

Lafarge braces for hard times

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World's largest cement maker adopts strategies to counter slowdown

Ever there is a company that seems prepared to weather the global economic slowdown, it would be cement maker Lafarge SA.

Although chairman and chief executive officer Bruno Lafont sees a "difficult and challenging year" ahead, with cement consumption worldwide expected to drop by up to 3% this year, he has also put in place various strategies to help the group through the rough patch.

"Our strategies so far have prepared us very well for the slowdown.

"For example, our focus on emerging markets, value acquisitions and our own internal growth programme has helped us to have a well-balanced portfolio globally and enabled us to benefit from where there is growth," he says.

An acquisition that Lafont is very proud of is that of Orascom Cement, the leading cement producer in the Middle East and Mediterranean Basin.

The acquisition is said to have accelerated the group's development strategy in emerging markets with 65% of group profit expected to be generated from these markets by 2010.

The Orascom purchase brought an additional 30 million tonnes of capacity to the group and this is anticipated to rise to 45 million tonnes next year.

Lafarge is the world's largest cement maker with a presence in nearly 80 countries and a current total production capacity of about 200 million tonnes.

To Lafont, it is also imperative for the group to anticipate and react promptly operations-wise to mitigate the effects of a slowdown in business.

Operationally, Lafarge is focusing

on cost reduction and rationalisation.

Its cost reduction exercise started three years ago and exceeded targets, with cost savings of 420 million euros achieved between 2006 and 2008, instead of the 340 million euros initially forecast.

Lafont has already started another new programme last year which is expected to reduce costs by another 200mil euros this year.

"Our rationalisation strategy is to look more cautiously at capital expenditure and spending in general as well as optimise the balance sheet by making any necessary divestments.

"This will help us to reinforce our balance sheet and realign it with the present situation," he says.

Lafarge, which has more than 200 cement plants, over 2,000 quarries and many operations globally, is currently looking to divest some of its assets.

Divestments is expected to represent some 2% of group assets this year totalling more than 1 billion euros.

"Asset optimisation will help to reinforce the balance sheet. These assets may have more value for others than for us - either the assets are making less profits or even provide less synergy to the group.

"There are interested buyers despite the economic conditions and we have divested in good conditions. The divestment strategy will turn the group into a leaner and meaner organisation," he explains.

As part of its divestment plan, the group sold its wholly-owned cement and aggregates and concrete activities in Italy to Italian group Sacci, for 290 million euros last year.

Lafarge also aims to raise 1.5 billion euros via a rights issue to be approved at an EGM on March 31 as a means to reduce its debts.

Despite the doom and gloom,

Lafont still sees short-term growth for the group especially in the Asian region.

"There are still places where we see growth, such as Asia, Africa and the Middle East.

"Asia is growing in size and contributes more than 10% to sales now versus 0% in 1990 and this will continue to grow.

"I spend three to four weeks in a year visiting Asia," he says, adding that the emerging markets (all outside Western Europe, North America and Japan) are still contributing more than 50% to sales and profits.

To Lafont, Malaysia remains one of the 20 more important countries for the Lafarge group in terms of production capacity, profits, number of employees and so forth.

Its other 19 important countries include France, Canada, Britain, Spain, US, India, China, Egypt, Algeria, South Korea and Nigeria.

Lafarge's Malaysian operations, Lafarge Malayan Cement Bhd, is one of the group's largest business units globally and is the second largest in Asia, after China in terms of production.

Lafarge Malayan Cement has a production capacity of 12.95 million tonnes of cement annually.

Lafont aims to turn the Malaysian operations into the best business unit of the group and best competitor in the Asian region.

To continue to grow the business, Lafont has a two-prong strategy to develop the group's cement business in the emerging market and develop innovative concrete products in all markets.

Much of the group's investments, about 100 million euros per year, are spent on developing new products.

"We expect such investments to remain stable this year despite the challenging environment as we

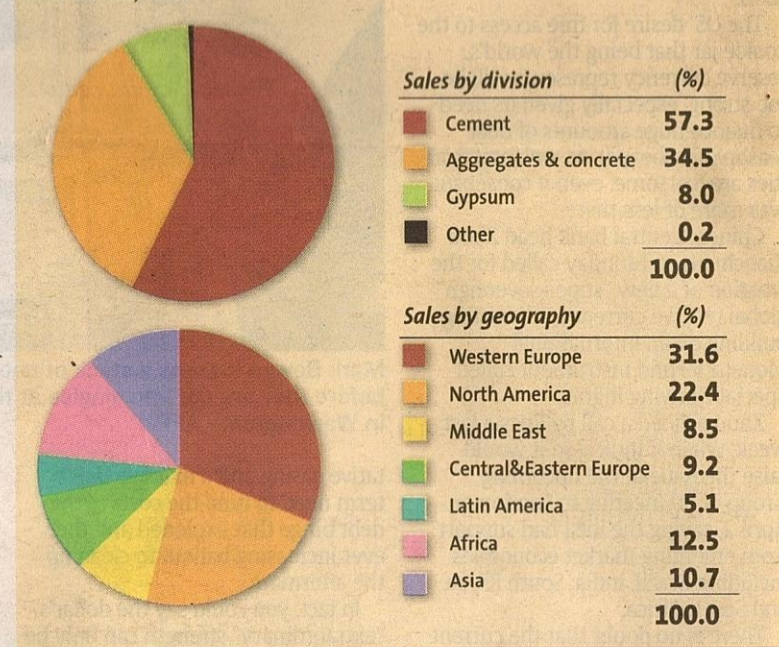
Lafarge - a snapshot

	Sales (€ mil)	No of employees	No of plants	No of countries
World Leader				
• Cement	10,911	49,673	166	50
2nd and 3rd worldwide				
• Aggregates & concrete	6,573	25,633	1,945	40
3rd worldwide				
• Gypsum	1,521	8,132	76	29

Source: Lafarge

Lafarge SA - key figures by division and geography

as at Dec 31, 2008



Source: Lafarge

Note : Country information is posted on the basis of 100%, excluding companies held in equity at Dec 31, 2008

must prepare for the future," he stresses.

For the fourth quarter ended Dec 31, 2008, operating income dropped 6% to 753 million euros from 800 million euros in the fourth quarter last year while revenue grew 7% to

4.65 billion euros during the period.

The Lafarge group recorded a 2.2% growth in operating income to 3.36 billion euros for the year ended Dec 31, 2008 versus 2007 while revenue improved by 8% to 19.03 billion euros.