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INTERNAL CONTROL PROCEDURES

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This report on internal control procedures and corporate governance was prepared under the responsibility of the Chairman of the Board pursuant to the article L. 225-37 of the French Commercial Code.

It was drafted with the support of the Group Internal Control department and Group Audit department.

It was examined by the Audit Committee in its meeting of February 15, 2012 and approved by the Board of Directors in its meeting of February 16, 2012 and covers Group Holding, Lafarge S.A., as well as controlled companies included in the Group’s scope of consolidation.

The information of this report is organized as follows:

• general organization of internal control and of risk management;
• internal control procedures related to the preparation of accounting and financial information.

The introduction of Chapter 5 (Declaration in terms of corporate governance – Governance Code of reference) and Sections 2.2 (Risk Management), 5.1 (Board of Directors-Corporate Officers), 5.2 (Board and Committee rules and practices), 5.4 (Compensations and benefits), 5.7 (Implementation of the principle ‘Comply or Explain’ of the AFEP-MEDEF Code), and 8.5.5 (Convocation and admission to Shareholders’ General Meetings) of the Registration Document are part of this report. Moreover the Registration Document includes the information pursuant to article L. 225-100-3 of the French Commercial Code (see Section 8.6 (Change of control)).

Internal control related to the preparation of financial and accounting information is designated below as “internal control over financial reporting”.

9.1.1 General organization of internal control and risk management

Internal control framework chosen by the Group

In conformity with the definition of the COSO Report (1), which is the framework chosen by the Group, the internal control process consists in implementing and permanently adapting appropriate management systems, aiming at giving the Directors and management reasonable assurance concerning the reliability of financial reporting, compliance with laws and internal regulations, and the effectiveness and efficiency of major Company processes. One of the objectives of internal control is to prevent and monitor the risks of errors and fraud. Like all control systems, because of its inherent limitations, the internal control process cannot guarantee that all risks of errors or fraud are fully eliminated or controlled.

Group internal control environment

The Group’s internal control environment is based on key documents such as the Group Principles of Action, principles of organization and Code of Business Conduct, which have to be strictly applied by Group employees:

• the Principles of Actions present Group commitments towards customers, employees, shareholders and other Group stakeholders, and define what the “Lafarge Way” is, being its management philosophy;
• the principles of organization define responsibilities at all levels within the organization (business units, Divisions and Group), the various components of the management cycle as well as the key principles driving performance improvement;
• the Code of Business Conduct defines rules of conduct and is structured as follows: compliance with the law and regulations, prevention of conflicts of interest, respect for people and the environment, safeguarding of the Group’s assets, financial disclosure, importance of internal control, implementation of behavioral rules and appropriate sanctions.

Those documents are complemented by rules and policies established by the Group defining priorities for each of the Group’s principal functions. Among other things, these rules state that implementing a robust internal control process is one of the primary responsibilities of the Executive Management of each legal or operational entity.

An annual assessment of the internal control environment is organized in the Group main operational units, on the basis of self-assessment questionnaires.

RISK IDENTIFICATION AND ANALYSIS

The approach implemented by the Group, relating to the identification and analysis of risks, is described in Section 2.2.1. (Risk identification and analysis) of the Registration Document.

RISK MANAGEMENT SYSTEMS

A presentation of the general framework of risk management and of major risk management systems is included in Section 2.2.2. (Risk management systems) of the Registration Document.

CONTROL ACTIVITIES

Control activities are implemented at every level in the Group, in conformity with rules and policies described above. Internal control activities over major processes impacting the reliability of the Group's financial reporting are defined in the Group “Internal Control Standards”(1) and are documented and tested as described in Section 9.1.2 below.

INFORMATION AND COMMUNICATION

The Group’s key documents are available on the Group’s intranet. Function leaders are responsible for disseminating the rules, policies and procedures applicable Group-wide. Controls and procedures over key processes affecting the Group's financial reporting are subject to formal documentation and test procedures described in Section 9.1.2 below.

INTERNAL CONTROL MONITORING ACROSS THE GROUP

Internal control is monitored at all levels of the Group. The roles of major stakeholders are described below.

BOARD OF DIRECTORS AND BOARD COMMITTEES

The Board of Directors and its specialized committees, and in particular the Audit Committee, ensure the implementation of the Group’s internal control policy.

See Sections 5.1 (Board of Directors-Corporate Officers), 5.2 (Board and Committees rules and practices) and 5.4 (Compensations and benefits).

GROUP EXECUTIVE COMMITTEE

The Executive Committee steers the effective implementation of the Group’s internal control policy, through:

- the monitoring and follow-up of internal control procedures performed throughout the Group, and in particular the follow-up of identified action plans;
- the review of the annual summary of the Group’s internal audit reports.

GROUP FUNCTIONS AND DIVISIONS

With regard to processes affecting the preparation of financial reporting, Group function leaders, including in particular managers of the Group Finance function, have been designated at Division and Group level as “business process owners”, with the responsibility of:

- documenting their processes at Division and Group level and verifying that the “Internal Control Standards” for such processes are effectively implemented;
- defining and updating the standards of internal control applicable to business units.

BUSINESS UNITS

In application of Group internal control policy, internal control is under the direct responsibility of the Executive Committee of business units. In each of the Group’s major business units, “Internal Control Coordinators” are appointed. Their role consists mainly in supporting implementation of the Group’s “Internal Control Standards” and ensuring procedures related to “internal control over financial reporting” in their unit are implemented. Their activities are coordinated by the Group Internal Control department presented below.

GROUP INTERNAL AUDIT

The Group Internal Audit department (around 40 persons) is responsible for performing an independent assessment of the quality of internal control at all levels in the organization, following the annual audit plan approved by the Chairman and Chief Executive Officer and Audit Committee.

(1) Group “Internal Control Standards” is the set of key controls covering main risks pertaining to processes participating in the preparation of financial reporting.
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Reports are issued to business units and to senior managers upon completion of the fieldwork. An annual summary of such reports is presented to the Chairman and Chief Executive Officer and to the Audit Committee, who also receive comments from Group’s external auditors on internal control.

Furthermore, follow-up assignments are organized to verify that internal audit recommendations have been put in place.

GROUP INTERNAL CONTROL DEPARTMENT

The Group Internal Control department (12 persons) is part of the Group Finance function. This department is in charge of overseeing internal control and monitoring all procedures related to “internal control over financial reporting”.

This department oversees the definition of “Internal Control Standards” mentioned above and coordinates the network of Internal Control Coordinators within its business units. It supports business units and the heads of Group functions in the implementation of such standards as well as the documentation and tests of controls over financial reporting presented in Section 9.1.2 below.

The Internal Control Committee chaired by the Chief Financial Officer and encompassing the key finance managers at Group level, the Group audit Director, the Group information systems Director, the Group purchasing Director, and the Group legal counsel oversees the work performed on “internal control over financial reporting”.

9.1.2 Procedures related to “internal control over financial reporting”

Key processes with an impact on the reliability of Group financial reporting

Processes with a direct impact on the production of financial reporting, for which key controls were defined as part of the analysis presented above, relate to the following areas: finance (closing process, consolidation process, legal and tax management, treasury management), purchasing (from the bidding process to recording and payment of invoices), sales (from orders receipt to revenue recognition and collection), IT (security management, among others), payroll and management of various employee benefits, management of tangible and intangible assets and management of inventories (physical count, valuation, etc.).

Documentation and testing of “controls over financial reporting”

The Group is committed to maintain high standards of internal control and implements detailed work related to documentation and testing of “internal control over financial reporting”.

This work is implemented by business units, Divisions and at Group level, on key controls contributing to the reliability of financial reporting and encompasses:

- a description of key processes affecting the reliability of the Group’s financial reporting, as presented above;
- a detailed description of key controls defined in the “Internal Control Standards” presented above;
- tests of controls to check the operational effectiveness of such controls; the scope of such tests being defined based on the materiality and risk level of each entity;
- an internal certification process to review the principal action plans in progress and to confirm management responsibility at business units, Divisions and Group level on the quality of both internal control and financial reporting.

This work is part of the process of continuous improvement in internal control and includes the preparation of specific action plans, identified through the activities described above, as well as through internal and external audits. The implementation of action plans is followed up by relevant senior management. The outcome of such procedures is presented to the Audit Committee.

Preparation of published financial reporting

Specific procedures are put in place to ensure the reliability of published financial reporting, as follows:

- a consolidation and financial reporting system is used to prepare Group financial reporting;
- a formal reporting, analysis and control process for other published information included in the Group’s Registration Document (Document de référence) is implemented.

This process is monitored by the Disclosure Committee, composed of the main heads of Group functions, who verify the content of financial disclosures and reports before they are submitted to the Audit Committee and to the Board of Directors.

Paris, February 17, 2012

French original signed by
Bruno Lafont
Chairman of the Board of Directors
9.2 Statutory auditors’ Report, prepared in accordance with Article L. 225-235 of the French Commercial Code (Code de commerce) on the report prepared by the Chairman of the Board of Directors of Lafarge

Year ended December 31, 2011

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French Law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as statutory auditors of Lafarge (“the Company”), and in accordance with article L. 225-235 of the French Commercial Code (Code de commerce), we report to you on the report prepared by the Chairman of the Board of Directors of your Company in accordance with article L. 225-37 of the French Commercial Code (Code de commerce) for the year ended December 31, 2011.

It is the Chairman’s responsibility to:

- prepare a report describing the internal control and risk management procedures implemented within the Company and providing the other information required by article L. 225-37 of the French Commercial Code (Code de commerce) notably relating to the corporate governance system;
- submit it for approval to the Board of Directors.

It is our responsibility to:

- report to you on the information set out in the Chairman’s report on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information;
- attest that the report contains the other information required by article L. 225-37 of the French Commercial Code (Code de commerce), knowing that we are not responsible for verifying the fairness of this other information.

We performed our procedures in accordance with the relevant professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require us to perform procedures to assess the fairness of the information set out in the Chairman’s report on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information, on which the information presented in the Chairman’s report is based, and the existing documentation;
- obtaining an understanding of the work performed to prepare this information, and the existing documentation;
- ensuring that any material weaknesses in internal control procedures relating to the preparation and processing of financial and accounting information that we would have detected in the course of our engagement have been properly disclosed in the Chairman’s report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman’s report, prepared in accordance with article L. 225-37 of the French Commercial Code (Code de commerce).

Other information

We attest that the Chairman’s report contains the other information required by article L. 225-37 of the French Commercial Code (Code de commerce).

Neuilly-sur-Seine and Paris–La Défense, February 27, 2012

The Statutory Auditors

DELOITTE & ASSOCÉS
French original signed by
Arnaud de Planta

ERNST & YOUNG Audit
French original signed by
Frédéric Gourd
Christian Mouillon
Nicolas Macé