in emerging markets where solicitations for facilitation payments could be widespread, Lafarge is aware of its exposure to other forms of corruption.

Progress in 2004 was mainly focused on implementing the Group's internal whistle-blowing mechanism. We also increased the weight of corruption-related criteria in our political risk country assessment (which serves as a basis for major investment decisions: see page 6) from 8 to 15%. For the second year running, the Group's Code of Business Conduct and its mode of enforcement were benchmarked against the principles established by Transparency International and Social AccountAbility International. (weblink 1) This analysis highlighted the need for Lafarge to develop a Group program including complementary guidelines on charitable donations and facilitation payments as well as specific training for managers.

Lafarge pursued its constructive dialogue with Transparency International-France and formalized a partnership in April 2004 aimed at setting a common action plan for the Group concerning corruption issues. Next steps for Lafarge in 2005:

- Interviews will be conducted in various Business Units to achieve more detailed understanding of the Group's exposure to corruption risks, taking into account local contexts as well as specificities of each of the Group's Divisions.
- A group-wide action plan will be established including specific training programs as well as the creation of complementary guidelines.

### Political Contributions

In 2004, Lafarge North America Inc. (LNA) was the only Business Unit to report contributions through an independent Political Action Committee (PAC), where contributions from eligible employees (US citizens and permanent resident aliens) are legal and frequent. The PAC made contributions totaling \$55,000 during the 2003-2004 federal election cycle to various Congressional candidates, up from \$31,000 in 2003. The increase in these contributions is primarily due to the greater visibility of the Congressional elections since it was also a Presidential election. Approximately 1/3 of the contributions went to Democratic Party affiliated candidates while 2/3 went to Republican Party sponsored candidates. The party split is based on the criteria PAC uses for making contributions: candidates who represent districts in which we operate, candidates who advocate pro-business positions, and/or candidates who are in leadership positions on key committees addressing issues of importance to Lafarge. A detailed overview of our contributions is available on our website. (weblink 2)

Lafarge is a relatively modest contributor, as the company which is ranked at the 100th position with respect to its political contributions gives 20 times more than Lafarge\*.

## Karina Litvack | F&C ASSET MANAGEMENT

Lafarge has sharply stepped up disclosure on several key Governance issues: the strong focus on Competition was much needed and very welcome. Corruption policies have also progressed: the inclusion of corruption measures in country risk analysis sets a strong standard for other global companies. Lafarge is candid on the gaps it still faces, and sets good targets to close them: conducting a full assessment of corruption risk across global operations, boosting training and developing better guidelines. However, two further areas have been spotted with no plans articulated: charitable donations and facilitation payments, whereas these merit action as well. The progress

on whistle blowing has been impressively rapid, and the disclosure exemplary: take-up is still minimal, but its success will ride on staff buy-in and, most of all, strong communication that Lafarge will act on reported problems and protect whistle-blowers over the long term. Last but not least, Political Donations: here Lafarge could do more. It merely states what it pays, which is indeed modest. It should issue an overall statement of policy that clarifies whether donations are also made outside the US or banned outright; where they are made, it should say what rules apply, especially with regard to pressuring or influencing staff to contribute, and to making corporate loans to its Political Action Committee."

# Our employees

Regarding human resources, panel members insisted that we report according to Global Reporting Initiative guidelines. Specific disclosure expectations were expressed on issues such as means allocated by the Group to promoting Health and Safety, occupational illnesses, wage levels compared with local standards, promotion of locals for employment, detailed accounting of employee satisfaction, efficiency of career development programs and integration of disabled personnel.

## > Is Lafarge a good place to work?

This year 74 Business Units were covered by our social data collection system, representing 84% of the workforce and 91% of sales.

### Safety

Lafarge's ambition on medium term concerning safety is to be the best among the world's leading industrial companies. This would translate into the following targets:

- 0 industrial fatalities on our sites
- Achieving a frequency rate of 1
- Having our sub-contractors implement similar Health and Safety procedures and reach the same performance.

A | Number of accidents leading to loss of time by millions of hours worked

B | Number of calendar days lost as a result of accidents by thousands of hours worked

C | Number of fatal accidents per 10,000 employees

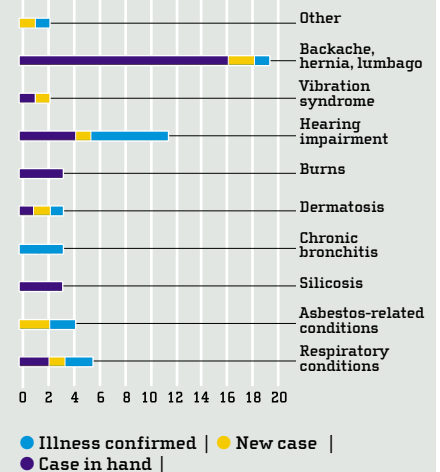
D | Transportation-related accidents were reported in a more exhaustive manner in 2003

## 1 SAFETY PERFORMANCE OF THE GROUP

\* These figures have been updated and are different from results announced in our 2003 report

	2002	2003	2004
<b>Total number of employees</b>	<b>77,547</b>	<b>75,338</b>	<b>77,075</b>
Number of Lost Time Accidents among Lafarge employees	1,469	1,113	802
Frequency rate <sup>A</sup>	8.22	6.56	4.69
Cement Division	4.85	3.32	2.60
Aggregates and Concrete Division	7.85	6.89	4.59
Roofing Division	20.18	17.96	11.11
Gypsum Division	6.66	4.99	5.43
Number of Lost Time Accidents among contractors' employees	222	230	254
Severity rate <sup>B</sup>	0.28	0.24	0.21
Lafarge employees fatalities on sites	5	3*	4
Lafarge employees fatalities transport	5	4*	2
Fatality rate <sup>C</sup>	N.D.	0.77	0.66
Cement Division	1.28	0.84	0.46
Aggregates and Concrete Division	1.12	0.78	0.39
Roofing Division	N.D.	0.78	1.45
Gypsum Division	1.57	0.00	1.28
Contractors employees fatalities on sites	20	10	9
Third parties fatalities on sites	5	1*	2
Contractors employees fatalities transport <sup>D</sup>	6	10	11
Third parties fatalities transport <sup>D</sup>	8	11	2

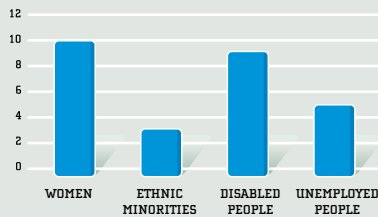
## 2 BREAKDOWN OF CASES OF OCCUPATIONAL ILLNESSES



# Our employees

## 1 BUSINESS UNITS which have developed affirmative action

NUMBER OF BUSINESS UNITS



CATEGORIES OF PEOPLE TARGETED BY THE PROGRAM

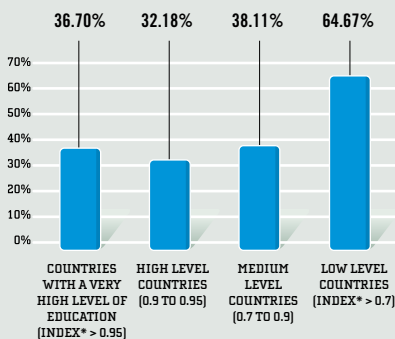


CAMEROON | Cement | Fight against HIV/AIDS campaign in CimenCam

## 2 PERCENTAGE OF WOMEN IN MANAGERIAL POSITIONS

	2002	2003	2004
Board of directors	6.67%	6.67%	6.67%
Senior executives	2.26%	2.86%	2.87%
Senior managers	6.77%	7.63%	8.1%
Managers (all categories)	14.25%	14.15%	15.1%
Employees	15.02%	14.39%	14.6%

## 3 PERCENTAGE OF EMPLOYEES having received at least one day of training in 2004



\* Index UNDP

[www.lafarge.com/ouremployees/](http://www.lafarge.com/ouremployees/)



- 1 | H&S Management system and Committees
- 2 | Security results
- 3 | Causes of occupational illnesses

To achieve this, Lafarge continues to roll out its Health and Safety management system: in 2004, 88% of Lafarge employees were covered, up from 49% in 2003. Business Units which implement our Health and Safety Management System improve their performance by practicing risk analysis, prevention, training and auditing. 48% of these Units declare having fully implemented this management system. Active staff involvement in the implementation process is a key factor of success and can be enhanced by Health and Safety Committees. In 2004, 73% of Lafarge employees were covered by a Health and Safety Committee. More information on our Health and Safety practices is available on our website. [\(weblink 1,2,3\)](#) As a result of the deployment of our management system and the integration of safety in performance programs (see p. 6), Group frequency and severity rates have fallen [\(see table 1, page 11\)](#). However, even though the number of fatalities has dropped, it is still unsatisfactory, emphasizing that there still is work remaining to achieve our objective.

Out of the 5 cement companies who publish comparable Health and Safety data in 2003, Lafarge registered the best performance. The Group's accident frequency rate is 4 points lower than its next best competitor, its severity rate is 0.25 points lower. For 2004, we publish information in conformity with WBCSD Safety Taskforce guidelines so as to allow greater comparability.

### Health

#### ● Occupational Illnesses

Management of occupational health issues is carried out at Business Unit level. The Group started to monitor legal cases at Group level in 2003. We aim to strengthen our preventative efforts. First results show that risks are fairly low in our industry: in 2004, 51 cases of occupational illnesses were brought upon the Group [\(see graph 2, page 11\)](#), representing 0.0006% of our workforce. [\(weblink 3\)](#)

#### ● HIV/AIDS

Lafarge is a member of the Global Business Coalition on HIV/AIDS and developed a specific policy in 2003 through collaboration with stakeholders such as Care France, workers unions and other international bodies. This policy aims at reducing the spread of HIV infection among the Group's workforce, their families and communities, as well as preventing discrimination on the basis of serological status.

In Sub-Saharan Africa, a dedicated Health Committee, which includes our NGO partner Care as well as health experts, coordinates and extends the Business Units' actions. All African Business Units have developed road maps, allocated specific budgets and included HIV/AIDS in their performance programs.

# Our employees

As a result:

- 85% of employees receive information and prevention almost on a daily basis
- 40% of employees have taken part in voluntary detection campaigns
- Business Units in Kenya, Uganda, Malawi, Zimbabwe, Cameroon and South Africa (accounting for 56% of staff in sub-Saharan Africa) offer anti-retroviral treatment to employees who have AIDS.

Having implemented and tested our Policy in Africa, the Group plans to extend these practices to Units in Asia and Eastern Europe. In 2004, all Chinese Business Units dedicated a day to awareness-raising among employees.

## Diversity and non-discrimination

The Group's Employment Policy presses Division and Business Unit managers to promote non-discrimination and develop culture- and gender-diversity through the implementation of specific integration programs (see graph 1).

In 2004, 8.1% of senior management were women. This is up from 7.63% in 2003 (see graph 2), but still behind our target. Furthermore, Lafarge is committed to doubling the proportion of women in senior management from 2003 to 2008.

📊 Out of the 3 competitors publishing the proportion of women among management, Lafarge ranked second best emphasizing that there remains progress to be made in this area.

Today, 72% of Executive Committee members of Business Units are locals, which shows that the Group favors locals for management positions.

Finally, regarding the integration of disabled people (such as defined by local regulations) in its workforce, the Group's Human Resources Policy encourages local initiatives of Business Units. With this aim, a tool designed to help maintain disabled people in the workforce is currently being tested in French Business Units.

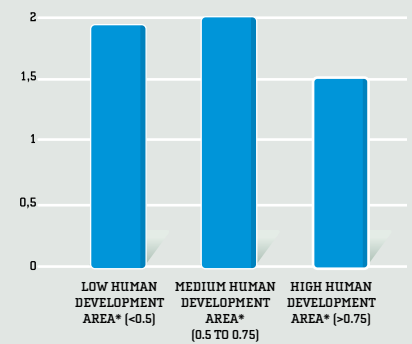
We monitor at Group level the number of cases brought against the Group on grounds of discrimination. In 2004, 2 cases were reported.

## Training and Career Development

### ● Top and middle management

The development of top and middle management - both in terms of career moves and training - is managed at Group level. On an individual basis, each manager establishes a yearly Individual Development Plan to ensure continuous progress, while collective development initiatives are provided through the newly launched Lafarge University and / or specific training sessions by Division, function or country. In 2004, 1,200 people, accounting for 11% of all managers, attended Lafarge University training. Moreover, 99% of Lafarge managers received at least 1 day of training in 2004.

## 4 COMPARISON OF LAFARGE MINIMUM WAGES with legal minimum wages



AVERAGE "LAFARGE MINIMUM WAGE / LOCAL MINIMUM WAGE" RATIO

\*Based on the United Nations Human Development Index (HDI) which correlates country data such as GDP, education levels, health standards...

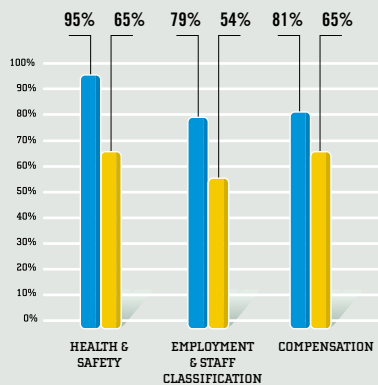


SOUTH AFRICA | Voluntary employees on a Habitat for Humanity works



# Our employees

## 1 PERCENTAGE OF EMPLOYEES INFORMED / CONSULTED on local policies or procedures



● Information | ● Consultation |

[www.lafarge.com/laborrightrights/](http://www.lafarge.com/laborrightrights/)



• Wages: Lafarge minimum wages in each country



## Patrice Ponceau | EUROPEAN WORKS COUNCIL

This chapter gives a complete overview of human resources management within Lafarge and generally meets my disclosure expectations. However, a few of my recommendations remain unaddressed: first of all, I would like to know how the Group ensures internal information management on Health and Safety issues. Concerning HIV/AIDS, I appreciate efforts made by Lafarge, yet I would like to know the absolute numbers behind percentages: How many employees are HIV positive? How many receive anti-retroviral treatment? Furthermore, information provided on training and career development is interesting, but one doesn't get a sense of the effi-

ciency of Lafarge's training programs: How many people evolve from one professional category to another as a result of training? Moreover, Lafarge says it cannot analyze employee satisfaction in greater detail based on data consolidated in 2004: The Group should change its consolidation method so as to enable greater understanding of causes of dissatisfaction within the company. Concerning the number of employees represented by unions, it would be good to provide regional data so as to analyze it with regard to local context. Finally, the report lacks indicators measuring integration of disabled people in the workforce."

### ● Non-management employees

As Lafarge is a multi-local organization, training of non-management employees is carried out at Business Unit level. In 2004, 43% of employees received at least a day of training. As seen in graph 3, p12, the countries with a low education index received more training.

### Satisfaction survey

19% of Lafarge employees took part in satisfaction surveys in 2004. The overall satisfaction level was 61%. Our social reporting does not allow us a finer analysis of causes of satisfaction / dissatisfaction of our employees at Group level.

Moreover, as part of our "Leader for Tomorrow" program, a global survey of 800 top managers as well as over 100 local surveys of our 10,000 managers have been carried out. These surveys focus primarily on the level of employee engagement - rather than merely looking at the topic of satisfaction. The Group will carry out for the first time a global survey of its 77,000 employees during the last quarter of 2005.

### Employee Share Ownership

The Group wants to ensure that all employees share the Company's success through Stock Ownership and / or Profit Sharing programs. In 2005 we will launch the LEA 2005 scheme, which aims to reach our target of 50% of employees holding shares. In 2004, 43% of employees held shares in Lafarge and employee share ownership remained at 1.4%.

### Wages and Benefits

Lafarge wants to attract, motivate and retain talented people by providing competitive total remuneration. The Group's compensation policy is to target total cash compensation between the median and the upper quartile of relevant companies, offering benefits coverage in line with local market practice so as to convey a sense of security to our employees. The study we carried out in 2004 shows that Lafarge minimum wages are clearly higher than legal minimum wages in the country. (see graph 4, p. 13 and weblink) Information for each country is available on our website.

# Our employees

## > How do we ensure Human Rights at work?

### Policies

In signing the Global Compact, the Group has committed to respecting and promoting Human Rights in its sphere of influence. This commitment has been included in our Code of Business Conduct which applies to the entire workforce.

The Group's Human Resources Policy states that the Group excludes forced labor. However, we have no specific group-wide policy on issues such as freedom of association or child labor. To address such issues, we have engaged in dialogue with unions such as the IFBWW which will lead to the signing of a partnership agreement including co-monitoring of Lafarge's situation.

Since 2004, as part of our Code of Business Conduct, employees have access to a confidential telephone hotline to report any irregularities (see p.10). So far no calls have been made regarding Human Rights issues.

### Policies and programs at local level

19% of Business Units have developed their own policy on Human Rights.

In addition, 4% of Business Units, accounting for 2% of employees, have a dedicated training program.

### Relationship with unions

55% of Business Units have a specific policy or procedure on freedom of association and negotiation for Lafarge employees.

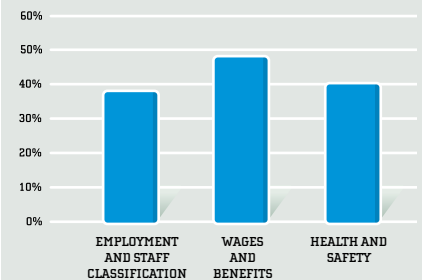
The majority of Lafarge's workforce are represented by unions or some kind of collective agreement (see graph 3).

Moreover, though there is no specific Group policy on employee consultation, we often seek employee input on policy development (see graph 1).

### Use of security agents

To ensure the security of our employees, we employ security guards wherever necessary. 21% of Business units (accounting for 15% of the workforce) use armed security forces.

### 2 PERCENTAGE OF EMPLOYEES covered by collective agreements addressing specific issues



### 3 EMPLOYEES REPRESENTATION

	2004
Employees represented by staff representative organizations	87%
Employees belonging to labor unions	
Employees covered by collective agreements	



## Marion Hellmann | IFBWW

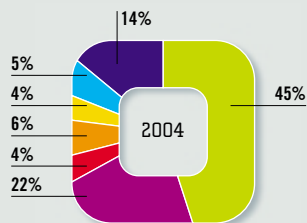
"IFBWW emphasizes the need for sustainable reporting based on the guidelines of the Global Reporting Initiative (GRI). In this respect, Lafarge's reporting on human resources has improved and better meets GRI requirements. I especially appreciated the description of Health and Safety management systems and the disclosure of cases of occupational illnesses. Reporting on wages is very informative and it seems that the company offers above average compensation. However the report lacks indicators on integration of disabled people in the workforce, and on employee satisfaction, I would like to see indicators such as the average turnover on resignations or the

number of strike days. Lafarge is a serious company committed to respecting workers rights based on the core conventions of the International Labour Organisation (ILO), providing good working conditions as well as safe and healthy working environment, with policies also covering suppliers and subcontractors. However, as many countries still do not guarantee Human Rights at work and do not grant workers the right to form unions, I believe it is important that Lafarge provides more detailed reporting on these issues and enhances its credibility through co-monitoring of its situation with partner union organizations such as IFBWW."

# Economic impact and Communities

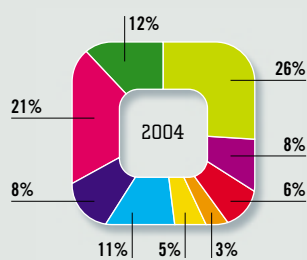
## > Financial Flows to our Stakeholders in 2004

### 1 BREAKDOWN OF CAPITAL USED BY THE GROUP (18,935 M€)



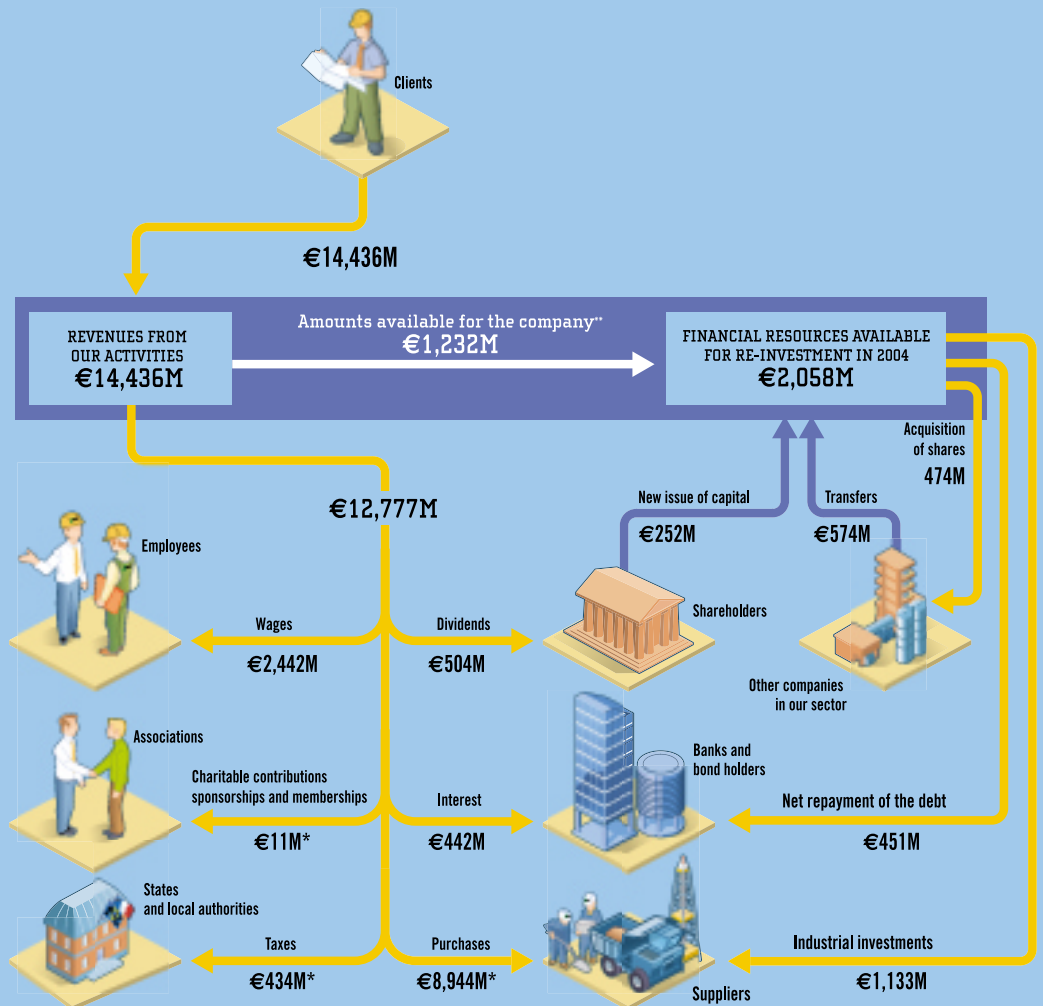
- Western Europe | North America
- Med Basin | Central and Eastern Europe
- Latin America | Africa | Asia Pacific

### 2 BREAKDOWN OF OUR SUPPLIERS\*



- Raw materials and energy | Specific goods
- Standard goods | Products for resale
- Industrial investments
- Specific services | Standard services
- Transportation and logistics | Utilities

\* based on data collected in 2003



Group consolidated data, except those marked with \*, which are estimated.  
 \*\* This amount includes a WCR (Working Capital Requirements) variation of €-427M

**O**ur stakeholders expect us to demonstrate that Lafarge strives to improve its societal impact by maximizing direct and indirect employment and favoring local employment.

Other disclosure expectations concerned the Group's policies regarding restructuring and outsourcing, skills transfer and products for low income populations. Finally, panel members asked about our approach to charitable contributions: policies, amounts donated and mechanisms to ensure alignment of donations with local development issues.

## > What is Lafarge's financial policy in 2004?

The salaries Lafarge pays its staff are among the best in the sector in each country, and reflect both the earnings of Business Units and the employees' individual performance. The Group's purchasing policy ensures fair payment to suppliers for the quality of their products and services.

Payments made to our shareholders have to come from increased share value and dividends. Net cash flow is then applied in priority to financing investments and maintaining our operations, which implies making all the investments required for occupational safety, respect of our sustainability objectives and enhancing competitiveness on each market we serve.

Residual cash flow and our solid financial structure finance the Group's growth: construction of new capacity to meet our growth and acquisitions markets, creation of value in each one of our core businesses.

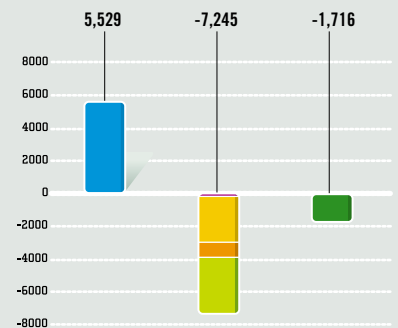
## > Do we have a positive impact on local employment?

In late 2004, Group activities are responsible for 77,000 direct jobs. Compared to 2003, the total number of direct jobs is up by 2.3%, due to changes in perimeter and consolidation method (see graph 3).

Moreover, Lafarge is responsible for approximately 13,700 sub-contracted jobs, representing around 18% of total workforce. As shown in graph 4, sub-contracting concerns mainly transport and maintenance activities, as well as production activities which are considered not to be a part of our core businesses, such as quarrying operations or post-production treatments applied to some of our products.

Furthermore graph 5 shows a breakdown of our employees by type of contract: in 2004, temporary staff accounts for 4% of total workforce. As part of its project aimed at integrating environmental and social concerns in the Group's procurement practices (see p.25), our Procurement Department conducted a pilot project in all French Business Units this year to develop specific criteria for evaluation and selection of temporary staff suppliers, which will later be used by Business Units worldwide.

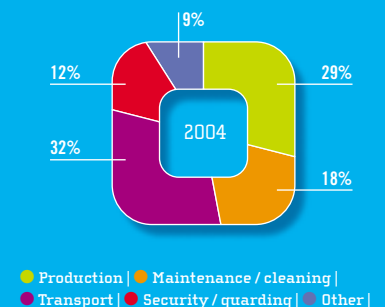
### 3 NET JOB CREATION IN 2004



Jobs created | Resignations | Retirements | Redundancies | Deaths | Balance

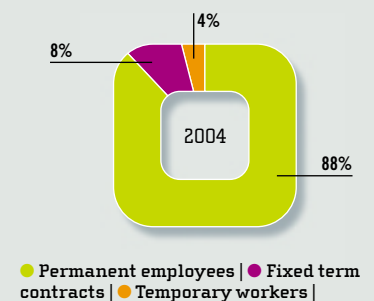
NB: THIS DATA COVERS 84% OF THE WORKFORCE

### 4 BREAKDOWN OF OUTSOURCED EMPLOYEES



Production | Maintenance / cleaning | Transport | Security / guarding | Other

### 5 BREAKDOWN OF STAFF between permanent and fixed term contracts



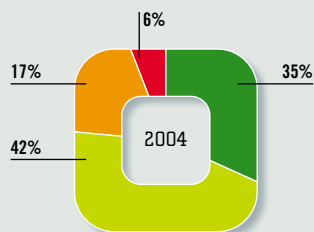
Permanent employees | Fixed term contracts | Temporary workers

[www.lafarge.com/economy/](http://www.lafarge.com/economy/)



• Indirect impacts

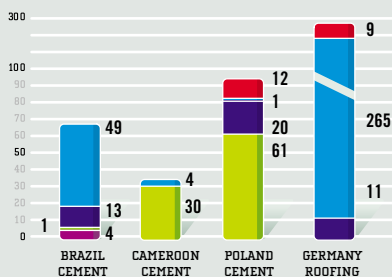
## 1 BREAKDOWN OF RESTRUCTURED PLANTS by regulatory local context



(in % of staff concerned)  
ANALYSIS OF REGULATORY CONTEXT  
BASED ON THE WORLD BANK'S DIFFICULTY  
OF FIRING INDEX:

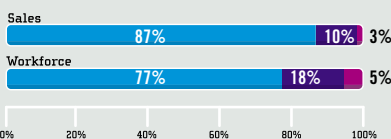
● Very difficult | ● Difficult |  
● Easy | ● Very easy |

## 2 RESTRUCTURING BREAKDOWN OF EMPLOYEES CONCERNED by personal status



● Awaiting a solution | ● Personal projects |  
● Employment in another company |  
● Anticipated retirement | ● Transfer to other  
Lafarge facilities |

## 3 BREAKDOWN OF ACTIVITIES IN COUNTRIES OF CONCERN regarding Human Rights\*



● Free | ● Partly free | ● Not free |

\* Based on Freedom House's "Freedom in the World 2004" Index, which rates countries on their levels of civil and political rights. This data concerns 100% of the Group's sales and workforce.

## Restructuring

Lafarge's Employment Policy states that nobody should be left to cope with an employment problem alone in the event of redundancy and asserts the Group's responsibility to reduce potential negative impacts of restructuring on local communities. To ensure that this policy is applied wherever necessary, the Group has a specific handbook to assist its Business Units in conducting responsible restructurings. This handbook gives precise indications on how to decide on, plan, and proceed with a restructuring program and offers a variety of solutions for employees concerned by staff cutbacks, such as the development of an employment channel to help employees find other jobs, the offering of incentives for geographical or professional mobility, or the creation of a local economic development channel. In 2004, 11 Business Units undertook a staff cutback affecting over 5% of their employees. We present in [graph 2](#) the breakdown of solutions found for employees concerned by these cutbacks in 4 Units located in very different socioeconomic contexts. More generally, 8% of all Units having undergone staff cutbacks set up a local economic development channel for local communities which led to the creation of around 269 external jobs.

Such restructurings are the result of a change in local markets or an upgrade in technology. Moreover, as our markets are local, we do not conduct relocations. This is why the geographical distribution of the Group's restructurings is not correlated with the degree of associated legal constraints (see [graph 1](#)).

## > Does Lafarge make other positive contributions to its communities?

### Activities in countries of concern regarding Human Rights

Our Group operates in 75 countries. Investments and divestments are based on a country risk analysis, including political risks (see page 6) which leads us to establish a ranking, and a black list of 6 countries where we do not invest or operate. We do not apply an additional screen based on Human Rights records, however most countries listed as "countries of concern" on Human Rights by FTSE4Good are at the bottom of our ranking. In 2004, no divestment has been made based on political risk only. As shown in [graph 3](#), our activities in countries of concern regarding Human Rights are limited.

## Marion Hellmann | IFBWW

"I believe this report offers a more comprehensive overview of Lafarge's impact on employment compared to previous years and is closer to GRI recommendations for reporting on employment issues. I especially appreciated Lafarge's detailed reporting on restructuring: understanding the Group's policy and impacts in this area has been my concern ever since the Group began sustainability reporting. The breakdown of solutions found for employees concerned by 4 cases of restructuring is very informative, but I would like to see this analysis extended to all cases of restructuring in the Group.

It is good that Lafarge is addressing these issues and tries to reduce negative impacts on local communities. However, I would like to know more about employees and their representative consultation surrounding these restructurings. More generally, I believe that trade union representatives have to be involved on equal footing in social and tripartite dialogues in all countries to achieve sustainable industrial development securing jobs and good training and working conditions, and I would like more information on how Lafarge goes about in consulting stakeholders at a local level."

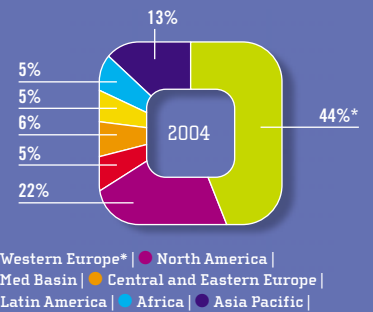
## Charitable contributions

Contributions to communities are made either through local actions developed in collaboration with our global NGO partners such as Habitat for Humanity, or directly by our Business Units and sites. In 2004, around €11million were contributed to our NGO partners, of which approximately €6million\* were contributed directly to local communities worldwide. The wide variety of local contexts in which Lafarge operates must be taken into account when considering both the global amount contributed by Lafarge and the geographical breakdown of the Group's contributions (see graph 4). For instance, Latin America, Africa and Eastern Europe account for 39% of contributions but only 17% of the Group's sales. In regions where national insurance contributions paid by the employer and other taxes associated with greater social standards are less important or non-existent, the Group strives to compensate through charitable contributions and ensure the wellbeing of its communities.

Furthermore, as has been the case in past catastrophes such as Hurricane Mitch in Honduras in 1999 or the floods of 2002 in Germany, Lafarge contributed to help communities hardest hit by the earthquake and tsunami in Indonesia and Sri Lanka. (see box below)

*\* This figure is an estimation based on a sample of Lafarge Business Units accounting for 55% of the Group's turnover, mainly Business Units of our Cement Division.*

### 4 GEOGRAPHICAL BREAKDOWN OF CONTRIBUTIONS made by the Group (€3,622,663)



*\* Based on an estimate from data collected in 2003*

INDONESIA | Children housed at the Medan relief center after the tsunami



### PROVIDING LONG-TERM AID FOR SURVIVORS OF THE TSUNAMI AND THEIR COMMUNITIES

On December 26th 2004, the tsunami which devastated South East Asia partially destroyed Aceh and Lafarge's cement plant in Indonesia. In the wake of this disaster, the Group promptly provided survivors with extensive financial and psychological support: a plane as well as numerous trucks were chartered to allow direct and rapid access of an emergency aid team to the severed region with food, water and medicine; housing was provided for the plant's 432 survivors in a facility located in Medan. Following the initial phase of emergency relief, teams working at the site are now striving to restore life and activities to the locality. An unprecedented surge of support and sympathy from the Group's employees and Business Units has enabled the Group to help finance various collective projects aimed at allowing long-term development of the community, such as renovating mosques, rebuilding a devastated village in partnership with NGOs, purchasing furniture and teaching resources for local schools and funding training programs on building techniques.

## Philippe Lévêque | CARE FRANCE

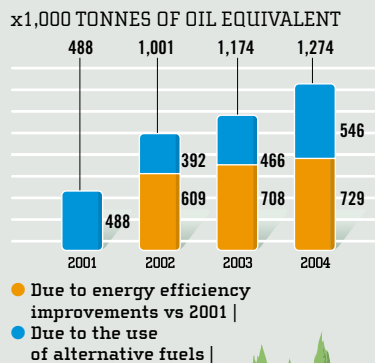
Lafarge operates in a very large number of poor countries. Furthermore, Lafarge units are very often built in rather isolated and deprived areas. Unfortunately, as for many other industrial groups, the "society" component of Lafarge's Corporate Social Responsibility is not as developed as it should be. And the performance of the Group in this area, although commendable, is not as strong as it is in the Environment dimension. The policy of the Group is not clearly defined and "charitable actions" often replace clear "business impact analysis" on the lives of the communities where the Group operates.

Indeed, there is progress in the identification of what is at stake for Lafarge but there is not yet an organized approach to the question. How does Lafarge impact the lives of the communities? Are local stakeholders consulted and listened to? With which methodology, objectives, indicators and results? Such questions might in some cases challenge the business model of some units, hence their importance. The reading of the report does not help to answer all these points and I feel strongly that the Group can and must make progress on such issues."

# Environmental performance

**D**uring consultation, our stakeholder panel especially focused its expectations on clearer indicators for stack emissions, details on the impact of the EU Emissions Trading Schemes, perspectives regarding CO<sub>2</sub> emissions in developing countries and the conservation of mineral resources.

## CEMENT PLANTS FOSSIL FUELS net savings



## SAVING FOSSIL FUELS

In 2004, cement kilns, which account for over 80% of the Group's energy consumption, burned the equivalent of 9.42 million tonnes of oil. To save fossil fuels, we are improving energy efficiency and using a wide range of waste products as alternative fuels. In 2004, 8.45% of our energy is taken from alternative fuels (see our fuel mix page 22).

As a comparison, the rates of the 5 other cement companies reporting on this topic in 2003 ranged from 2% to 12% although they do not all use our definition of alternative fuels.

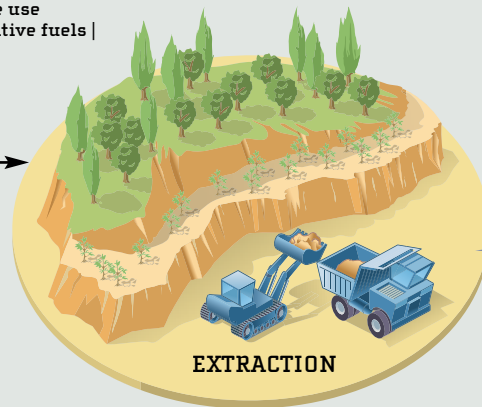
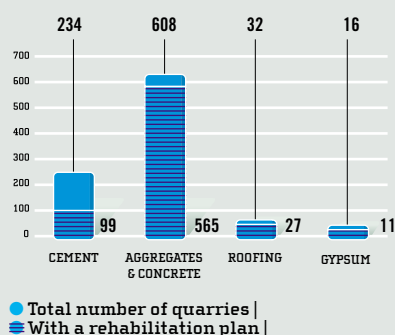
## ENERGY AND ALTERNATIVE RAW MATERIALS

## QUARRY MANAGEMENT

As part of our partnership with WWF, we apply a policy of systematic rehabilitation of our quarries at the end of their life. In 2004, 79% of our quarries had a rehabilitation plan which complied with Group standards. This rate even reaches 93% in the Aggregates & Concrete Division. Moreover in 2005, we intend to test a new biodiversity indicator developed with WWF in 4 sites so as to monitor their ecological value.

In 2003, the only major cement group which reported on this topic had a better rate than our Cement Division, however the rehabilitation standards applied are not necessarily comparable with ours.

## QUARRIES with a Lafarge approved rehabilitation plan 2004



## MANAGEMENT OF WATER RESOURCES

Water is used to cool equipment, to clean materials and machinery and as an ingredient in product composition. In 2004, we monitored for the first time the percentage of sites equipped with water recycling systems in the Aggregates & Concrete, Roofing and Gypsum Divisions. This indicator, not available yet in the Cement Division, will be extended to all operations in 2005.

## CONSUMPTION AND RECYCLING OF WATER in liters/ unit of product

		2001	2002	2003	2004
Cement	Consumption L/ tonne of cement	520.0	427.0	366.0	383.0
	% sites with a water recycling system	-	-	-	-
Aggregates & Concrete	Consumption L/tonne of aggregates	-	-	-	338 (est.)
	Consumption L/m <sup>3</sup> of concrete	-	-	-	270 (est.)
	% sites with a water recycling system	-	-	-	69%
Roofing	Consumption L/m <sup>2</sup> of roof tile	-	10.5	4.9	4.6
	% sites with a water recycling system	-	-	-	59%
Gypsum	Consumption L/m <sup>2</sup> of gypsum board	6.6	6.4	6.6	5.7
	% sites with a water recycling system	-	-	-	40%



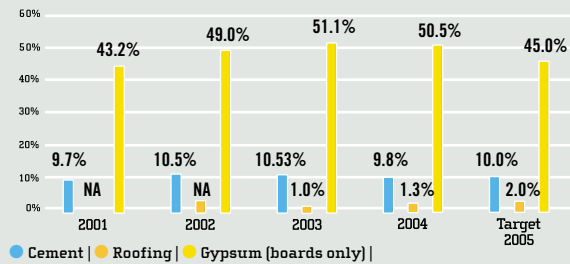
- description of our impacts, responsibilities and practices on topics not covered by reporting
- case studies on all topics



## SAVING OF NON-RENEWABLE MATERIALS

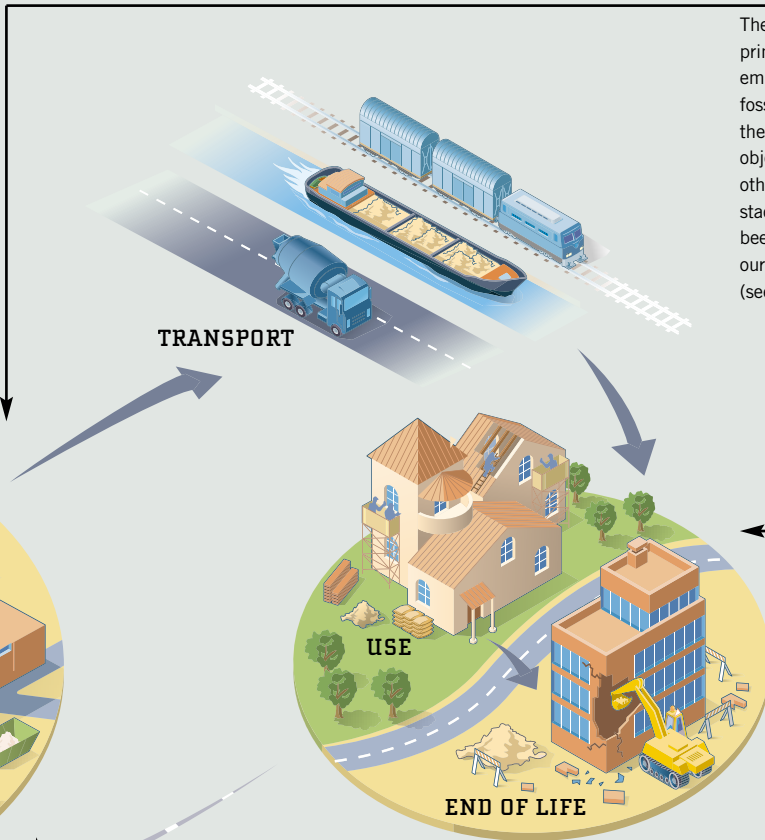
In 2004, Lafarge consumed 437.8 million tonnes of quarried raw materials. Though all Divisions have a policy on using industrial waste and by-products as raw materials, only 3 Divisions, accounting for 39% of this consumption report on this. In the case of cement production, the use of industrial wastes and by-products also reduces CO<sub>2</sub> emissions from burning limestone (see page 22).

## USE OF ALTERNATIVE MATERIALS as a percentage of total material consumed



## CONTROLLING AIR EMISSIONS

The Group emits significant amounts of carbon dioxide (CO<sub>2</sub>), the principal gas responsible for climate change. 90% of these emissions come from cement plants, primarily from the burning of fossil fuels and the chemical process of burning limestone in the cement kilns. In partnership with WWF in 2001, we set an objective for reducing our emissions (see page 22). Concerning other atmospheric emissions: cement plant performance regarding stack dust, nitrogen oxides (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>) has been consolidated for 4 years. In response to concerns raised by our stakeholders, we publish our emissions of persistent pollutants (see page 24).



## RECYCLING OF DEMOLITION WASTE

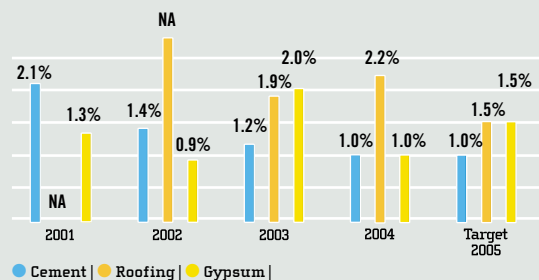
Though recycling of demolition waste remains marginal, Lafarge is striving to increase recycling rates and in some places has already achieved much progress. This is particularly true in large cities where Lafarge contributes to the general performance. For instance, in London, around 30% of materials used are recycled materials, and in Paris, the rate is 10%.



## REDUCTION OF PRODUCTION WASTE DISPOSED OF

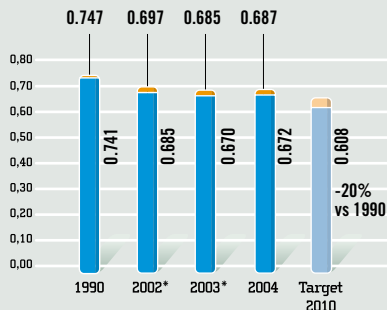
Three Divisions have set reduction targets to implement the Group's Policy on waste minimization. In 2003, Lafarge is the only major cement company reporting on this indicator.

## WASTE TO DISPOSAL as a percentage of total production





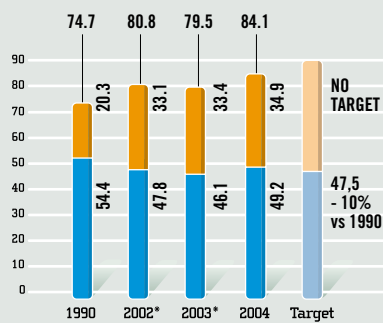
## 1 GROSS CO<sub>2</sub> EMISSIONS per tonne of cement



TONNES OF CO<sub>2</sub>/TONNES OF CEMENT

● Net<sup>1</sup> emissions | ● Emissions related fossil waste fuels |

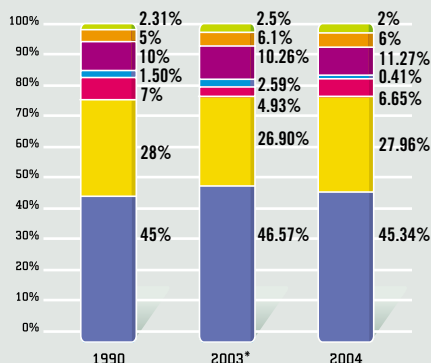
## 2 GROUP'S CEMENT PLANTS GROSS CO<sub>2</sub> EMISSIONS



(IN MILLION TONNES)

● Emerging economies | ● Industrialized countries |

## 3 FUEL MIX EVOLUTION in the Cement Division



● Biomass | ● Fossil waste | ● Others | ● Gas | ● Pitch (CHV) | ● Oil | ● Petcoke | ● Coal |

\* Only 1990 figures have been recalculated to account for change of perimeter

# > Do we tackle climate change?

## Our strategy

For over ten years, the Group has undertaken a voluntary strategy to reduce its direct emissions of CO<sub>2</sub>. It has set ambitious emission reduction targets, over the period extending from 1990 to 2010, negotiated with its partner WWF:

- A 20% reduction of our net<sup>1</sup> emissions per tonne of cement
- A 10% reduction of our absolute gross emissions in industrialized countries. (see graphs 1 and 2).

Following our lead, the 15 other cement companies of the WBCSD Cement Initiative have committed to set targets and report on progress by 2006. So far, two of them have published targets on net<sup>1</sup> emissions, which are similar to ours.

## Performance

Since 1990, we have cut our net<sup>1</sup> emissions per tonne of cement by 11.2%. The table below describes the contribution of each reduction factor:

LEVERS USED TO CUT OUR EMISSIONS	IMPACT ON OUR NET <sup>1</sup> EMISSIONS PER TONNE OVER THE PERIOD 1990-2004
Energy savings	- 5.7%
Use of industrial by-products	- 4.8%
Evolution of the fuel mix (see graph 3)	- 0.7%
Results (see graph 1)	- 11.2% in 2004

Over the same period, our absolute gross emissions in industrialized countries decreased by 9.5%. The absolute increase of 12.6% in our global CO<sub>2</sub> emissions as shown in graph 2 can be explained by the growth in our cement production, above all in emerging economies. Reaching our targets will continue to be a key aspect of our renewed partnership with WWF.

Lafarge's current performance and reduction rate are far better than the average performance of the worldwide cement industry<sup>2</sup>, but are slightly outperformed by one of our global competitors.



BRAZIL | Alternative fuels used in the Matozinhos Cement plant.


1 Net Emissions = Gross Emissions - Emissions from using waste fuels  
2 0.75 to 0.82 tonne of CO<sub>2</sub>/ tonne of cement according to UBS Investment Research |




MOROCCO | Wind farm under construction at the Tetouan II cement plant

## Beyond 2010

On a short term basis our pro-active strategy combined with the use of Kyoto's flexible mechanisms<sup>1</sup> will allow us to align our European emissions with the allocated allowances<sup>2</sup>.

 In this respect, financial analysts<sup>3</sup> consider that Lafarge, along with its global competitors, enjoys significant strategic advantages over smaller European competitors.

In the long run, Lafarge believes that all necessary action should be taken to limit the global average temperature increase to below two degrees Celsius at the most<sup>4</sup>. We are currently exploring new reduction levers through R & D programs. In 2004, our research investments in these fields reached 4% of our R & D budget (see graph 4). In 2005, our new partnership agreement with WWF will include this aspect, as well as a common approach on how to reduce the CO<sub>2</sub> emissions of buildings. We are convinced that the further reduction will require efforts from all sectors and all countries. The cement industry represents only 5% of worldwide man-made CO<sub>2</sub> emissions, while buildings account for 40%. We have begun to work with several actors involved in the construction chain to improve the energy efficiency of building: architects, promoters, governments, etc. Even if it takes time to see important results as the rate of renewal of buildings is low, we are confident that tackling emissions from buildings combined with developing low CO<sub>2</sub> products will be the most effective way to tackle climate change over a long period.

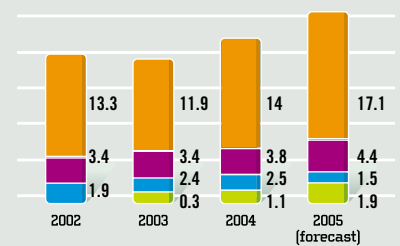
 So far, other cement companies do not report on this aspect.

## Potential side effects

Two of our reduction levers include the use of waste fuels or raw materials (such as tires, oils, slag, fly ash...). Lafarge has been recovering a wide range of waste in its cement plants for more than 25 years, in a highly restricted and regulated environment. In Europe, the co-processing of waste in cement kilns is regulated, but also encouraged by a European directive because it contributes to the general wellbeing by participating to a sound environmental waste recovery. Following stakeholders' concerns on potential risks associated with these alternative materials and fuels, WBCSD cement initiative members committed to develop and apply guidelines for responsible use of waste by 2006. Lafarge has already been applying best practices for several years in all its cement plants, that meet these guidelines.

<sup>1</sup> They allow a company to gain emission credits from climate friendly investments in developing countries.  
<sup>2</sup> However our reduction commitment in partnership with WWF will be reached without Kyoto mechanisms.  
<sup>3</sup> Source: UBS Investment research's report on cement.  
<sup>4</sup> European Environment Agency

## 4 GROUP R&D BUDGET BREAKDOWN

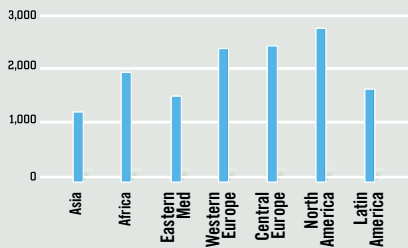


(IN MILLION €)

- Exploration of new levers to reduce our CO<sub>2</sub> emissions |
- Programs with a high impact on our CO<sub>2</sub> emissions (developing the levers currently used) |
- Programs with an indirect impact on our CO<sub>2</sub> emissions (high performance products) |
- Other programs with no major impact on our sustainability performance |

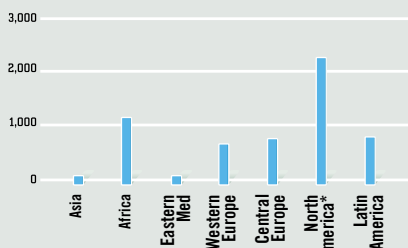
# Environmental performance

## 1 NO<sub>x</sub> EMISSIONS 2004



G/T CLINKER | COVERAGE = 87.5%

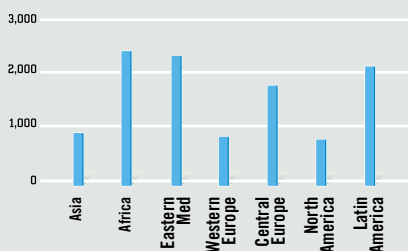
## 2 SO<sub>2</sub> EMISSIONS 2004



G/T CLINKER | COVERAGE = 80%

\* The high figure for North America is mainly due to pyritic sulphur in raw materials and also to low alkali cement production.

## 3 STACK DUST EMISSIONS 2004



G/T CLINKER | COVERAGE = 95.04%

## > Do we reduce cement plant stack emissions?

Apart from CO<sub>2</sub>, cement production emits dust and several gaseous effluents which are submitted in most cases to stringent regulations. All these emissions are continuously reduced by improving processes and applying specific mitigation techniques. These are mainly dust, nitrogen oxides (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>). Our Policy is to systematically monitor and reduce these emissions and to comply at a minimum with local regulation. Its implementation is audited every four years at least.

As a member of the WBCSD Cement Initiative, we are committed to publish emission data and set targets by 2006. We have reported on stack dust, NO<sub>x</sub> and SO<sub>2</sub> since 2001, and set a maximum level of 50 mg of dust per Nm<sup>3</sup> as an objective for 2010 (in 2004, it is met by 60% of the kilns).

So far, three major competitors out of the 16 members of the Initiative publish comparable emissions data and acknowledge that addition of acquired companies can in some cases contribute to the deterioration of emissions performance. Based on 2003 emission data, Lafarge emissions are on average higher on all three pollutants than these three competitors due to recent acquisitions in emerging countries.

Persistent pollutants (such as dioxin/furan and heavy metals) may be found in inputs and emissions in cement plants, but in very small quantities that are well under regulatory limits. However, they receive an increased attention from Lafarge and its stakeholders. In response, Lafarge has been working since 2002 on a specific program in partnership with WWF. Through this program, we will monitor performance, identify best management practices and plan their progressive implementation globally. The first results are shown on our website.

So far two competitors publish performance data on a limited sample of kilns.



Jean-Paul Jeanrenaud | WWF

WWF welcomes the increased level of detail provided in this year's report and especially values the table: "Management status of key sustainability issues" (page 3), which summarizes activities to date and highlights future priorities for improvement. Overall, it is clear that Lafarge senior management has bought into the concept of sustainable development. However, it is now imperative for Lafarge to develop internal programs for awareness raising and training in order to mainstream this approach across all business units, and ultimately right down to plant level. In relation to sustainable construction, Lafarge should now focus its

strategy on the creation of building systems and products that have a considerably reduced environmental footprint and can play a part in providing affordable housing throughout the developing world. Although Lafarge has started to buy green electricity, it is essential they speed up the testing and adoption of renewable fuels, such as biomass, as a complement to their continuing efforts to reduce CO<sub>2</sub> emissions. Finally, we look forward to working with Lafarge to develop key performance indicators on persistent pollutants, and an accurate and transparent reporting system."

# Procurement

**Our stakeholders expect Lafarge to disclose how the Group ensures that its suppliers respect its social and environmental standards.**

## Tools already implemented

Lafarge is currently developing a group-wide approach to improve its relationship with suppliers and move towards more sustainable supplier relationship management. Several tools are already in place:

- The Group's Purchasing Policy states that Purchasing departments of all Business Units have to respect the Group's ethics.
- The Purchasing department developed a tool aimed at assessing suppliers according to 25 criteria. Evaluation of suppliers on environment, security, health and respect of social principles is mandatory, however their importance compared to other evaluation criteria is variable and is decided at Business Unit level.
- In 2004, 9% of Business Units have a specific procedure that enables them to ensure that subcontractors respect Human Rights.
- Environmental and Health and Safety management systems include procedures relating to suppliers' performance.

## Progress made in 2004

In order to prioritize its actions, the Group conducted a preliminary analysis of all its purchasing families by crossing the sector-related levels of environmental risk with the Group's capacity to influence suppliers of each family (see graph 1). A similar analysis concerning Human Rights related risks is currently underway, the results will be posted on our website in 2005.

The Group plans to further integrate social and environmental performance in its supplier selection and assessment by developing tools specifically tailored for each purchasing family through consultation of all internal parties concerned as well as representative suppliers. An example of such work with a French logistics company is available on our website. (weblink 1) The aim is to engage in a common improvement process with suppliers without imposing too much pressure on them. To begin this approach, we conducted a pilot project on six purchasing families in different Business Units (see graph 2). For each family, a detailed analysis of sector-related social and environmental risks has been carried out to develop family- and context-specific tools such as performance assessment matrices, purchasing codes and action plans. After pilot testing, we will develop generic versions of these tools to be made available to all Business Units.

## Next steps

In 2005, we will:

- Integrate social and environmental criteria in the purchasing performance program which means the implementation of the approach will be taken into account in the assessment of Purchasing Departments.
- Integrate social and environmental issues in the Group's purchasing handbook
- Provide training on best practices to the Group's buyers
- Launch a pilot project on Human Rights-related risks in Indonesia and progressively extend the approach to all purchasing families.

To track our progress in the area of labor standards, we decided to self-assess our approach with AccountAbility's Gradient tool. Results of this analysis are posted on our website. (weblink 2)

## 1 BREAKDOWN OF OUR PURCHASES according to our level of environmental responsibility

		HIGH	MEDIUM	LOW
LAFARGE'S CAPACITY TO INFLUENCE SUPPLIERS	NEAR CONTROL	4% Quarrying subcontractors	0%	1% Temporary manpower suppliers
	VERY HIGH	11% Plants maintenance and industrial subcontractors	1% Various equipment suppliers	4% Technical equipment Maintenance
	HIGH	23% Road transport contractors and raw materials suppliers	7% Packaging, Sea transport and various technical equipment companies	1% Various technical services
	MEDIUM	12% Electricity companies, and liquid fuels suppliers	2% Insurance companies, various equipment suppliers	0%
	LOW	10% Gas, Coal, Tire suppliers and water treatment service providers	7% Railway companies, specific spare part providers	11% IT and standard goods intellectual services, Telecom companies

ENVIRONMENTAL RISK OF THE SUPPLIERS' SECTOR\*

\* According to FTSE4Good classification criteria

## 2 PURCHASING FAMILIES chosen for initial pilot project

		HIGH	MEDIUM	LOW
LAFARGE'S CAPACITY TO INFLUENCE SUPPLIERS	NEAR CONTROL	Quarries services (in the Aggregates & Concrete Division - France)	Manpower (in the Gypsum Division - France)	
	HIGH AND MEDIUM	Road transport (in the Aggregates & Concrete Division - France), Lubricants (in the Cement Division - France)	Paper Bags (in the Cement Division - France)	
	LOW			

ENVIRONMENTAL, SAFETY OR SOCIAL RISK OF SECTOR

[www.lafarge.com/procurement/](http://www.lafarge.com/procurement/)



- 1 | Case Study: Pilot test with Norbert Dentressangle (transportation)
- 2 | Gradient evaluation

# Product Sustainability

## HOW CAN WE CONTRIBUTE TO SUSTAINABLE BUILDING ACCORDING TO OUR STAKEHOLDERS?

17% of the world's population does not have access to secure housing. People spend 80-90% of their time in buildings in which air quality may be lower than that of an outdoor urban environment. From an environmental perspective, buildings generate 40% of human CO<sub>2</sub> emissions due to in-use energy consumption and an average of 500 kg of demolition waste per person per year in industrialized countries. These impacts could be improved dramatically through the integration of sustainability considerations into architectural practices. In this context contributing to a more sustainable construction for a company like Lafarge means:

- preventing health risks related to products for construction workers and final users
- improving products' environmental properties like thermal mass or insulation
- developing products and services to support a better use of existing material, reuse and recycling, and an access to building materials for low income populations
- influencing architectural trends and practices
- informing users on products' features and supporting the development of labels to boost sustainable purchasing.

[www.lafarge.com/products/](http://www.lafarge.com/products/)



- 1 | Examples of contributions of our products to sustainable building
- 2 | Environmental profile of our products
- 3 | Case studies of low cost sustainable housing solutions
- 4 | Safety data sheets

**A**s far as products and sustainable building are concerned, our stakeholders expect us to report on:

- how our products contribute to sustainable building compared to those of our competitors and to other materials
- how we try to influence construction standards and practices
- how we help our clients make informed choices

## > Do we prevent health risks?

### Prevention of health risks

Most of our building materials do not pose major health threats. However their natural or chemical components could under specific circumstances expose our employees (see page 11), construction workers and building users to health risks. These risks are prevented by maintaining a clean and ventilated work environment, by wearing individual protective equipment and in a limited number of cases by modifying the composition of the products. On all risks, the Group's Research Department, Legal Affairs and Public Affairs networks closely monitor health related issues and developments and take an active part in the public debate. Even if we have no written Group policy on this aspect, our approach is generally:

- To ban the substances considered by local regulations or industry associations as too hazardous, and to support independent research on health risks.
- To inform users on risks and precaution needed through product data sheets and warnings on packaging in line with local regulations and industry standards.
- To support awareness campaigns at industry level and inform policy makers so as to ensure that mandatory requirements tackle real health issues (see page 6).

### Health risks connected to our products

Three potential risks are associated with our products:

- Trace amounts of chromium VI in cement may cause chronic allergic reactions upon regular exposure, leading to cases of dermatosis. Since January 2005, the concentration of chromium VI in cement is limited by European legislation. While strictly complying with it, we consider along with industry associations, that allergic reactions only represent a small percentage of the skin irritations mainly provoked by cement alkalinity. Therefore, individual protective equipment and maintaining good personal hygiene are by far the most effective means of prevention.
- Almost all natural materials, including the ones we use as raw materials, contain a certain percentage of respirable crystalline silica, which could be released in the dust produced by handling, cutting or drilling. Where the concentration of respirable crystalline silica in the dust is strong and the exposure to this dust is high and prolonged, this can lead to lung disease (silicosis). To ensure safe use of our products, Lafarge complies with local regulations and industry practices and is developing safety data sheets for its entire range of products, which can be consulted on our website. ([weblink 4](#))

- Phosphogypsum, one of the synthetic forms of gypsum used by our Cement and Gypsum Divisions, may have a level of radioactivity above the average found in natural materials. This fact is well known, documented and handled by special guidelines to keep the level of radioactivity of finished products far below the threshold levels expressed in the guidance paper called "Radiation protection 112", released by the European Commission in 1999. We use these sources of synthetic gypsum in only two countries (Korea and Indonesia) and we strive to maintain levels of radioactivity that are much lower than those imposed by the most stringent regulations, mixing it whenever necessary with natural gypsum or desulfogypsum (produced by desulfuration of power plant fumes)

## > Do we promote more sustainable products?

### Product and service development

The great majority of our sales consist of products which are manufactured according to local construction products' norms and standards. Therefore, our customers, or end-users, choose and purchase our products mainly on the basis of price, quality or service, or based on the real usage value for them. In this context, improving our products' contribution to sustainable building requires gradual improvement of existing product ranges, allowing only slight cost increases rather than developing expensive products marketed as "sustainable products". However, markets are evolving in some countries as shown by the growth in sales of our self leveling concrete in France. [\(weblink 1\)](#)

Regarding the development of specific "sustainable products and services", to answer specific and local demands we preferably develop a local approach. Some of our Business Units are quite active in this field:

- The objectives of certain Business Unit CEOs in our Aggregates & Concrete, Roofing and Gypsum Divisions include developing sales of products and services with environmental value added.
- The Roofing Division sells various products such as solar roof systems to provide power and hot water, bat or bird-friendly tiles, high insulation roof systems and energy saving chimney and heating systems.
- Roofing, Gypsum and Aggregates activities have developed products and services supporting demolition waste recycling.
- We offer low cost sustainable housing solutions in India and South Africa. [\(weblink 3\)](#)
- Lafarge North America has recently expanded its construction materials product lines and has realized significant growth in the sale of Agilia® and Ductal®.

### Awareness-raising

In the last two years, we have supported the development of sustainable building among our clients in several ways:

- We have organized events in professional exhibitions such as Batimat in Paris or the Venice Biennale of Architecture.
- We have been involved in the construction and planning of various pilot sustainable buildings as partner. In 2005, our new partnership agreement with WWF will include a €150,000 annual budget to support such projects.
- We have supported the creation of a foundation for research on sustainable construction in France for €1million over 5 years and an initiative by French companies on sustainable building.

### Client Information

Beyond awareness-raising, our stakeholder panel asked us to support better consumption choices by providing information on our products' sustainability features as opposed to other materials and our competitors and support the development of green labels.

So far, we have contributed to the development of lifecycle analyses as well as environmental profiles for products at industry level. In France, products covered by environmental data sheets account for 17.5% of sales in the Roofing Division and 44.6% in the Gypsum Division. Data sheets for products of the Aggregates & Concrete Division should be available late 2005. Given this situation, and considering the high standardization of building materials which are most popular, we believe it is not relevant for the Group to build a reporting system on its products' performance versus the same products sold by competitors.

In 2005, we plan to study comparative levels of environmental impact of buildings according to materials used (for instance steel structure versus concrete structure).

## Product Sustainability

### Livia Tirone

ARCHITECT

"Lafarge's Sustainability Report should, in my view, be an integral part of the annual report of Lafarge, so as to contribute to mainstreaming all the concepts on sustainable construction addressed therein. It represents the beginning of an on-going process that clearly aims to address the relevant issues related to sustainable construction, in a transparent way.

In the long term, EU policy will encourage the market to move away from supplier-thinking towards service provider-thinking. In the short term, though, it is the bottom-up initiatives in large enterprises like Lafarge that will make the bigger difference both in terms of the improved performance of the construction industry and in terms of the differentiation of Lafarge's contribution to the market."

### Cornis Van Der Lugt

UNEP

"It is good to see Lafarge paying close attention to the health and environmental impacts of its products. The challenge now is to use new insights from life cycle analysis in delivering materials that enable building projects in developing countries to leapfrog technologically. It requires working with others in the value chain to raise the standard in sustainably integrated building and construction."

# Enhancing comparability

**1**

	Company profile		Scope of reporting		
	TURN-OVER (M€)	GEOGRAPHICAL SCOPE	SAFETY	NO <sub>x</sub> SO <sub>2</sub>	CO <sub>2</sub>
<b>CSI CORE MEMBERS</b>					
Cemex	5,621	10	100%	NA	NA
Cimpor	1,317	8	NA	41%	NA
Uniland	0.3	4 *	NA	NA	NA
Heidelberg	6,400	50 NA	NA	Group	100%
Holcim	7,703	70	100%	85%	NA
Italcementi	4,200	19 NA	100%	87%	90%
Lafarge	13,658	75	100% of workforce	81% & 87%	100%
RMC	7,093	17 NA	NA	NA	NA
Taiheiyo	6,513	5 NA	NA	Japan only	Japan only
Titan	1,000	9 NA	Greece only	NA	100%
<b>CSI PARTICIPATING MEMBERS</b>					
Ash Grove	0.6	1	NA	NA	NA
CRH	11,000	24 *	NA	NA	NA
Secil	0.4	4 NA	Portugal & Tunisia	Portugal only	NA
Shree	0.09	1	NA	NA	100%
Siam	3,800	1	100%	100%	100%
Votorantim	1,400	3 NA	NA	NA	NA

NA: not available  
 \* approximation based on publicly available information

**GEOGRAPHICAL SCOPE**  
 Number of countries in which the company is present, and wherever possible, breakdown of company's turnover in regions with:  
 ● High development | ● Medium Development | ● Low Development  
 Based on the UN's Human Development Index

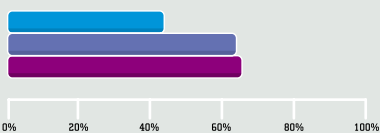
**2 BENCHMARKING OUR PERFORMANCE**

PRESENCE IN THE MAIN SUSTAINABILITY STOCK INDICES

INDEX/RATING AGENCY	FTSE4GOOD World/EIRIS	FTSE4GOOD Europe/EIRIS	DISI WORLD/SAM	DISI STOXX/SAM	ESI/ETHIBEL	ASPI/VIGEO
Lafarge	x	x	x	x	x	x
Holcim	x	x	x	x	x	
Saint Gobain				x		x
CRH			x	x		x
Hanson-BPB						
Cemex						

**3 SAM/DJSI'S SCORE**


TOTAL SCORE



● Industry Average on a Global Basis | ● Lafarge | ● Best Company on a Global Basis within Industry Group |

www.lafarge.com/CSRatings/

1 | Detailed benchmarking of our performance  
 2 | Ethibel rating

Our stakeholders have expressed the need for greater comparability of our sustainability performance. To respond to this demand and given the fact that members of the WBCSD Cement Initiative have begun to publish comparable sustainability data, we chose to include benchmarking of our performance against that of our competitors (indicated with the following symbol  all through the report) as well as our rating by main social and environmental rating agencies, which we have been publishing since 2002.

## Benchmarking methodology

Companies evaluated include core members of the WBCSD Cement Initiative as well as participating members (table 1). The benchmarking is based solely on information made publicly available by these companies by January 1st 2005 and is available in a more detailed form on our website. (weblink 1) All comparisons of our sustainability performance with that of our competitors must be considered while taking into account differences in each company's geographical scope as well as consolidation perimeters. Table 1 gives an overview of such factors, which sometimes limit the meaningfulness of comparisons.

## Lafarge's Sustainability ratings

In each business sector, social and environmental rating agencies rate and rank companies according to economic, social and environmental criteria in order to build "socially responsible" stock-market indices and investment portfolios. These ratings are carried out using questionnaires filled out by the companies and using publicly available information.

Generally speaking, the rating analyses carried out by these agencies are largely positive: as the table on the left shows, Lafarge is included in the main socially responsible stock-market indices. Human resources management, Environmental Policy and dialogue with stakeholders are all well up-front. The weaknesses vary from one agency to another.

● **FTSE4Good (EIRIS rating)**

EIRIS especially underscored the quality of the Group's environmental policy as well as its Code of Ethics. The agency has not identified any major weaknesses but lists various points to be improved on such as diversity, Human Rights issues, relations with unions and biodiversity.

● **DJSI (SAM rating)**

In 2004, Lafarge obtained a score of 64%, an increase of 5 points compared to 2003. With regard to its strengths, SAM noted an outstanding performance in climate strategy and environmental performance, as well as Lafarge's strong approach to anti-corruption and generally over-average performance in the economic dimension. According to SAM, responsible procurement is the only issue where Lafarge is under industry average, a point on which efforts have been focused in 2004 (see page 25).

● **Vigeo**

Due to its leading position in the industry, Lafarge obtains good scores on every aspect of this rating which is based on benchmarking against other industry players. The Group scores especially well on environmental issues and has but one weakpoint according to Vigeo: governance.

● **Ethibel:** see weblink 2

# Methodology

## > Preparation of the report

This is the Group's fourth sustainability report. As for the three previous reports, it was produced by our sustainability team, in collaboration with Utopies. We maintained a shorter format, completed with additional information online so as to facilitate circulation and reading.

## > Scope and Consolidation

Unless otherwise specified, the report covers all of the Lafarge Group's activities. When reporting on joint-ventures, we consider ourselves accountable for all impacts when the company is under Lafarge's management, otherwise we are not accountable. This year, we report on our Health and Safety performance according to the guidelines of the WBCSD Safety taskforce. Furthermore, Cement Division CO<sub>2</sub> emissions are presented according to the WBCSD/WRI protocol. They are calculated on a constant scope, which means that they are not comparable with the data from our 2003 report. The other indicators are not calculated on a constant scope: the variation thus takes into account the improvement in operating performance on the one hand, and the change in scope of the Group on the other hand.

## > Assurance Status

Lafarge is committed to assuring that the report's content is not only accurate but also reflects the interests of the readers:

### ● Facts and figures

Data for 2004 on CO<sub>2</sub> will be audited by an independent organization in 2005. The social and environmental indicators required by the French NRE Act are also shown in our reference document.

### ● Materiality, completeness and responsiveness

To increase the quality and credibility of our report, we involved more than ever our stakeholder panel in the making of this report:

- 1 | Each panel member was asked to assign him/herself to the sustainability issues facing Lafarge on which they felt most apt to challenge the Group.
- 2 | Panel members then expressed their disclosure expectations on each sustainability issue they had selected.
- 3 | Once the report had been written on the basis of the panel's disclosure expectations, panel members (except for Simon Zadek of AccountAbility\*) were asked to express their opinion as to whether the report met their expectations. Their opinions are published in the report at the end of each chapter as well as at the end of the report.

As this approach is a form of assurance, the panel expressed the need for Lafarge to be fully transparent on each panel member's relation to the Group so as to gauge their level of independence:

- All panel members belong to a category of stakeholders and are therefore not impartial with respect to stakeholder interests.
- Panel members are not paid directly for their work within the panel. However, some of the panel members' parent organizations have engaged in partnerships with Lafarge (WWF, Care, IFBWW) and have financial or commercial links with the Group. For all such panel members, "declarations of material interest" are available on our website. ([weblink](#))

We consider this approach as a step towards the AA 1000 Assurance Standard verification, which certain members of our panel have advised us to use. The topic of assurance will be on the agenda of the panel's meeting in April 2005.

\* Simon Zadek took part in the consultation process, however he did not take part in forming the panel's opinion on the report to avoid any conflict of interest as he is head of AccountAbility, the organization which created the AA1000 Assurance standard.

"This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a transparent, balanced and reasonable presentation of Lafarge's economic, environmental, and social performance. To challenge our point of view, we asked our stakeholder panel to give their opinion on the report."

**BERNARD KASRIEL** CHIEF EXECUTIVE OFFICER

### > GRI CORE INDICATORS YOU WON'T FIND IN THIS REPORT:

**ECONOMIC PERFORMANCE**  
EC2 X | EC4 ■ | EC5 ■ | EC6 © | EC7 © | EC8 ■ | EC9 ■

**ENVIRONMENTAL PERFORMANCE**  
EN4 ■ | EN5 ■ | EN7 © | EN9 ● | EN12 ■ | EN13 ● | EN14 © | EN15 ■ | EN16 ■

**SOCIAL PERFORMANCE**  
HR2 ▲ | HR4 ■ | S01 © | PR2 ▲ | PR3 ●

▲ We have nothing to report on this topic  
■ No consolidation of the results  
X Confidential  
● Not suited to the characteristic nature of our sector Data  
© Available in our reference document or on our web site

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Utopies is a consultancy which was created to promote sustainability and corporate social responsibility.  
[www.utopies.com](http://www.utopies.com)

> Design & production | Lafarge Communication Department / Skipper Communication | Graphic Design: ●●○ | Production: HMS Publications

> Photo credits | DR | Photothèque Lafarge, Michel Monteaux, Carol Reis |

[www.lafarge.com/methodology/](http://www.lafarge.com/methodology/)

 • Adjusted CO<sub>2</sub> data and independent controller's declaration



# Our stakeholder panel's view on the report

**The panel's mission is to serve as "critical friends" who challenge Lafarge's approach to corporate responsibility, suggest improvements and form each year a critical opinion on Lafarge's accountability in this field.**

Even though it does not entirely prevent omissions, we consider that this consultation process helped to improve the quality of the report, which has significantly improved compared to previous years. Karina Litvack (F&C Asset Management) especially highlighted the new standards set by the report regarding disclosure on public policy positions and investment criteria, following the recommendations of the panel. On the other hand, the report is still too focused on efforts made and not enough on results achieved and the dilemmas encountered. Some of our recommendations remain unaddressed, especially those dealing with Lafarge's long-term corporate strategy.

Regarding environmental performance, Lafarge has progressed in reducing its operational impacts per unit of output, especially regarding climate change. However Jean Paul Jeanrenaud (WWF) stated that they should set reduction targets and improve disclosure on persistent pollutant emissions. He also pointed out the lack of group guidelines regarding management of waste fuels and materials.

In the long run, to tackle challenges such as CO<sub>2</sub> emissions in the developing world or dependence on primary raw materials, we consider that Lafarge should shift from the making of incremental improvements to a global rethinking of its core business. We believe Lafarge should move from seeing its business as the production of primary building materials towards vertical integration that seeks to provide sustainable building solutions with accompanying new product lines. This would allow Lafarge to minimize what they take and maximize what they make.

On this last topic, Karina Litvack suggested including targets related to product/service design into performance programs. In reporting on these matters we would like to see a clearer explanation of the dilemmas as well as commitment to a long-term

vision. Overall, targets should be less and less relative to Lafarge's former, conventional performance, relating more and more to quantified, universal references.

Societal and economic impacts appeared to be the least developed aspects of Lafarge's sustainability policy according to Philippe Lévêque and Marion Hellmann. Panel members expect Lafarge to optimize plants' economic impact on local communities and facilitate access to decent housing for low-income populations. Regarding disclosure, we would like more details on country risks, policy consistency, impacts, challenges and performance in developing countries. More precisely Philippe Lévêque (Care) asked for case studies on local economic impact, as well as local data for main countries where Lafarge operates. Alastair McIntosh challenged the making of 'business friendly' political contributions in America, small in scale though these are. Furthermore, Patrice Ponceau asked for more detailed reporting on the efficiency of career development and training within the group.

Finally, we consider that Lafarge should integrate more deeply its sustainability goals into its traditional business strategy by:

- Providing specific training to all employees as well as to Board
- Creating financial incentives and disseminating sustainability responsibilities throughout the group;
- Demonstrating to investors that sustainability is about long-term competitive advantage, legitimacy and, therefore, investment stability;

As far as reporting is concerned, we would like to see more explanation of how the external reporting system links with the internal communication and decision-making cycle. Merging the sustainability report with Lafarge's annual report would also be a way to send a strong signal to mainstream investors.

For next year, we would like to see our work with Lafarge more focused on strategic issues with a stronger link with the decision making process. Some members also suggested establishing more direct and on-going contact with Lafarge staff in charge of the issues at stake.

## Members of the panel

PATRICE PONCEAU | MARION HELLMANN | JEAN PAUL JEANRENAUD | PHILIPPE LÉVÊQUE | KARINA LITVACK | SIMON ZADEK | CORNELIS THEUNIS VAN DER LUGT | LIVIA TIRONE | ALASTAIR MCINTOSH |

