

H1 06 EPS well ahead of consensus

■ H1 06 EBIT and EPS 10% above consensus at +40% and +52.6%

On 02/08/06, Lafarge reported a strong growth in EBIT of +40.6% to €1,177m, 2% ahead of UBSe €1,158m but 10% above consensus (€1,092m). With lower net financials than expected Lafarge reported a 52.6% growth in stated NP (+46.1% for UBSe) again 10% above consensus.

■ Operating leverage & pricing power supported strong margin

Strong EBIT margin growth of +180bp to 13.4%. With slight overperformance at sales level, Lafarge reports much improved EBIT margin, coming from(1) strong price rise offsetting costs,(2) cost cutting/energy efficiency,(3) more normative weather than H1 05.

■ Guidance for at least +10% in EPS confirmed

Group confirms target for at least 10% growth in EPS (UBSe: +15.0%) but says that comparison basis should be more difficult in H2 06 vs a record H2 05 last year. Lafarge confirms its commitment to 2008 plan (€400m cost cutting).

■ Valuation: Further good share performance expected

In terms of valuation, Lafarge trades on 7.2x EV/EBITDA 07E, 5% below 5Y avg. The stock has outperformed Eurotop 300 by just 1% over 1 month (+22% vs January). We would thus expect H1 numbers to support some rerating towards our €120 PT, based on 8.3xEV/EBITDA 07E (10% premium to 5Y avg)

Highlights (€m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	14,436	15,969	17,833	18,272	19,054
EBIT (UBS)	2,201	2,357	2,768	3,019	3,418
Net income (UBS)	789	951	1,255	1,367	1,631
EPS (UBS, €)	4.62	5.46	7.23	7.88	9.40
Net DPS (UBS, €)	2.40	2.55	3.30	3.50	3.90

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	14.6	14.8	15.5	16.5	17.9
ROIC (EBIT) %	10.9	12.0	12.2	12.2	13.6
EV/EBITDA x	7.6	7.5	7.8	7.2	6.5
PE (UBS) x	17.2	13.7	13.3	12.2	10.3
Net dividend yield %	2.9	3.4	3.4	3.6	4.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €96.45 on 07 Aug 2006 23:38 BST

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Building Materials

Rating **Buy 2**
Unchanged

Price target **€120.00/US\$38.53**
Unchanged

Price **€96.45/US\$31.11 (ADR)**

RIC: LAFF.PA/LR.N BBG: LG FP/LR US

8 August 2006

Trading data (local/US\$)

52-wk. range	€102.30-67.05/US\$32.73-19.94
Market cap.	€16.7bn/US\$21.6bn
Shares o/s	174m (ORD)/694m (ADR)
ADR ratio	4 ADR :1 ORD
Free float	100%
Avg. daily volume ('000)	1,352/45
Avg. daily value (€m)	126.3/1.4

Balance sheet data 12/06E

Shareholders' equity	€9.67bn
P/BV (UBS)	1.7x
Net cash (debt)	(€10.3bn)

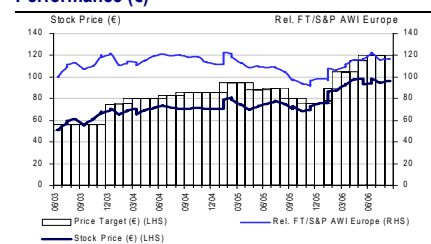
Forecast returns

Forecast price appreciation	+24.4%
Forecast dividend yield	5.4%
Forecast stock return	+29.8%
Market return assumption	8.4%
Forecast excess return	+21.4%

EPS (UBS, €)

	12/06E		12/05 Actual
	UBS	Cons.	
H1E	3.05	-	2.33
H2E	3.16	-	3.17
12/06E	7.23	7.58	
12/07E	7.88	8.32	

Performance (€)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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■ Lafarge

Lafarge is the world's largest cement manufacturer with control of 130 million tonnes of capacity. In recent years Lafarge has extended its product range in mature markets rather than focus on cement development in often volatile emerging markets. So even though the July 2001 acquisition of BCI increased emerging market exposure, mature markets remain predominant. On average sales breakdown as 44% Europe, 29% North America, 27% RoW. The group typically derives c47% of its sales from cement, 33% from aggregates, 11% from roofing and 9% from plasterboard.

■ Statement of Risk

We believe the risks for Lafarge include a higher forex impact in numbers both from US\$/€ fluctuations and from secondary currencies, which is difficult to accurately forecast, production problems at local plants, renewed weakness of regional cement prices, higher restructuring costs/asset depreciation, higher transport and energy costs.

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	48%	34%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	45%	35%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	7%	32%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

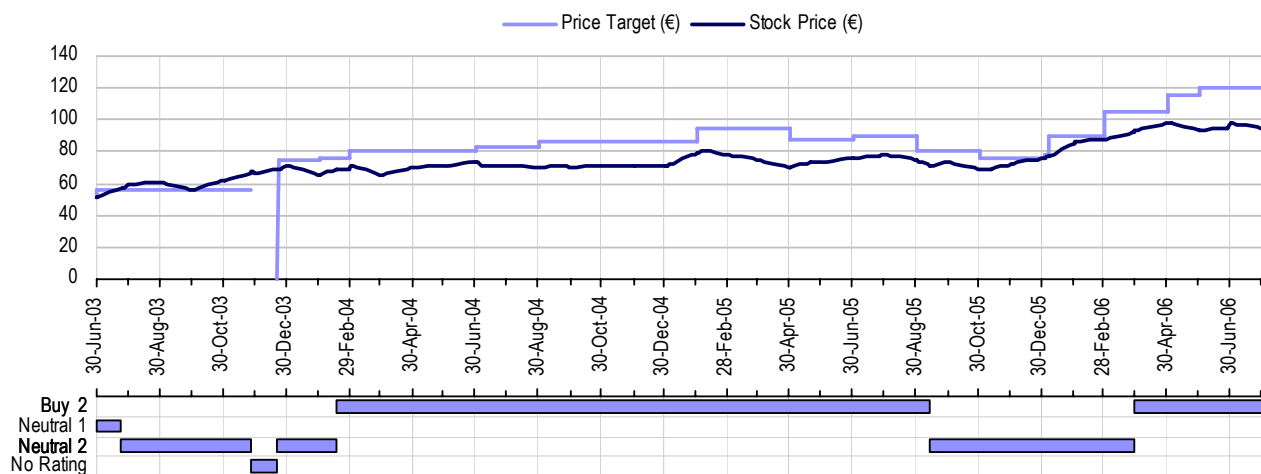
Company Name	Reuters	Rating	Price	Price date/time
Lafarge ^{2,4,5,16}	LAFP.PA	Buy 2	€96.45	07 Aug 2006 23:38 BST

Source: UBS. BST: British summer time.

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Lafarge (€)



Source: UBS; as of 7 August 2006.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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