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Stock Rating
Equal-weight

Industry View
In-Line

Lafarge

Good Business Outlook, but Moderate Upside Potential

What's Changed

Price Target	€9.50 to €5.70
ModelWare EPS 2006e	From €6.32 to €6.90
ModelWare EPS 2007e	From €6.81 to €7.43

Raising price target to €5.7 but retaining Equal-weight rating. As a result of raised estimates and higher gearing, we are increasing our price target by 9%. However, after a 15% year-to-date price rise on positive earnings momentum and management change, we think the risk-reward equilibrium remains balanced, noting that the recent market correction has left 7% upside potential to our price target.

What would prompt us to turn more positive on the stock? On June 22, the company will be presenting a more detailed strategy plan. News on targets or restructuring measures may prompt us to revisit our model and valuation. Moreover, merger-related synergies in North America operations post LNA buyout, likely in our view, are not reflected in our model. Under a higher profitability scenario — mid term goals announced by the company back in 2003 — the stock's fair value could rise to €110.

We are raising our forecast by 5% at the operating profit level. The stronger than anticipated start of the year has prompted us to increase our forecast in most regions. Higher average pricing is the main driver of the upgrade. We now estimate 14% EBIT growth in 2006 and 8% in 2007.

Lafarge North America (LNA) minorities buyout is 7.5% EPS accretive on a full-year basis. With total estimated investment of €2.76 billion, added annual net profit amounts to €124 million in 2006 and €188 million in 2007, on our estimates, hence 4% and 7.5% accretive respectively. Our new EPS forecast stands at €6.90 for 2006 (+11%) and €7.43 (+8%) for 2007.

Key Ratios and Statistics

Reuters: LAFP.PA Bloomberg: LG FP

Building & Construction / France

Price target	€5.70
Shr price, close (Jun 19, 2006)	€89.25
Mkt cap, curr (mn)	€16,917
52-Week Range	€104.90-65.75

Fiscal Year (Dec)	2005	2006e	2007e	2008e
ModelWare EPS (€)*	5.98	6.90	7.43	8.06
Prior ModelWare EPS (€)	6.18	6.32	6.81	7.39
P/E	12.7	12.9	12.0	11.1
Consensus EPS (€)	6.39	7.19	7.87	8.82
Div yld (%)	3.4	3.2	3.5	3.8

* = Please see explanation of Morgan Stanley ModelWare later in this note.
e = Morgan Stanley Research estimates

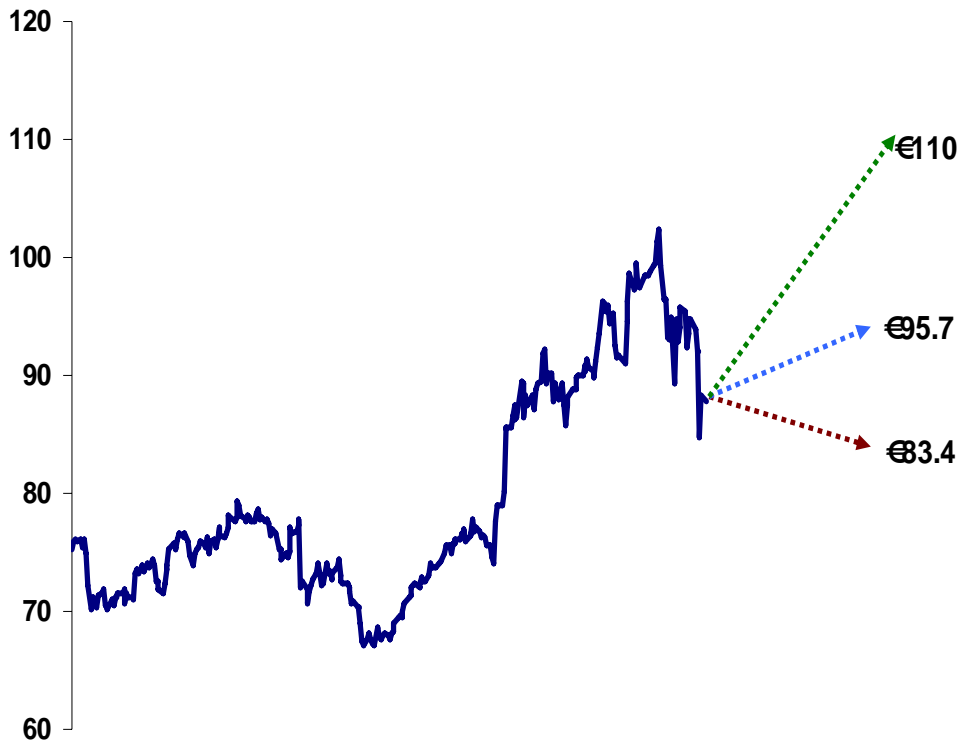
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Exhibit 1

Bull, bear and base case analysis



Bull case

Implied EV/EBITDA 07e 7.5

FCF yield 07e 7.4%

16.8% residual through-the-cycle operating margin vs 14.6% in 2000-2005 average

Base Case

Implied EV/EBITDA 07e 6.9

FCF yield 07e 8.2%

15.1% residual through-the-cycle operating margin vs 14.6% in 2000-2005 average

7.5% cagr in EPS in 2005-2008

Bear case

Implied EV/EBITDA 07e 6.5

FCF yield 07e 9.2%

US and Europe cement demand & prices drop

Profitability fails to improve 15.1% residual through-the-cycle operating margin

Source: Morgan Stanley Research

Investment Case

Summary & Conclusions

Raising estimates: better than anticipated cement and aggregates pricing

Following the better than anticipated 1Q sales performance we are increasing our full year forecast, and although we reckon 1Q is not material enough to extrapolate the growth to the full-year — apart from the positive calendar effect and mild weather conditions — there are some trends that we felt we needed to translate into our forecast:

- **Pricing** evolution has been better than anticipated in cement and aggregates and the positive comparison should translate — even if not in the same magnitude due to the higher base — to the remaining quarters, as we see no reason for an imminent price correction. We have lifted our average cement pricing impact in 2006 from 3.8% to 6.7% and in aggregates from 4.1% to 6.4%.
- **Cost inflation** continues on the rise. Freight costs are accelerating again and energy costs, apart from some relief in gas in the US, are also rocketing up and expected to maintain high. As a result, we estimate just part of the price increases will feed through to the operating margin while the rest would be to offset the larger cost base. As such, 2006 operating margin has risen from 14.8% to 15.3%.
- **Volumes:** we have also marginally increased our cement and aggregates volume forecast, albeit it to a lesser extent, mainly in the US and Western Europe.
- As per **gypsum** and **roofing**, even on the strong 1Q, we think deviations from expectations were not large enough to prompt an upgrade, and we will wait to the coming quarters to see the evolution.

Lafarge North America: 7.5% EPS added annually

After raising its offer from US\$78 to US\$85.5, in two tranches, Lafarge has succeeded in acquiring LNA minorities. We believe this deal will add 4% to 2006 EPS and 7.5% to 2007, as reflected in Exhibit 1. This is based on the IBES consensus earnings forecast for LNA plus an estimated annual cost of debt of 5.3%.

Exhibit 2

LNA buyout adds 7.5% to FY EPS in our estimates

	2006e	2007e
Minority result reduction	122	188
Net cost of debt	-76.2	-95.2
Net addition	45.8	92.8
Addition to EPS	0.26	0.52
As % of EPS forecast	4.0%	7.5%

Source: IBES, Morgan Stanley Research
e = Morgan Stanley Research estimates

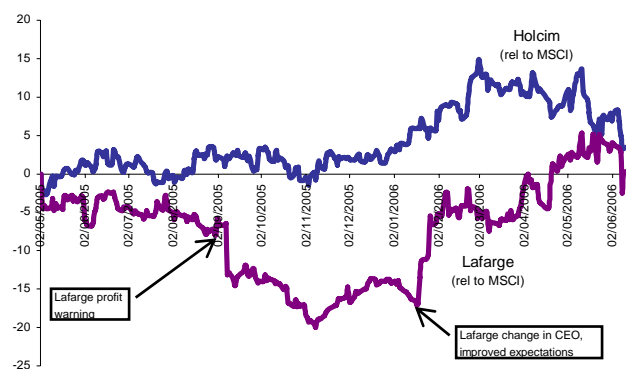
We estimate 11%, 8% and 8% reported EPS growth in 2006 to 2008, in line with the company's target

We now forecast annual EPS growth to 2008 to match the company's target of 8%. This healthy growth forecast is based on 10% sales growth in 2006 and a more normal 5% in the following years as pricing trends stabilize. Annual operating profit margin growth should be 30 to 40 basic points. Note that we are not assuming any further business expansion or material earnings recovery in roofing (the latter targeted by management) so, in our view, some upside potential to our numbers exists. On the other hand business conditions could deteriorate in a rising rate environment, especially in the US, hitting our underlying forecast.

Modelware EPS (fully diluted and ex extraordinary) should reach €6.90 in 2006 and €7.43 in 2007, on our estimates.

Exhibit 6

Lafarge has been clearly picking up versus peers since January 2006



Source: Datastream, Morgan Stanley Research

Price target increased to €95.7; retaining Equal-weight

As we value Lafarge with a discounted cash flow method, the increased operating profit, increased gearing (with its positive impact on WACC) and the lower amount of pension underfunding, according to the 2005 annual report, have resulted in our price target increasing to €95.7, offering 7% upside potential to the current trading price post the stock market's general correction. Since upside is in line with the industry and multiples in line with peer group multiples, we reiterate our Equal-weight stance. We believe positive expectations have already been priced into the stock and as such, despite a positive operating environment, the potential for disappointment has increased.

What could turn us more positive again? Lafarge will have its analyst day at the end of June and in it we hope to hear more about the performance improvement program. If near term targets were reviewed or more streamlining measures announced it would prompt us to revisit our estimates and valuation.

Moreover, following the Lafarge North America minorities acquisition, all North America operations, including Blue Circle, could be integrated, allowing for further cost savings.

If we assumed that aggregates profitability improved to the mid-cycle goal level of 9% by 2008 on cost cutting program and that roofing profitability recovers to €350 million of EBITDA by 2008 versus just €234 estimated for 2006, the group's operating profit margin would rise to 16.8% by 2009, versus 16% in our forecast. If we applied that same 16.8% to the residual cash -flow, versus the through-the-cycle current forecast of 15.1%, fair value would increase to €110 per share. Therefore, we set our bull case price target, based on profitability recovery and sustainability of margins, at €110 per share, 14.5% higher than our current base case value.

Potential positive announcements on June 22 and implications

Although our forecast is based in the mid term goals that the new CEO, Mr Lafont, presented at 2005 full year presentation, these could be reviewed post Lafarge's analyst day to occur next Thursday June 22 in Paris. Key updates that could prompt some changes in our numbers are:

1) Lafarge's 2006 AGM approved a €1 billion share buy-back program. If this was confirmed and the shares cancelled:

- ✓ The impact on our price target would be €2.3 per share to €98,
- ✓ EPS would increase by 1.5% in 2006 and 3.7% in 2007 to €7.01 and €7.68 respectively.

2) Lafarge has announced that before the analyst day there will be a press conference and most likely, a press release issued at 7am. Due to the already anticipated press release, we believe it is more than likely that financial targets could be reviewed or an updated trading statement published. Regarding the latter, although we would expect positive earnings performance, with the earnings upgrade included in this report, we think potential revisions would be limited.

3) Regarding financial targets we would expect an update of the cost efficiencies management expects to obtain post Lafarge North America minorities buyout. Moreover, now the company will be able to merge its operations with those of Blue Circle North America, also fully owned; and extract some savings. Please note that we are currently not assuming any performance improvement on the back of minorities buyout.

Main risks to our valuation

As mentioned above, a continued negative trend in the US dollar/euro exchange rate could erode earnings visibility while a potential deceleration in the US construction market would also have a more material impact on Lafarge's numbers. In addition, further price wars may occur now that Malaysia and South Korea are stabilizing. There could also be a material change in interest rates. The latter not only would increase WACC, but would have a negative impact on investors' sentiment towards construction and the housing industry.

In a bear case scenario of meaningful deceleration of activity in mature markets and the exchange rate collapsing US\$1.40/€1 our fair value would fall to €84.7 per share, 13% lower than the current base case value.

Sensitivity Analysis

Earnings sensitivities: US performance, interest rates and currencies are the largest uncertainties at this stage

Since the beginning of the month, inflation is prompting fears about potential rate hikes that are more material than anticipated, as well as a deceleration in booming housing markets, especially in the US. The dollar has resumed a downward spiral versus the euro and many emerging markets currencies have also started depreciating after surges in 2005. All this has increased uncertainty about the global cement players, which are down 16% from peak levels at the beginning of the month. Even though this has put a halt in Lafarge's previous rally and has left the stock trading in line with our estimated fair value, we want to highlight here the limited sensitivity to the above-mentioned issues.

US construction output:

We base our assumptions on the Portland Cement Association (PCA) forecast of 1.7% average total construction output growth for the next 2 years with 3% to 4% cement demand growth (intensity of usage continues going up). In our North America region estimates we assume 3% increase in cement demand for 2006 and just 1.7% in 2007, around 1% lower than PCA forecast for the full country. This is based in Lafarge's higher than average exposure to the weaker Northeast markets plus the weight of Canada, which is also growing below the US rate.

It is important to mention that PCA already assumes a 3.5% fall in new housing in 2006 and 5.5% in 2007.

In our forecast, each 1% of lower demand growth implies just €0.02 per share in EPS while if apart from volume deceleration there is also a -3% pricing impact, it could reach €0.11 per share, still relatively limited as the first volumes to drop would be the imports that have much lower profitability.

Interest rates moving up

The largest potential impact is how this could hit on investor sentiment towards construction-exposed names, as well as the impact in housing if rising trends accelerate. However, 50% of sales come from emerging markets (no link to the US rate cycle) and 50% of the cement demand end use in mature countries driven by infrastructure and roads. This leaves 25% of Lafarge's business exposed to mature markets housing cycle. Hence, if housing activity decelerated, with public works not balancing the difference, cement demand could flatten to 2 to 3% per annum versus 5% to 6% currently, prompting an earnings flattening period.

Exhibit 3

Earnings sensitivity to rates, currency and the US

	EPS impact (€/share)
US activity: -1% demand	-0.02
US activity: -1% demand & -3% prices	-0.11
Interest rates	difficult to measure, psychological impact
\$/€ +10c in exchange rate	-0.20

Source: Company data, Morgan Stanley Research

Currency: dollar continues to be the largest issue

First of all it is important to mention that impact is entirely translational, as cement players produce, sell and finance cement on a local basis, with the cost of debt being a natural hedge for undesired currency movements.

In our forecast, we are currently assuming US\$1.27/€1 exchange rate for 2006 and 2007. Each US\$0.10 difference in the exchange rate, to US\$1.37, would prompt €50 million fall in operating profit (-2%) and €0.20 in EPS (-2.8%) on our estimates.

Exhibit 4

Lafarge: DCF, 2006-2012e

	2006E	2007E	2008E	2009E	2010e	2011e	2012e	residual
Sales	17,620	18,543	19,357	19,876	20,472	21,086	21,508	21,901
Sales Growth %	10	5	4	3	3	3	2	0
Operating Profit margin %	15.2	15.7	15.9	16.0	15.9	15.8	15.7	15.1
Operating profit	2,684	2,903	3,081	3,189	3,264	3,341	3,386	3,301
Tax rate %	33	33	33	33	33	33	33	33
NOPLAT	1,798	1,945	2,064	2,137	2,187	2,239	2,269	2,212
Depreciation	1,162	1,214	1,260	1,305	1,279	1,254	1,229	778
Investment	-1,450	-1,460	-1,270	-1,279	-1,254	-1,229	-1,204	-778
Working Capital variation	-285	-83	-74	-37	-37	-37	-37	0
Free cash flow	1,225	1,616	1,980	2,126	2,175	2,226	2,256	39,894
WACC (%)	7.4	7.7	8.0	8.2	8.2	8.0	8.0	8.0
Annual NPV 2006	1,225	1,501	1,697	1,679	1,586	1,499	1,404	19,884
NPV	30,475							
(net debt)	-9,390							
(market value of minorities)	-2,874							
pension funds	-698							
Competition fines	-325							
Total fair value	17,189							
Fair value per share	95.7							

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

New targets largely reflected in our estimates

Bruno Lafont, Lafarge's new CEO, addressed analysts and investors at the 2005 results presentation for the first time since his appointment. Although we think the measures management plans to take are not as broad as the market had hoped (given the stock's performance), Mr. Lafont showed strong resolution to make Lafarge's operations more efficient. The next step will be to meet those targets, and to do so on the back of improved operational returns rather than non-operating reasons.

Main targets announced

- Annual revenue growth of over 5%.** We estimate 10% for 2006, 5% in 2007 and 4.5% in 2008, although excluding any capacity growth apart from expansion plans already announced.
- Achieve sustainable 8% yearly average EPS growth until 2008** — beyond that, targets will be revisited. We forecast 11% EPS growth in 2006, 8% in 2007 and 8% in 2008. However, we are assuming the tax rate will jump from 23% in 2005 to 28% in 2008. With no tax rate increase, we estimate EPS growth would rise to 17%, 10% and 10% respectively.
- Reduction of general operating expenses by 1% of sales.** In our model, we assume this target is reached, with selling and administration expenses declining from 12.3% of sales to 11.3% by 2008.
- An EBITDA target of €350 million in roofing by 2008.** This is the only target that we do not assume is achievable. We estimate 2008 roofing EBITDA of €265 million, versus €222 million in 2005, implying a margin leap from 14.7% to 16.3%. We believe that, with German construction activity still not recovering and new housing starting to decelerate in the rest of Europe and the US, it is unrealistic to assume such a material improvement unless it happens via expansion of the current operations into new markets, implying new investment. Rather than fixing an absolute EBITDA target, we think the goal should be based on ROCE, which ended 2005 at 3.6%.
- Improvement in ROCE.** We assume an improvement in the pretax ROCE to 13.7% by 2008 (12% in 2005), but only to 9.9% in post-tax terms (9.3%), due to our increased tax rate assumption already mentioned.
- A stricter approach to acquisitions.** Lafarge has stated that it will not pursue any deals that do not enhance value (ROCE above WACC) by year four and that are not accretive to EPS. Under these rules, neither Blue Circle nor Redland acquisitions would have been done. Moreover, although we see management's stricter approach as positive, given the very high prices paid in recent transactions, we question what will happen if cash accumulates on the balance sheet. Will the company be prepared to increase its dividend payout or returns to shareholders instead of allowing the balance sheet to turn inefficient?

Exhibit 5

We factor in most of Lafarge's announced targets into our model, except for roofing

	2005	2006e	2007e	2008e	Target Achieved in Our Forecast?
Target: 8% annual EPS Growth					
EPS (€)	6.18	6.91	7.48	8.11	☺
EPS Growth (%)	5	11	8	8	2006 only if we include LNA buyout
Target: Improved ROCE					
ROCE Pretax (%)	11.9	11.9	12.6	13.2	☺
ROCE Post-tax (%)	9.1	8.3	8.7	9.0	☹ We assume increasing tax rate
Target: Roofing EBITDA of €350mn in 2008					
Roofing EBITDA (€mn)	222	234	250	265	☹
Roofing EBITDA Margin (%)	14.7	15.1	15.7	16.3	Strong margin improvement assumed
Acquisition: more selective, EPS accretive, ROCE > WACC in 4 years					
Gearing (%)	53	48	41	32	☹ If no acquisitions, we think
Net Debt to EBITDA	2.1	1.8	1.6	1.3	balance sheet will turn rapidly inefficient.

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Appendix : Lafarge operating model

Exhibit 6

Lafarge: Breakdown of Group Sales, 2004-2009e

(€million)	2004	2005A	% Chg	2006e	% Chg	2007e	% Chg	2008e	% Chg	2009e	% Chg
Cement	6,810	7,595	11.5	8,468	11.5	8,980	6.1	9,460	5.3	9,832	3.9
Concrete and Aggregates	4,747	5,377	13.3	6,003	11.6	6,291	4.8	6,534	3.8	6,676	2.2
Roofing	1,493	1,514	1.4	1,553	2.6	1,595	2.7	1,631	2.3	1,656	1.5
Gypsum	1,340	1,462	9.1	1,576	7.8	1,655	5.0	1,711	3.4	1,690	(1.2)
Other	46	21	0.0	21	0.0	21	0.0	21	0.0	21	0.0
Total Sales	14,436	15,969	10.6	17,620	10.3	18,543	5.2	19,357	4.4	19,876	2.7

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

Exhibit 7

Lafarge: Breakdown of EBIT, 2004-2009e

(€million)	IFRS 2004	2005A	% Chg	2006e	% Chg	2007e	% Chg	2008e	% Chg	2009e	% Chg
Cement	1,597	1,770	10.8	2,010	13.6	2,176	8.2	2,314	6.4	2,417	4.4
Concrete and Aggregates	357	398	11.5	458	15.2	490	6.9	513	4.8	523	1.8
Roofing	149	98	-34.2	107	8.8	119	11.3	130	9.2	135	4.5
Gypsum	132	151	14.4	171	13.2	184	7.5	191	3.8	185	(3.3)
Specialty Products	0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other (incl. Holding)	(34)	(60)	0.0	(62)	0.0	(65)	0.0	(67)	0.0	(70)	0.0
Total EBIT	2,201	2,357	7.1	2,684	13.9	2,903	8.2	3,081	6.1	3,189	3.5
	% Total	% Total	% Margin	% Total	% Margin	% Total	% Margin	% Total	% Margin	% Total	% Margin
Cement	72.6	75.1	23.3	74.9	23.7	74.9	24.2	75.1	24.5	75.8	24.6
Concrete and Aggregates	16.2	16.9	7.4	17.1	7.6	16.9	7.8	16.7	7.9	16.4	7.8
Roofing	6.8	4.2	6.5	4.0	6.9	4.1	7.4	4.2	7.9	4.2	8.2
Gypsum	6.0	6.4	10.3	6.4	10.9	6.3	11.1	6.2	11.2	5.8	10.9
Other (incl. Holding)	0.0	(2.5)	10.0	(2.3)	10.0	(2.2)	10.0	(2.2)	10.0	(2.2)	10.0
Total EBIT	(1.5)	100.0	14.8	100.0	15.2	100.0	15.7	100.0	15.9	100.0	16.0

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

Exhibit 8

Lafarge: Earnings Estimates, 2004-2009e

(€million)	IFRS 2004	% Chg	2006e	% Chg	2007e	% Chg	2008e	% Chg	2009e	% Chg
Sales	14,436	10.6	17,620	10.3	18,543	5.2	19,357	4.4	19,876	2.7
EBITDA	3,099	7.5	3,846	15.5	4,118	7.1	4,340	5.4	4,495	3.6
% of sales	21.5		21.8		22.2		22.4		22.6	
Operating Profit	2,201	7.1	2,684	13.9	2,903	8.2	3,081	6.1	3,189	3.5
% of sales	15.2		15.2		15.7		15.9		16.0	
Gains on disposals (up to 2004 included other income)	91		0		0		0		0	
Other operating Income (in 04 includes GW)	(218)		(160)		(150)		(140)		(140)	
Operating Income	2,074	7.9	2,524	12.8	2,753	9.1	2,941	6.8	3,049	3.7
% of sales	14.4	0.0	14.3	0.0	14.8	0.0	15.2	0.0	15.3	0.0
Associates	74	-48.6	39	3.4	41	3.3	42	3.2	43	3.2
Net Financial Expenses	(547)	-17.4	(504)	18.1	(559)	10.8	(521)	(7)	(460)	(12)
Profit Before Tax (excl. goodwill)	1,601	15.4	2,059	11.4	2,235	8.6	2,461	10.1	2,632	6.9
% of sales	11.1		11.7		12.1		12.7		13.2	
Tax	(240)	76.9	(525)	23.8	(603)	14.9	(689)	14	(763)	11
Tax on extraordinaries	(27)									
Visible Tax Rate (%)	17.0		26.0		27.0		28.0		29.0	
Profit After tax	1,334	6.7	1,534	7.7	1,631	6.4	1,772	8.6	1,869	5.5
Minorities	(288)	13.9	(293)	-10.6	(296)	1	(324)	9	(349)	8
Net profit	1,046	4.8	1,240	13.2	1,336	7.7	1,448	8.4	1,520	5.0
Net profit ex-extraordinaries	982	8.9	1,240	15.9	1,336	7.7	1,448	0.0	1,520	0.0
Net profit ex-extraordinaries and goodwill	982	8.9	1,240	15.9	1,336	7.7	1,448	0.0	1,520	0.0

Source: Company data, Morgan Stanley Research

June 20, 2006

Lafarge

Exhibit 9

Lafarge: Cash Flow, 2004-2009e

	IFRS 2004	2006e	2007e	2008e	2009e
Cash Flow from Operations					
Operating Profit	2,201	2,684	2,903	3,081	3,189
Depreciation and Amortisation	898	1,162	1,214	1,260	1,305
Other cash Items	0	(160)	(150)	(140)	(140)
Net Working Capital	(357)	(285)	(83)	(74)	(37)
Cash Flow from Oper. Activities	2,742	3,401	3,884	4,126	4,317
Associates					
Associates	20	39	41	42	43
Net Financial Expenses	(547)	(504)	(559)	(521)	(460)
Taxes Paid	(424)	(525)	(603)	(689)	(763)
Dividends Paid (to shareholders & Minorities)	(504)	(580)	(628)	(682)	(718)
Cash Flow from Operations	1,287	1,831	2,134	2,276	2,419
Maintenance Capex					
Maintenance Capex	(783)	(950)	(960)	(970)	(979)
Expansion Capex					
Expansion Capex	(350)	(500)	(500)	(300)	(300)
Purchase of Fixed Assets	(309)	(2,763)	0	0	0
Purchase of Investments	(111)	0	0	0	0
Disposal of Investments	660	0	0	0	0
Cash Flow from Investments	(893)	(4,214)	(1,460)	(1,270)	(1,279)
Issue of Shares					
Issue of Shares	252	0	0	0	0
Cash Flow from Financing	252	0	0	0	0
Foreign Currency Translation					
Foreign Currency Translation	(31)	0	0	0	0
Other (incl. debt acquired)					
Other (incl. debt acquired)	0	0	0	0	0
Net Cash Flow pre change in debt	615	(2,383)	674	1,006	1,140
(Reduction) / Increase in debt	(571)	2,383	(674)	(1,006)	(1,140)
Net Cash Flow post change in debt	44	0	0	0	0
Opening Net Debt and Equivalents					
Opening Net Debt and Equivalents	7,390	7,007	9,390	8,715	7,709
Closing Net Debt and Equivalents					
Closing Net Debt and Equivalents	6,796	9,390	8,715	7,709	6,570

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates

Exhibit 10

Lafarge: Balance Sheet, 2004-2009e

(€million)	IFRS 2004	2006e	2007e	2008e	2009e
Fixed Assets					
Intangible Assets	308	355	355	355	355
Goodwill	5,998	5,374	5,374	5,374	5,374
Tangible Assets	10,587	15,222	15,468	15,478	15,452
Investments in associates	372	376	376	376	376
Pensions	3	3	3	3	3
Long Term Loans & Receivables	659	589	589	589	589
Deferred Income Tax asset	280	320	320	320	320
Restricted Cash	34	34	34	34	34
Derivatives	0	49	49	49	49
Total Fixed Assets	18,241	22,322	22,568	22,577	22,551
Stocks	1,509	2,002	2,071	2,126	2,147
Trade Receivables	2,264	3,068	3,178	3,318	3,158
Other receivables	727	925	925	925	925
Derivatives	209	98	98	98	98
Cash and Cash Equivalents	1,550	1,735	1,735	1,735	1,735
Total Current Assets	6,259	7,828	8,007	8,202	8,064
Total Assets	24,500	30,150	30,574	30,779	30,615
Capital	684	704	704	704	704
Reserves	1,369	2,828	3,610	4,457	5,346
Additional paid-in capital	6,013	6,316	6,316	6,316	6,316
Treasury shares	(102)	(98)	(98)	(98)	(98)
Translation Differences	(182)	741	741	741	741
Shareholders' Equity	7,782	10,491	11,273	12,120	13,009
Minorities	2,119	1,519	1,740	1,983	2,245
Total Equity	9,901	12,010	13,013	14,103	15,254
Fixed liabilities					
Deferred income tax liability	632	567	567	567	567
Pension Provisions	1,234	1,218	1,218	1,218	1,218
Other provisions	920	984	984	984	984
LT Loans	6,959	9,239	8,564	7,558	6,419
Derivatives	29	10	10	10	10
Total Long term Liabilities	9,774	12,018	11,343	10,337	9,198
Put Option on shares of Subsidiaries	299	263	263	263	263
Current liabilities					
Pension provisions ST	121	156	156	156	156
Other provisions ST	118	123	123	123	123
Current liabilities and ST portion of LT debt	1,387	1,886	1,886	1,886	1,886
Trade payables (creditors)	1,424	1,867	1,962	2,083	1,907
Other payables	1,387	1,575	1,575	1,575	1,575
Income Tax payable	46	165	165	165	165
Derivative Instruments	43	88	88	88	88
Total current liabilities	4,526	5,860	5,955	6,076	5,900
Total Liabilities + Equity	24,500	30,150	30,574	30,779	30,615

Source: Company data, Morgan Stanley Research
e = Morgan Stanley Research estimates



ModelWare is Morgan Stanley's new system for helping investors and analysts to uncover value, free from the distortions and ambiguities created by accounting data. Morgan Stanley has dissected and fundamentally redefined the components of corporate valuation, giving clients more consistent definitions, more comparable data, and more flexible analytic tools. ModelWare makes investment insights easier by making value more visible.

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(as of May 31, 2006)

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June 20, 2006

Lafarge

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	742	37%	281	42%	38%
Equal-weight/Hold	906	45%	303	46%	33%
Underweight/Sell	349	17%	78	12%	22%
Total	1,997		662		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Industry Coverage: Building & Construction

Company (Ticker)	Rating (as of)	Price (06/19/2006)
John Messenger		
Balfour Beatty (BBY.L)	NA (12/12/2005)	318p
Barratt (BDEV.L)	U (05/28/2004)	880p
Berkeley Group (BKG_u.L)	E (06/22/2005)	1174p
Bovis Homes (BVS.L)	U (06/30/2005)	794p
CRH (CRH.I)	O (03/18/2002)	€25.29
Carillion (CLLN.L)	O (03/14/2006)	299p
Grafton (GRF_u.L)	O (10/06/2005)	€9.62
Hanson Plc (HNS.L)	E-V (07/20/2004)	639p
Persimmon (PSN.L)	U (03/22/2006)	1143p
Pilkington (PILK.L)	U (09/23/2005)	165p
Redrow (RDW.L)	E (03/22/2006)	467p
SIG (SHI.L)	E (08/02/2005)	846p
Taylor Woodrow (TWOD.L)	E (05/28/2004)	325p
Travis Perkins (TPK.L)	U (04/21/2006)	1459p
Wilson Bowden (WLB.L)	O (05/28/2004)	1436p
Wimpey (WMPY.L)	O (06/16/2006)	436p
Wolseley plc (WOS.L)	O (01/29/2004)	1138p
Alejandra Pereda		
ACS (ACS.MC)	O (09/01/2004)	€30.66
Acciona (ANA.MC)	U (12/22/2004)	€118.50
FCC (FCC.MC)	E (12/09/2005)	€57.45
Ferrovial (FER.MC)	E (10/01/2002)	€55.45
Holcim (HOLN.VX)	O (04/05/2006)	SFr 89.75
Lafarge (LAFP.PA)	E (03/09/2006)	€39.25
Marazzi (MRZ.MI)	O-V (03/29/2006)	€8.00
Saint-Gobain (SGOB.PA)	O-V (09/19/2003)	€53.20
Vinci (SGEF.PA)	O (06/19/2006)	€78.30

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