

*Brief notes on the questions posed at the end of the case*

1. Examine relevant data from the published accounts to help decide whether the price Lafarge paid for Orascom based on profitability performance and growth expectations was good value.

The financial merits of the acquisition can be assessed in various ways, conclusions largely depending on the assumptions made and the timeframe over which the acquisition is to be judged. At the time of the decision, the 2007 Lafarge accounts indicate €17.6 billion of actual revenues from €22.8 billion net assets. The prospective €2.6 billion increase in Lafarge's sales revenue (+15%) relates to an investment of around €10 billion. The obvious conclusion has to be that Lafarge paid a high price for the gain in revenues, albeit said to be disproportionately profitable sales. Beyond this, one has to consider the strategic logic of entering (presumably) fast-growth emerging economies without the need for investment in new plant, staff recruitment and training etc. However, there is a need for due diligence of Orascom's accounts to ensure confidence in its growth projections and financial probity. Future potential risks must exist in operating in newly industrialising economies of which Lafarge may not have great knowledge.

2. Is Lafarge's commitment to the long-term supply of basic construction materials wise or should it prioritise judicious diversification?

Reliance on basic commodity products such as cement, concrete, aggregates and plasterboard is probably unwise unless one is in a position to dominate the industry on a global scale. This has been Lafarge's (successful) strategy in recent years. Obviously, it would come badly unstuck if economic growth with associated major construction projects stalls in future years. Longer term, this should not be a major problem, but shareholders are rarely patient if a strategy cannot deliver in the medium term.

3. Since Orascom Group had been serving fast-growing markets for cement and related construction materials, why did it choose to sell this division in 2007?

The official reason was to concentrate on higher growth, high technology sectors, notably mobile telecommunications in emerging economies (where conventional landlines are limited and obsolete, making a leapfrog to mobile networks attractive), lower cost upgrading prospect. Orascom may have decided to divest its cement business to realise capital for reinvestment elsewhere, but that will depend on the decisions made by its main shareholders.

*Factual update on subsequent developments*

The 2008 global financial crisis has had a significant, albeit delayed impact on Lafarge. Turnover in 2008 was €19 billion, but down in 2009 to €15.8 billion and €16.2 billion in 2010. Group annual net profits before tax declined over the last four years: €2.8 billion in 2007; €2.4 billion in 2008; €1.3 billion in 2009; €1.4 billion in 2010. Lafarge has embarked on systematic disposal of its gypsum (plasterboard) businesses in whole or by selling a stake to third parties, funds to be reinvested in other parts of its portfolio that appear to be performing acceptably. In hindsight it is open to speculation whether it would have acquired Orascom Cement.

Orascom demerged into Telecom (OT); Construction Industries (OCI) and Development Holdings (ODH), the latter focusing on developing tourist resorts. Telecom has had a turbulent period, given its commitments in

Egypt, various North African countries, Pakistan and North Korea. It too might have made different decisions, given hindsight, but is pressing ahead in what must surely be growth markets for the future and it remains profitable. However, it has implemented some major divestments, signalling difficulties too. OCI and ODH have not performed particularly well financially, but appear to be stable and should enjoy future growth.

