SAINT-GOBAIN

Half year financial report

Consolidated financial accounts as at June 30, 2009

Operating performance

Against the backdrop of an unprecedented economic and financial crisis affecting virtually all sectors and countries across the globe, **trading for the Group remained sluggish in second-quarter 2009**, along the lines of the three months to March 31. Both construction and industrial markets continued to decline in the US and Western Europe, as well as in most Asian and emerging countries. Only household consumption remained relatively less affected by the downturn. The Group posted **negative organic growth of 15.5% for the first half of the year** (-15.9% in the second quarter and -14.9% in the first quarter). This decline is due to a sharp 17.2% drop in sales volumes in the first six months of the year, breaking down as -17.2% in the first quarter and -17.1% in the second quarter, of which -2.6% related to the adverse impact of fewer working days. It was partially offset by the **continued positive momentum in sales prices, which gained 1.7% over the period** (2.3% in the three months to March 31 and 1.2% in the second quarter).

1°) Performance of Group Business Sectors

All of the Group's Business Sectors with the exception of Packaging were affected by the deterioration in the global economic environment and reported a sharp decline in sales volumes over the half year, broadly in line with the first quarter. Sales prices, in contrast, remained well oriented across all Sectors except Flat Glass, allowing the Group to benefit from a positive spread compared with the cost of raw materials and energy.

Innovative Materials was the worst hit by the economic crisis, due to the sharp decline in the Sector's main markets, both in construction and industry. Sales for the Sector shed 22.1% on a like-for-like basis and its operating margin fell to 2.7% of sales versus 14.1% of sales in first-half 2008.

- **Flat Glass posted a 20.4% drop in sales**, mirroring its first-quarter performance. Despite rebounding in June, prices of commodity products (float glass) remained sharply down on the same period in 2008. This put pressure on prices for construction glass and for the Flat Glass Sector as a whole, despite more favorable trends in automotive glass. Operating margin, also hit by the steep slide in sales volumes, and to a lesser extent by the rise in the cost of raw materials, is just about positive at 0.6% of sales (versus 14.2% of sales in first-half 2008).

- **High-Performance Materials (HPM)** also experienced a strong 24.7% decline in like-for-like sales, owing to the slump in industrial output and capital spending across the globe. Operating margin retreated to 5.5% (versus 13.9% in first-half 2008), despite a rise of 2.3% in sales prices.

Sales for the Construction Products (CP) Sector were down 15.3% on a like-for-like basis. The sharp 4.1% rise in prices failed to fully offset the continuing fall in sales volumes, particularly in Interior Solutions. The Sector's operating margin narrowed to 9.1% versus 10.1% in the same year-ago period.

- **Interior Solutions sales retreated 19.5% on a like-for-like basis**, as the business continued to feel the pinch of weakening construction markets in North America and Europe. This took its toll on the operating margin, which stood at 6.7% compared with 12.0% in first-half 2008, despite the rise in sales prices in the Gypsum division.

- **Exterior Solutions** saw a similar drop in sales volumes over the first half of the year, but benefited from restructuring measures and a favorable price impact at the level of operating income. **Operating margin for the Sector therefore continued to climb, up to 11.2% from 7.9%.**

Building Distribution like-for like sales contracted 14.5%, at a slower pace than in the Construction Products sector. While the UK and Spanish construction markets remained the worst affected by the economic crisis, most other European countries also began to flag (except Switzerland), posting a double-digit decline in sales volumes over the six months to June 30. Although sales prices held firm, the lackluster performance weighed on the Sector's operating margin, which came in at 1.4% of sales (versus 4.7% of sales in first-half 2008).

Packaging stood out from the Group's other Business Sectors, delivering sales and operating income on a par with first-half 2008 figures despite the crisis. Like-for-like, sales for the Sector edged down 3.5%, as robust sales prices failed to fully offset the 6.7% decline in sales volumes. **Operating margin held firm year-on-year, at 13.4% of sales.**

2°) Analysis by geographic area

All of the geographic areas where the Group operates were hard hit by the crisis in first-half 2009, in line with the trends observed in the first quarter.

- In **France**, like-for-like sales retreated 13.5% due to the downturn in construction and industrial – particularly automotive – markets over the period. Operating margin narrowed to 5.4% of sales, even though gross margins in the Building Distribution sector held up well.

- The downturn in **other Western European countries** was even greater, with like-for-like sales falling 19.5% and operating margin sliding to 3.2% of sales from 8.7% previously. Most European countries saw weak trading conditions in their markets over the period.

- Sales for **North America** dropped 15.1% like-for-like, reflecting the continued decline in construction coupled with the contraction in industrial markets since the beginning of the year. In contrast, **operating margin continued on the strong upward trend** observed in second-half 2008, coming in at **8.8% of sales** (4.6% in first-half 2008) on the back of a significant 7.6% price effect and the impact of restructuring measures.

- **Emerging countries and Asia** were also affected by the economic crisis, reporting a 13.5% drop in like-for-like sales. The region experienced a significant decline in profitability, with operating margin falling to 4.5% of sales compared with 11.7% one year earlier. Eastern Europe and Asia (except India) were the most affected by the challenging conditions, while Latin America and especially Brazil proved resilient.

Analysis of the interim consolidated financial statements for first-half 2009

The interim consolidated financial statements set out below were authorized for issue by the Board of Directors on July 23, 2009:

	H1 2008 €million	H1 2009 €million	% change
Sales and ancillary revenue	**22,141**	**18,715**	**-15.5%**
Operating income	**2,005**	**930**	**-53.6%**
Non-operating costs	(79)	(264)	+234%
Capital gains and losses and exceptional asset write-downs	(31)	(65)	+110%
Dividends received	2	0	-100%
Business income	**1,897**	**601**	**-68.3%**
Net financial expense	(352)	(412)	+17.0%
Income tax	(444)	(53)	-88.1%
Share in net income of associates	7	2	n.m.
Income before minority interests	**1,108**	**138**	**-87.5%**
Minority interests	(32)	(10)	-68.8%
Recurring net income[1]	**1,101**	**210**	**-80.9%**
Recurring[1] earnings per share[2] (in €)	**2.88**	**0.41**	**-85.8%**
Net income	**1,076**	**128**	**-88.1%**
Earnings per share[2] (in €)	**2.81**	**0.25**	**-91.1%**
Depreciation and amortization of operating items	740	756	+2.2%
Cash flow from operations[3]	1,894	1,079	-43.0%
Cash flow from operations excluding capital gains tax[4]	**1,887**	**1,064**	**-43.6%**
Capital expenditure	872	514	-41.1%
Free cash flow (excluding capital gains tax)[4]	**1,015**	**550**	**-45.8%**
Investments in securities	2,178	164	-92.5%
Net debt	**13,321**	**10,890**	**-18.2%**

1 Excluding capital gains and losses on disposals, asset write-downs and material non-recurring provisions.

2 Calculated based on the number of shares issued at June 30 (512,893,494 shares in 2009 versus 382,489,099 shares in 2008). Based on the weighted average number of shares outstanding (439,305,156 shares in first-half 2009 versus 371,914,226 shares in first-half 2008), recurring earnings per share comes out at €0.48 (€2.96 in first-half 2008), and earnings per share at €0.29 (€2.89 in first-half 2008).

3 Excluding material non-recurring provisions.

4 Excluding the tax impact of capital gains and losses on disposals, asset write-downs and material non-recurring provisions.

Sales fell 15.5%. Changes in Group structure had a positive 1.3% impact, fully offset by the negative 1.3% currency effect, resulting chiefly from the weakness of the pound sterling and Brazilian real against the euro. **On a like-for-like basis**, Group sales **were also down 15.5%. Sales volumes contracted 17.2%, while prices remained upbeat, gaining 1.7%.**

Operating income shed 53.6%. The Group's operating margin came in at **5.0%** of sales (**7.6%** excluding Building Distribution), versus 9.1% (12.1% excluding Building Distribution) in first-half 2008.

Non-operating costs totaled €264 million compared with €79 million in first-half 2008, as the Group stepped up adjustments and restructuring measures to tackle the crisis. Non-operating costs include a charge of €37.5 million for asbestos-related litigation involving CertainTeed in the US (amount unchanged from first-half 2008).

The net total of capital gains and losses and exceptional asset write-downs was a negative €65 million, including €67 million in exceptional asset write-downs. Most of these write-downs relate to restructuring measures launched during the period.

Business income fell 68.3% after taking into account the factors mentioned above (non-operating costs, capital gains and losses on disposals and exceptional asset write-downs).

Net financial expense edged up to €412 million versus €352 million in first-half 2008, reflecting mainly the €48 million year-on-year rise in the interest cost on pensions, while net borrowing costs remained virtually stable. **The average cost of net debt came in at 5.4% for the period**, versus 5.3% in first-half 2008.

Recurring net income (excluding capital gains and losses, exceptional asset write-downs and material non-recurring provisions) **shed 80.9% year-on-year, at €210 million.** Based on the number of shares issued at June 30, 2009 (512,893,494 shares versus 382,489,099 shares at June 30, 2008), **recurring earnings per share came in at €0.41, down 85.8%** on first-half 2008 (€2.88).

Net income came in at **€128 million, a decline of 88.1%** compared with the same period in 2008. Based on the number of shares issued at June 30, 2009 (512,893,494 shares versus 382,489,099 shares at June 30, 2008), **earnings per share came in at €0.25, down 91.1%** on first-half 2008 (€2.81).

Capital expenditure contracted by 41.1%, to **€514 million** (versus €872 million in first-half 2008), and represented **2.7% of sales** (3.9% of sales in first-half 2008). Over half (55%) of these investments concerned activities related to energy efficiency (Flat Glass – including Solar technologies – and Construction Products Sectors), as well as selective growth projects in emerging countries (new float line in Egypt and plasterboard plant in Abu Dhabi).

Cash flow from operations decreased 43.0% versus first-half 2008, to **€1,079 million**. Before the tax impact of capital gains and losses and asset write-downs, cash flow from operations fell 43.6% to €1,064 million compared with €1,887 million in first-half 2008.

Free cash flow (cash flow from operations – capital expenditure) declined 44.7% to €565 million. Before the tax impact of capital gains and losses and asset write-downs, **free cash flow fell 45.8% to €550 million, representing 2.9% of sales.**

Investments in securities were slashed by 92.5% compared with first-half 2008, to **€164 million**, and were solely related to acquisitions carried out in 2008 but only completed in first-half 2009. Of this amount, €120 million relates to the Construction Products Sector and €42 million to the Building Distribution Sector.

Net debt amounted to €10.9 billion at June 30, 2009, **down €2.4 billion, or 18.2%,** on June 30, 2008 (€13.3 billion). Net debt represents **66.5% of consolidated shareholders' equity**, compared with 86% at June 30, 2008 and 80% at December 31, 2008.

Update on asbestos claims in the United States

Some 2,000 claims were filed against CertainTeed in the first half of 2009, compared with 3,000 in first-half 2008). Over the period, 3,000 claims were settled (4,000 in first-half 2008), bringing the total number of outstanding claims to **67,000** at June 30, 2009, versus 68,000 at December 31, 2008.
A total of USD 61 million in indemnity payments were made over the 12 months to June 30, 2009, compared with USD 71 million over the 12 months to December 31, 2008.

Crisis action plan: acceleration and extension of measures unveiled at the beginning of the year

Against the backdrop of an unprecedented economic crisis, the Group has resolutely implemented and extended the action plan unveiled at the beginning of 2009.

In the first half of the year, Saint-Gobain:

- continued to give clear operating priority to **sales prices**, **which rose 1.7% over the period** despite the downward trend in inflation;

- implemented and extended the **cost cutting program** across all of its businesses:

  - over the period, **€440 million in cost savings** were unlocked versus first-half 2008;
  - **for the year as a whole, the Group is now targeting cost savings of €1.1 billion compared to 2008** (versus an initial goal of €600 million, raised to €700 million in April). This will bring total cost savings realized in 2008 and 2009 to **€1.5 billion**.

- continued to optimize **free cash flow generation**, by:

  - maintaining a tight rein on operating working capital requirement (WCR), which **fell by €924 million** (a reduction of three days' sales outstanding) over the 12 months to June 30, 2009;
  - significantly reducing capital expenditure, which **dropped €358 million in first-half 2009 (full-year target reduction of €700 million instead of an initial target of €500 million)**.

  As a result of these efforts, **the Group generated €1,797 million in free cash flow after operating WCR over the 12 months to end-June**, reflecting a reduction of €924 million in operating WCR and free cash flow totaling €873 million, and excluding the tax impact of capital gains and losses on disposals, exceptional asset write-downs and material non-recurring provisions.

- **put acquisition projects on hold:** financial investments totaling €164 million in first-half 2009 are down 92.5% on the same year-ago period and relate solely to the completion of acquisitions undertaken in 2008.

- Thanks to these measures, coupled with a successful €1.5 billion rights issue and the payment of 65% of the 2008 dividend in stock, **the Group paid down €2.4 billion in debt** (over one year) and **strengthened its balance sheet: the gearing ratio has been cut to 66.5% versus 80% at end-December 2008**. The Group **has also refinanced all of its maturing debt up to the first quarter of 2011.**

In the second half of 2009, these measures will continue to be actively pursued, as in the six months to June 30.

Main related-party transactions

Related parties mainly relate to equity consolidated companies, proportionately consolidated companies and certain subsidiaries of the Wendel group.
Group carries out various transactions with these related-party entities as part of its usual business. In accordance with Group policy, these transactions are carried out on an arm's length basis. There has not been any significant change in related-party transactions during the first semester 2009.

Main risk factors

Group activities are facing certain macroeconomic, business, operational, market, industrial, environmental and legal risk factors. The main risk factors that Group could face are described in the section “Risk factors” of the management report of the 2008 annual report filed with the AMF under the reference 2008 D.09-0149 on March 24 2009. There has not been any significant change in these risks during the first semester 2009.

Outlook

Global markets remained in the doldrums during the first half of the year, though the dismal trading environment appeared to stabilize somewhat between the first and second quarters. The Group expects the economic climate to remain extremely challenging in the six months to December 31. However, despite persistent uncertainty going forward and severe volatility in energy/raw material prices and exchange rates, Saint-Gobain does not expect any overall further deterioration compared with first-half 2009.
Moreover, the Group should benefit from a lower basis for comparison than in the first six months of the year (especially in the fourth quarter), and from the acceleration and extension of the action plan rolled out at the beginning of the year, with, in particular:

- a positive price/cost spread (energy/raw material costs) thanks to the priority given to sales prices and a deeper fall in the cost of raw materials and energy than in the first half;
- cost savings in the six months to December 31, 2009 set to exceed first-half cost savings by €400 million, owing to the extension of the cost cutting program.

Barring a further decline in the economic environment, **operating income and recurring net income for second-half 2009 should therefore outperform first-half figures.**

In addition, the Group will continue to optimize cash generation on the back of strong free cash flow and an ongoing tight rein on operating WCR.

The Group has taken advantage of the crisis to reinforce its core assets, with the aim of preparing its future and further developing its various strategic priorities over the longer term.

- Industrial and commercial facilities have been overhauled by restructuring a number of industrial plants and selectively closing Building Distribution branches experiencing structural difficulties, while maintaining the core commercial network.
- Expansion in Asia and emerging countries has continued, with once again one-third of the Group’s total capital expenditure focused on these countries (double their weight in the Group’s total sales). In particular, capital spending for the period remained upbeat in Latin America, Asia and the Middle East. The Group carved out new strategic footholds during the period in this latter Middle East region.
- R&D initiatives have been maintained, with an increasingly sharp focus on energy efficiency and solar technologies, which account for more than 50% of R&D projects in 2009.
- The Group has considerably strengthened its balance sheet and optimized its free cash flow generation after operating WCR, in order to leverage any growth opportunities going forward.

Saint-Gobain stands to reap the full benefits that should emerge from the economic stimulus packages and energy efficiency measures launched by major governments, owing to its worldwide leadership in construction and front-ranking position in energy efficiency, **which represent almost one-third of total sales and 40% of operating income.**