SAINT-GOBAIN

Half year financial report

Consolidated financial accounts as at June 30, 2010

Operating performance

After a first quarter affected by very cold winter weather in Europe, **trading rebounded sharply overall in the second quarter of 2010, with the Group reporting 3.9% organic growth**. This reflects both a significant upturn in sales volumes, which rose 3.1% after slipping 1.7% in the first quarter, boosted by a positive 1.4% impact due to the rise in the number of working days, and upward trends in prices, which gained 0.8% after falling 0.7% in the first quarter. All of the Group's Business Sectors and activities contributed to the upswing, reporting a gradual improvement in market conditions as from March. In the second quarter as in the first, organic growth continued to be driven overall by emerging countries and Asia, along with businesses related to industrial output (each reporting double-digit organic growth in the three months to June 30). Most of the Group's businesses linked to construction markets in Europe and North America also reported a relative improvement in trading over the second quarter, in terms of both volumes and sales prices, partly due to a favorable basis for comparison. Household consumption remained stable over the first half. **Overall, the Group's organic growth for first-half 2010 came in at 1.0% (including a positive 0.9% volume impact and a positive 0.1% price effect)**.
Thanks to the cost savings achieved, **Saint-Gobain's operating margin widened significantly, to 7.4%** versus 5.0% for first-half 2009, with a positive contribution from all of the Group's major geographic areas.

1°) Performance of Group Business Sectors

Innovative Materials delivered **the Group's best organic growth performance**, at 13.8%. Trading for the Sector gained momentum in the second quarter compared to the first (up 17.0% versus 10.4%). The rebound in markets linked to industrial output intensified over the three months to June 30, both in North America and Western Europe. The Business Sector was also buoyed by very strong growth in Asia and emerging countries throughout the first half. Together with the positive impact of the Group's restructuring programs, this helped drive a **very significant rise in the Sector's operating margin to 10.4%** from 2.7% in first-half 2009.

- **Flat Glass reported a 10.1% rise in like-for-like sales over the first half**, following on from the 9.6% increase in the three months to March 30. This was powered by the strong rally in the global automotive market and robust growth in Asia and emerging countries, which accounted for 40% of the business' sales. In contrast, sales of Flat Glass for the building industry in Western Europe continued to be hit by sluggish construction markets, though they showed a relative improvement in the second quarter. Despite the steep price increases for commodity products (float glass) in Europe in first-half 2010, sales prices for construction glass and for Flat Glass as a whole remained slightly under 2009 levels, due mainly to the time-lag in passing float glass price increases onto processed products. **The operating margin was up sharply, at 7.8% of sales** versus 0.6% of sales for first-half 2009.

- **High-Performance Materials (HPM) like-for-like** sales **surged 19.1% during the six months to June 30**, powered by a 26.3% rise in the second quarter. This reflects the increased pace of recovery

in worldwide industrial output over the three months to June 30, particularly in North America and to a lesser extent in Europe. Although trading for the business remained significantly below its pre-crisis level, **the strong upsurge in the operating margin owing to enhanced operating leverage puts it virtually back to its first-half 2008 level, at 13.5% of sales** compared with 5.5% of sales in first-half 2009.

Like-for-like sales for Construction Products (CP) remained stable over first-half 2010, with the 2.9% sales advance in the second quarter fully offsetting the 3.3% drop in sales over the three months to March 30 due to very poor weather conditions. The **Business Sector's operating margin continued on an upward trend, at 10.1%** versus 9.1% in first-half 2009, thanks mainly to the cost savings achieved.

- **Like-for-like sales for the Interior Solutions business slipped 3.6% over the first half, but edged up 0.9% in the three months to June 30.** This chiefly reflects the relative improvement in market conditions across North America and all of Europe over the last few months. Markets in Asia and Latin America continued to enjoy vigorous growth throughout the first half. Despite the sales price increases implemented in the US during the second quarter, prices on average remained slightly below the same year-ago period. **Operating margin remained stable, at 6.8%** versus 6.7% in first-half 2009.

- **Like-for like sales in the Exterior Solutions business rose 3.4%** over the first half, and 4.5% over the second quarter, buoyed by brisk trading conditions in Asia and Latin America, and strong sales of exterior products in the US, which offset the sales decline in Europe. The rise in sales prices observed in the first quarter also gathered pace in the three months to June 30, against a backdrop of rising raw material costs. As a result, and thanks to the impact of restructuring efforts, **the operating margin continued to improve, up from 11.2% to 13%**.

Building Distribution continued to be affected by persistently tough conditions on European construction markets throughout the first half and by very slack trading in the first two months of the year due to harsh winter weather. **First-half sales for the Sector therefore fell 4.1% but were virtually flat in the second quarter (down 0.1%)**. This stability reflects widely contrasting trends across Europe: while trading recovered in the UK, Scandinavia and Germany, there was a further decline in Southern and Eastern Europe as well as in the Netherlands, and a more moderate slowdown in France. **The Business Sector's operating margin improved, up to 2.4% of sales** from 1.4% of sales in the year-earlier period, owing mainly to the cost savings achieved.

Packaging continued to report robust trading conditions and earnings, which remained broadly stable year-on-year. **The Sector's operating margin narrowed slightly, to 12.9% of sales** versus 13.4% of sales in first-half 2009, due to a more significant reduction in its inventories than in first-half 2009.
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2°) Analysis by geographic area

The analysis of trading by geographic area reveals a sharp contrast between (i) the Americas and Asia (27% of consolidated sales), which delivered overall double-digit growth in the first half, and (ii) Western and Eastern Europe, which continued to underperform first-half 2009, despite a slight 0.5% sales advance in the second quarter. However, **profitability improved significantly across all regions**, buoyed chiefly by the impact of cost reduction programs.

- In **France** and **other Western European countries**, like-for-like sales fell 1.9% and 1.7%, respectively, over the first half, although organic growth was respectively 1.1% and 1.7% in the second quarter. The strong rebound in markets related to industrial output over the period as a whole, and the gradual improvement in construction markets as from March, failed to wholly offset the impact of cold winter weather in the first two months of the year. The **operating margin improved**, in both France and other Western European countries.

- **North America** posted **organic growth of 11.4%** over first-half 2010 (16.3% in the second quarter), bolstered by a sharp rally in businesses linked to industrial output and a robust performance from all other businesses except Interior Solutions, which suffered from continuing weakness in construction markets. The region's **operating margin**, which was also boosted by the restructuring measures completed, continued to improve, up to **12.0% of sales** versus 8.8% of sales in the same year-ago period.

- **Organic growth in emerging countries and Asia also picked up pace** during the second quarter, at 10.4% versus 8.3% in the three months to March 30, reflecting both bullish conditions in Asia and Latin America and the relative improvement in Central and Eastern European economies – particularly Poland – in the second quarter as compared to the first. The operating margin **came in at 9.1% of sales**, versus 4.5% one year earlier.

Analysis of the interim consolidated financial statements for first-half 2010

The interim consolidated financial statements set out below were authorized for issue by the Board of Directors on July 29, 2010:

	H1 2009 €m	H1 2010 €m	% change
Sales and ancillary revenue	**18,715**	**19,529**	**+4.3%**
Operating income	**930**	**1,445**	**+55.4%**
Non-operating costs	(264)	(193)	-26.9%
EBITDA (op. inc. + operating depreciation/amortization)	**1,686**	**2,220**	**+31.7%**
Capital gains and losses on disposals and exceptional asset write-downs	(65)	(51)	-21.5%
Business income	**601**	**1,201**	**+99.8%**
Net financial expense	(412)	(387)	-6.1%
Income tax	(53)	(279)	n.m.
Share in net income of associates	2	3	+50.0%
Income before minority interests	**138**	**538**	**+289.9%**
Minority interests	(10)	(37)	+270.0%
Recurring net income[1]	**210**	**580**	**+176.2%**
Recurring[1] **earnings per share**[2] (in €)	**0.41**	**1.09**	**+165.9%**
Net income (attributable to equity holders of the parent)	**128**	**501**	**+291.4%**
Earnings per share[2] **(in €)**	**0.25**	**0.94**	**+276.0%**
Operating depreciation and amortization	756	775	+2.5%
Cash flow from operations[3]	1,079	1,431	+32.6%
Cash flow from operations excluding capital gains tax[4]	**1,064**	**1,419**	**+33.4%**
Capital expenditure	514	432	-16.0%
Free cash flow (excluding capital gains tax)[4]	**550**	**987**	**+79.5%**
Investments in securities	164	36	-78.0%
Net debt	**10,890**	**9,081**	**-16.6%**

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

2 Calculated based on the number of shares outstanding at June 30 (530,786,373 shares in 2010 versus 512,893,494 shares in 2009). Based on the weighted average number of shares outstanding (509,735,208 shares in first-half 2010 versus 439,305,156 shares in first-half 2009), recurring earnings per share comes out at €1.14 (€0.48 in first-half 2009), and earnings per share comes out at €0.98 (€0.29 in first-half 2009).

3 Excluding material non-recurring provisions.

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

Sales increased 4.3%, powered by a strong 3.0% positive currency impact. This reflects the appreciation of most other currencies against the euro, particularly Scandinavian currencies and currencies of the main emerging countries in which the Group operates – especially the Brazilian real. **On a constant exchange rate basis*, sales therefore climbed 1.3%.** Changes in the scope of consolidation had a mild 0.3% positive impact on sales. **Like-for-like (constant Group structure and exchange rates),** Group sales **rose 1.0%, including a positive 0.9% volume impact and a positive 0.1% price effect.**

Thanks chiefly to the cost savings achieved, the Group's **operating income increased sharply compared to both first-half 2009 (up 55%** or 50% at constant exchange rates*), and the **six months to December 31, 2009 (up 12.4%)**. This fueled a **steep rise in the operating margin, which climbed to 7.4% of sales (10.7% excluding Building Distribution)**, versus 5.0% of sales (7.6% excluding Building Distribution) in first-half 2009 and 6.7% (9.1% excluding Building Distribution) in the six months to December 31, 2009.

EBITDA (operating income + operating depreciation and amortization) moved up 31.7%. The consolidated EBITDA margin came in at **11.4%** of sales (**16.2%** excluding Building Distribution), versus 9.0% (13.3% excluding Building Distribution) in first-half 2009.

Non-operating costs fell 26.9% to €193 million (€264 million in first-half 2009), thanks to lower restructuring costs. They also include a €37.5 million accrual to the provision for asbestos-related litigation involving CertainTeed in the United States (unchanged from first-half 2009).

The net balance of capital gains and losses on disposals and exceptional asset write-downs was a negative €51 million, including €58 million in exceptional asset write-downs. Most of these write-downs relate to restructuring plans and site closures initiated during the period.

Business income totaled €1,201 million for the period, twice the figure for first-half 2009 after taking into account the items mentioned above (non-operating costs, capital gains/losses on disposals and exceptional asset write-downs).

Net financial expense fell slightly to €387 million from €412 million in first-half 2009. This chiefly reflects the net debt reduction. **The average cost of net debt in the first half of 2010 came out at 5.5%**, versus 5.4% in the six months to June 30, 2009.

Income tax rose sharply from €53 million to €279 million, reflecting chiefly the rise in pre-tax income and, to a lesser extent, the business tax reform introduced in France as of January 1, 2010, which led the Group to reclassify the new CVAE ("Cotisation sur la Valeur Ajoutée des Entreprises") tax as income tax.

Recurring net income (excluding capital gains and losses, exceptional asset write-downs and material non-recurring provisions) leapt **176.2% year-on-year**, to **€580 million**. Based on the number of shares outstanding at June 30, 2010 (530,786,373 shares versus 512,893,494 shares at June 30, 2009), **recurring earnings per share came out at €1.09, up 165.9%** on first-half 2009 (€0.41).

Net income surged 291.4% year-on-year to €501 million. Based on the number of shares outstanding at June 30, 2010 (530,786,373 shares versus 512,893,494 shares at June 30, 2009), **earnings per share was €0.94, up 276%** on first-half 2009 (€0.25).

Capital expenditure retreated 16.1% to **€432 million** (€514 million in the six months to June 30, 2009), accounting for **2.2% of sales** (2.7% of sales in first-half 2009). Most of these investments (58%) related to energy efficiency (Flat Glass – including Solar Power – and Construction Products), and to selective growth projects in Asia and emerging countries.

Cash flow from operations totaled **€1,431 million** in first-half 2010, up 32.6% on the same period in 2009. Before the tax impact of capital gains and losses on disposals and asset write-downs, cash flow from operations climbed 33.4% to €1,419 million, up from €1,064 million in first-half 2009.

* Based on average exchange rates for first-half 2009.

Free cash flow (cash flow from operations less capital expenditure) jumped 77.0% to €999 million. Before the tax impact of capital gains and losses on disposals and asset write-downs, **free cash flow was up 79.5% to €987 million, or 5.0% of sales** (2.9% of sales in first-half 2009). Consequently, the Group has already virtually achieved its initial target of €1 billion in free cash flow for full-year 2010.

The difference between EBITDA and capital expenditure increased 52.6% to €1,788 million in first-half 2010, versus €1,172 million in the year-earlier period, representing 9.2% of sales (6.3% in first-half 2009).

After seven years of continuous improvements, **operating working capital requirements (WCR)** were further cut by 2 days (to 45 days' sales at June 30, 2010), despite the negative impact of the "LME" ("Loi de Modernisation Financière") in France and the depreciation of the euro. This represents a **cash gain of €421 million over 12 months.**

Investments in securities totaled **€36 million** (down 78% on first-half 2009), and primarily related to acquisitions in solar power and energy efficiency as well as in emerging countries for the High-Performance Materials Sector.

Net debt stood at €9.1 billion at June 30, 2010, **down €1.8 billion, or 16.6%,** on June 30, 2009 (€10.9 billion) on the back of the strong free cash flow generated and the improvements in working capital requirements unlocked over the last 12 months. Net debt came out at **51% of shareholders' equity**, compared with 67% at June 30, 2009. **The net debt to EBITDA ratio came out at 2.1X, versus 2.7X a year earlier.**

Update on asbestos claims in the US

Some 2,000 claims were filed against CertainTeed in the six months to June 30, 2010, as in first-half 2009. During the same period, 2,000 claims were settled (versus 3,000 in first-half 2009), bringing the total number of outstanding claims to **64,000** at June 30, 2010, stable compared to December 31, 2009.
A total of USD 96 million in indemnity payments were made in the United States over the 12 months to June 30, 2010, versus USD 77 million in the year to December 31, 2009.

Strong capacity to adapt to changes in the Group's markets

In a persistently fragile economic climate marked by sharply contrasting trends from one country to the next, in first-half 2010 Saint-Gobain again demonstrated its strong capacity to adapt to changes in its markets. The Group continued to scale back costs in businesses and/or countries still affected by lackluster markets, while leveraging development opportunities in businesses and countries enjoying fast-paced growth.

In the first half of 2010, Saint-Gobain:

- continued to give clear operating priority to **sales prices**, **which inched up 0.1% over the period and 0.8% in the second quarter**.

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

  - **€450 million in additional cost savings** were unlocked in first-half 2010 compared with the six months to June 30, 2009, including €400 million carried over from second-half 2009 and €50 million regarding the program launched at the beginning of 2010 targeting additional savings of €200 million over the year;
  - **for full-year 2010, the Group confirms its target of €600 million in additional cost savings compared to 2009**, bringing the total cost savings realized in 2008, 2009 and 2010 to **€2.1 billion**.

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

  - maintaining a tight rein on operating working capital requirements (WCR), **which fell by €421 million** (a reduction of 2 days' sales) over the 12 months to June 30, 2010;

- **generating €1,456 million in free cash flow over the 12 months to June 30, 2010** (excluding the tax impact of capital gains and losses on disposals, exceptional asset write-downs and material non-recurring provisions).

Accordingly, **over the 12 months to end-June, the Group exceeded its all-time high recorded at June 30, 2009** (€1,797 million), and generated **€1,877 million in free cash flow after operating WCR**.

- **curbed investment expenditure (capex and investments in securities), which totaled €468 million,** representing a reduction of 31% year-on-year.

- **continued to reorganize its HPM portfolio**, by selling its "Advanced Ceramics" business** on very favorable financial terms, while carrying out various acquisitions in emerging countries.

- Thanks to these measures, coupled with the payment of 72% of the 2009 dividend in stock, **the Group paid down €1.8 billion in net debt** (over one year) and **strengthened its balance sheet: the gearing ratio has been cut to 51% versus 67% at June 30, 2009.**

- **The Group's development in fast-growing businesses and countries also continued apace in first-half 2010, accounting for 58% of its capital expenditure.**

In the second half of the year, the Group will continue to resolutely pursue its policy of adapting to change on an ongoing basis.

Main related-party transactions

Related parties mainly relate to equity consolidated companies, proportionately consolidated companies and certain subsidiaries of the Wendel group.
In accordance with Group policy, these transactions with these related-party entities are carried out as part of its usual business on an arm's length basis. There has not been any significant change in related-party transactions during the first semester 2010.

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 2009 annual report filed with the AMF under the reference 2009 D.10-0194 on March 31 2010. There has not been any significant change in these risks during the first semester 2010.

Outlook and objectives for full-year 2010

After broadly encouraging trading conditions in the six months to June 30, 2010 – and especially in the second quarter – the Group expects the global economic climate to remain fragile in second-half 2010, with varying trends from one country to the next. However, the overall improvement observed since the beginning of the year should continue, with:

- ongoing vigorous growth in **Latin America and Asia**. Conditions should remain broadly challenging in most **Eastern European** countries, with the exception of Poland, which should confirm and accelerate its return to growth.

- continuing strong momentum in **North America** for Group businesses related to industrial output and household consumption. In construction, market conditions should remain fragile, but improve on the whole.

- consolidation of the relative improvement observed since March in **Western European** residential construction markets. However, trends will continue to vary widely from one country to the next (recovery

in the UK, Scandinavia and Germany; further decline in Southern Europe; relative stabilization in France). Industrial markets are expected to remain healthy.

For the Group as a whole, these trends should help confirm the slight pick-up in sales volumes and ongoing improvement in operations in the second half, despite a higher comparison basis, especially in the fourth quarter.

Along the lines of the achievements of the six months to June 30, the Group will continue to pursue its **action plan priorities**, and:

- continue to give priority to **sales prices**, following the 0.8% rise in the second quarter.

- **continue to demonstrate its ability to adapt to changing market conditions**. In particular, in the second half of the year it will complete its €200 million cost cutting program for 2010, resulting in €600 million more cost savings than in 2009.

- pursue R&D efforts.

- maintain **strict financial discipline**.

** with effect from second-half 2010.

- lastly, thanks to its enhanced financial structure and financial potential, it will stand ready to **leverage any growth opportunities** that arise in its markets, through a highly selective investment policy (capex and investments in securities) focused on Asia and emerging countries, energy efficiency and solar power. This policy will be intensified in the second half of 2010 as compared with the first.

Accordingly, for **full-year 2010**, the Group:

- **is confirming its objective of strong growth in operating income** at constant exchange rates (2009 exchange rates), with **operating income for second-half 2010 slightly above the first half**.

- **is raising its free cash flow target** of above €1 billion (already achieved in first-half 2010) **to €1.4 billion,** despite a higher level of capital expenditure in the second half.

The Group will also seek to maintain a robust financial structure.